

GVM METALS LIMITED

ABN 98 008 905 388

ANNUAL FINANCIAL REPORT

for the Year Ended 30 June 2006

Directors

Richard Linnell – Chairman
Simon Farrell – Managing Director
Peter Cordin – Non-Executive Director
Blair Sergeant – Non-Executive Director

Company Secretary

Blair Sergeant

Principal & Registered Office

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Perth Western Australia 6000
Telephone: 61 8 9323 2000
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Website

www.gvm.com.au

Auditors

Moore Stephens
Level 3, 12 St Georges Terrace
Perth
Western Australia
6000

Bankers

National Australia Bank
Level 1, 1238 Hay Street
West Perth Western Australia 6005

Solicitors

Blakiston & Crabb
1202 Hay Street
West Perth Western Australia 6005

Stock Exchanges

Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
Perth Western Australia 6000

and

Alternative Investment Market,
London Stock Exchange
10 Paternoster Square
London
EC4M 7LS

Trading Code: GVM

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The Directors submit their report together with the financial report of GVM Metals Limited (*the "Company"*) and the consolidated accounts of the Company and its controlled entities (*the "Consolidated Entity"*) for the year ended 30 June 2006 and the Auditors' Report thereon.

Directors

The names of Directors in office at the date of this report are:

Richard Linnell

Non-Executive Chairman

Mr Linnell was appointed a director on 1 August 2001. Mr Linnell is an experienced geologist, who has worked with various companies which now form part of the BHP Billiton group, culminating in running the Samancor Manganese operations and Billiton's exploration and development activities in Africa. Mr Linnell has been instrumental acting on behalf of Billiton in the establishment of the Bakubung Initiative, which is a multi-stakeholder project designed to rejuvenate the South African mining industry.

Simon Farrell

Managing Director

Mr Farrell was appointed as a Director on 21 December 2000. Mr Farrell has a Bachelor of Commerce from the University of Western Australia and an MBA from the Wharton School of the University of Pennsylvania. He has held a number of senior management and Board positions, principally in the resources sector over the last twenty years. He is currently a Director of Kenmare Resources plc and a Fellow of The Australian Society of Certified Practicing Accountants and The Australian Institute of Company Directors.

Peter Cordin

Non-Executive Director

Mr Cordin has been a Director since December 1997. Mr Cordin has a Bachelor of Engineering from the University of Western Australia and is well experienced in the evaluation, development and operation of resource projects within Australia and overseas. He is currently the Managing Director of Dragon Mining NL.

Blair Sergeant

Non-Executive Director & Company Secretary

Mr Sergeant has been a Director since 30 June 2004. Mr Sergeant graduated with a Bachelor of Business and a Post Graduate Diploma in Corporate Administration, both from Curtin University, WA. He is a member of the Chartered Institute of Company Secretaries and an Associate of the Australian Society of Certified Practicing Accountants. Mr Sergeant is currently Director or Company Secretary to a number of ASX listed and non-listed companies, and Managing Director of boutique corporate advisory firm Evolution Capital Partners.

Directorships in other listed entities

Directorships of other listed entities held by directors of the Company during the last 3 years immediately before the end of the year are as follows:

Director	Company	Period of directorship	
		From	To
Mr S Farrell	GMA Resources plc	2004	2006
	Kenmare Resources plc	2002	Present
	SA Minerals Corporation Ltd	2003	Present
Mr R Linnell	Namakwa Diamond Company NL	2003	Present
	GRD Minproc Ltd	2004	Present
	Chrome Corporation Limited	2005	Present
	GMA Resources plc	2003	Present
	Kalahari Diamonds Plc	2004	2005
	Kalahari Diamond Resources Plc	2004	2005
	Falkland Gold and Minerals plc	2004	Present
	SA Minerals Corporation Limited	2002	Present
Mr B Sergeant	Optima Corporation Limited	2003	Present
	Millepede International Limited	2002	Present
Mr P Cordin	Dragon Mining NL	2006	Present

Meetings of Directors

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2006 and the number of meetings attended by each Director:—

Director	Board Meetings	
	Held	Attended
Mr S Farrell	5	5
Mr R Linnell	5	5
Mr P Cordin	5	5
Mr B Sergeant	5	5

Principal Activities

Whilst the principal trading activity of the Consolidated Entity is the manufacture and distribution of Nickel and Magnesium alloys, the Company's primary focus is to expand its coal interests in South Africa. Following the acquisition of a 49% interest in the Holfontein coal project, GVM conditionally acquired a 74% interest in the Limpopo coal project during the year. In August 2006, the company announced the conditional merger of its coal interests with those of Motjoli Ltd, its Holfontein J.V. partner. This transaction will result in GVM holding 100% of the Holfontein project, 74% of the Limpopo Coal Project and a 50% share in the Baobab coal project, which is located some 50kms south of the Limpopo project. The Company is in an advanced stage of negotiation to acquire a further coal interest in the Limpopo province of South Africa.

Results

Revenue for 2006 was \$32,340,604 (2005: \$31,000,529) and net cash generated from operating activities was \$398,234 (2005: \$2,360,481). Earnings before interest (\$669,044), tax (\$566,732) and depreciation (\$242,768) was \$1,245,403 (2005: \$2,774,567). The 2006 results include a share based payment charge of \$551,200 relating to share options issued to the company's directors on 28 June 2006 as well as \$404,335 in listing and marketing expenses relating to the Company's successful listing on the Alternative Investment Market (AIM) in London during the year. The earnings before interest tax and depreciation, adjusted for AIM listing and share based payments is \$2,200,938.

Nimag reported earnings before interest (\$669,044), tax (\$566,732) and depreciation (\$226,725) of \$2,823,541.

The loss of the Consolidated Entity for the 2006 financial year after income tax and minority interests was \$587,011 (2005: Profit of \$793,338).

Dividends Paid or Recommended

No amounts were paid or declared by way of dividend by the Company. The Directors do not recommend payment of a dividend in respect of the financial year ended 30 June 2006.

Review of Operations

During the year the operations of the Consolidated Entity included:

NiMag (Proprietary) Limited - manufacturing and distribution of nickel and magnesium alloys;
Master Alloy Traders Limited - trading of minerals from South Africa;
SA Mineral Resources Corporation Limited - investment in mineral processing in South Africa; and
Hofontein Coal Project - JV coal project based in South Africa.

Nimag (Proprietary) Limited ("NiMag")

NiMag began producing alloys in 1962.

Ductile iron (also called spheroidal graphite iron or nodular cast iron) was discovered in the 1940s. The introduction of magnesium into the melt results in nodular rather than flaky graphite in the resultant cast iron, giving the cast iron properties approaching those of steel, while maintaining the advantages of the casting process. The magnesium is usually added as a nickel alloy, making it easier to add and contribute to product quality. NiMag still primarily supplies the ductile iron market as a specialist supplier with a world market share of about 35% in its core product line. 95% of sales are exported through 35 distributors world wide. Demand for NiMag's alloys is proportional with world demand for ductile iron, principally for automotive parts and industrial machinery. Demand for NiMag products has grown gradually to meet current capacity of 400 tonnes per month (all products). Potential for expansion of the core nickel-magnesium alloy product is presently limited by the size of end markets. NiMag is increasing the penetration of a variety of other products developed for alternative markets. NiMag produces approximately 500 tonnes of cast and slit fibres which are used in reinforced concrete by domestic mining and tunneling operations.

NiMag's competitive advantages include low electricity and labour costs. The main input cost is locally sourced nickel raw material, which is matched with sales to minimize nickel price exposure.

GVM acquired 74% of NiMag from a management group in January 2004. The consideration was R37 Million (\$A8 million) comprising R7.5 million in cash up front, R20 million borrowed against the business and R9.5 million in vendor finance. GVM retained the right to buy the balance of NiMag for R13 million payable in GVM shares issued at \$A0.40 each. It is intended that these shares will be issued immediately on GVM's listing on the Johannesburg Stock Exchange (JSE), which is expected to occur in the last quarter of 2006. When these shares are issued, GVM will own 100% of NiMag.

Since GVM acquired the business, NiMag has broadly met or exceeded production and sales budgets. However the strength of the Rand through the period has inflated costs relative to the US dollar denominated sales. Despite the difficult trading conditions imposed by the Rand's strength in 2005 and 2006, NiMag traded profitably, contributing about \$4,575,000 in surplus funds to repayment of its acquisition costs. At the end of June 2006, GVM's remaining acquisition loans comprised \$2,342,000 in bank debt and \$1,876,700 to the NiMag vendors. The NiMag vendor loans will be repaid at the end of 2006.

Depreciation of the Rand and strengthening of Nickel prices since January 2006 has widened NiMag's profit margins. At current exchange rates and Nickel prices, NiMag is expected to generate substantially higher operational cash flows over the 2006/07 financial year.

Metal Alloy Traders Limited ("MATs")

MATs is incorporated in Jersey in the Channel Islands and it trades various metals purchased from Nimag in South Africa.

SA Mineral Resources Corporation Limited ("Samroc")

Samroc is a Johannesburg Stock Exchange listed company which produces manganese sulphate chemicals. During the latter half of 2005 GVM stated its intention to dispose of its entire investment in Samroc and sold 15,000,000 shares in Samroc at two South African cents per share during May 2006.

As a result of its intended disposal, the Samroc investment has been reclassified as a Non-current Investment Held for Sale.

Holfontein Coal Project

Early in the second quarter of 2005, a 49% interest in the coal mining project "Holfontein" was acquired with a Black Economic Empowerment ("BEE") partner, Motjoli Resources (Pty) Ltd. The acquisition is subject to a number of conditions, principally related to the size of the economically recoverable tonnes as determined by independent experts.

The Old Order Prospecting Rights relating to the project were successfully converted to New Order Prospecting Rights during the year (as required by the South African Department of Minerals and Energy) and a drilling program is currently underway to determine the economics of the project. The feasibility study is expected to be completed by the end of the 2006 calendar year.

The Holfontein Coal Project is currently the subject of further negotiations as discussed under Future Developments, Prospects and Business Strategies in this report.

GMA Resources plc ("GMA")

The Company disposed of its entire investment in GMA during the year.

Review of Financial Position

Liquidity and funding

The net assets of the Consolidated Entity have decreased from \$8,971,969 as at 30 June 2005 to \$7,661,354 in 2006. This was mainly due to a negative exchange movement of \$1,369,241 in the translation of opening equity balances of subsidiaries charged directly to equity. The Group also incurred \$404,335 in expenses related to its listing on the AIM and recorded a loss of \$98,630 representing its share of Samroc's loss during the first half of the year, which would not recur in future years. The Group raised approximately \$895,000 during the year from the issue of shares and repaid some \$1,892,500 of debt. The Group also raised £3,200,000 through the placing of shares during July 2006.

The Consolidated Entity's net working capital at year end was \$1,628,543 whilst interest bearing liabilities were \$5,153,889.

Impact of legislation and other external requirements

From 1 July 2005 the Consolidated Entity is required to comply with Australian equivalents to International Financial Reporting Standards (AIFRS) issued by the Australian Accounting Standards Board. The impact of the resulting changes in accounting policies are disclosed in Note 28 of the financial report.

There were no changes in environmental or other legislative requirements during the year that have significantly impacted the results or operations of the Consolidated Entity.

Future Developments, Prospects and Business Strategies

Proposed JSE listing

The Company successfully listed on AIM in December 2005 and completed a GBP 3.2 million (A\$7.9 million) capital raising in July 2006. Under current South African Reserve Bank requirements, it is difficult to acquire South African assets from South African residents with shares if those shares are not listed on the Johannesburg Stock Exchange (JSE). Following the conditional acquisition of the Limpopo Coal project by the issuance of GVM shares and the subsequent Motjoli transaction, it became necessary for GVM to seek a listing on the JSE, which it hopes to obtain by the end of October 2006.

GVM believes that a JSE listing will assist the company to further expand its mining interest in South Africa by allowing the Company to acquire assets by means of share issue.

Conditional merger with the coal assets of Motjoli Resources

In August 2006, the company advised that it had conditionally acquired Motjoli's 51% interest in the Holfontein Coal Project, Motjoli's 50% interest in the Baobab J.V. Coal Project and its 100% interest in three Limpopo prospecting permits adjacent to those held by the Baobab J.V. The Baobab J.V. is some 50/60km south of GVM's 74% owned Limpopo Coal Project.

GVM will hold - post closure of the Limpopo and Motjoli transactions - a very substantial holding in what is widely regarded as South Africa's new coal province.

Strategic direction

GVM's strategic direction is firmly set towards becoming a major South African coal producer over the next five years whilst continuing to develop its existing metal processing business and seeking other mining opportunities.

The primary focus for the forthcoming two years is to bring Holfontein into production and complete feasibility studies for at least one of the Limpopo/Baobab coal projects.

The combined Limpopo and Baobab Coal Projects comprise 23 prospecting leases totalling 32,000 Hectares.

After 20 years of dormancy, the future for coal is very bright in South Africa. GVM is determined to become a major player in the re-awakening of the coal industry in South Africa

Changes in State of Affairs

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

- On 13 October 2005, the company consolidated its share capital in the ratio of 1 share for every 10 shares previously held.
- On 31 October 2005, the Company issued 200,000 shares at an issue price of 25 cents per share to settle certain creditor balances;
- During February and March 2006 the company placed a total of 1,400,000 shares at an issue price of 25 cents per share, to raise total gross proceeds of \$350,000; and
- On 8 March 2006, the Company issued a total of 2,212,500 shares at an issue price of 25 cents per share to settle certain creditor balances as well as to acquire preference shares in Nimag (Pty) Limited.

Likely Developments

The Consolidated Entity will continue to expand its coal interests in South Africa and is targeting the establishment of its first operating coal mine within the next 18 to 24 months. It will also continue to pursue investment opportunities both in the mining and metal processing industries in the forthcoming year.

Events Subsequent to Balance Date

In July 2006, the Company successfully completed a share placement of 24,615,384 new ordinary shares which raised £3,200,000. These shares commenced trading on the Alternative Investment Market of the London Stock Exchange ("AIM") on 13 July 2006.

On 22 August 2006 GVM announced that it has executed binding Heads of Agreement with Motjoli Resources (Pty) Ltd (Motjoli) to acquire Motjoli's 51% interest in the Holfontein Coal project, taking GVM's interest to 100%. Further, the Heads of Agreement includes the acquisition of Motjoli's 50% interest in the Boabab J.V. coal project and its 100% interest in three Limpopo prospecting licenses adjacent to those held by the Boabab J.V.

The consideration payable for the Holfontein and Boabab J.V. interests is 34,863,226 ordinary shares plus a further 3,417,964 ordinary shares to be issued on the grant of an export allocation to GVM at the Richards Bay Coal Terminal, for a minimum of 100,000 metric tonnes of coal per annum.

In the opinion of the directors of the Company (other than that stated above) during the interval between the end of the financial year and the date of this report, no item, transaction or event of a material and unusual nature is likely to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Options

Options granted during the year

The Company granted a total of 8,000,000 options over unissued ordinary shares to its directors during the financial year. No options over unissued shares were granted between the end of the financial year and the date of this report.

Unissued shares under option

The following options remain outstanding at the date of this report:

	Number	Exercise Price	Expiry Date
Unlisted Options ⁽¹⁾	75,000	192.3 cents	30 September 2006
Unlisted Options	8,000,000	50.0 cents	30 September 2011

(1) The company consolidated its shares in the ratio of 10:1 during the year. The share options outstanding at that date were adjusted accordingly.

These options do not entitle the holder to participate in any share issue of any other body corporate. No shares have been issued by virtue of the exercise of an option during the year or to the date of this report.

Lapse of options

The following options (adjusted for the 10:1 share consolidation) lapsed during the financial year:

Expiry Date	Exercise Price	Number of Options
30 September 2005	92.3 cents	5,446,000

Environmental Regulation

The Consolidated Entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation but is subject to numerous environmental regulations in South Africa, including the Atmospheric Pollution Prevention Act (No. 45 of 1965), Environment Conservation Act (No. 73 of 1989), National Water Act (No. 45 of 1965) and National Environmental Management Act (No. 107 of 1998). However, the Board believes that the Consolidated Entity has adequate systems in place for the management of its environmental regulations and is not aware of any breach of those environmental requirements as they apply to the Consolidated Entity.

Directors' Interests

The relevant interest of each Director of the Company in shares and options of the Company at the date of this report is:-

GVM Metals Limited			
Director	Ordinary shares	Listed Options	Unlisted Options
Mr S Farrell ⁽¹⁾	2,737,416	-	4,000,000
Mr R Linnell ⁽²⁾	501,550	-	2,000,000
Mr P Cordin ⁽³⁾	412,759	-	1,000,000
Mr B Sergeant ⁽⁴⁾	-	-	1,000,000

- 1,406,377 shares held by Cherek Pty Ltd, of which Mr Farrell is a director. The 4,000,000 options are held by Mr Farrell directly.
- 501,550 shares held by Ord Group Pty Ltd <No 2 Account> as trustee for Terra Africa Investments Ltd of which Mr Linnell is a beneficiary. The 2,000,000 options are held by Mr Linnell directly.
- 412,759 shares are held by Cordin Pty Ltd, of which Mr Cordin is a director. The 1,000,000 options are held directly by Mr Cordin.
- The 1,000,000 options are held directly by Mr Sergeant.

Remuneration Report

The Board is responsible for establishing remuneration packages applicable to the Board members of the Company. The policy adopted by the board is to ensure that remuneration properly reflects an individual's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest calibre.

Directors' remuneration packages are also assessed in the light of the condition of markets within which the Company operates, the Company's financial condition and the individual's contribution to the achievement of corporate objectives. Executive Directors are remunerated by way of a salary or consultancy fees, commensurate with their required level of services. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2004 General Meeting, is not to exceed \$200,000 per annum.

The Board has not formally constituted a nomination committee or remuneration committee. The whole Board conducts the functions of a nomination committee and remuneration committee. The Company does not have any scheme relating to retirement benefits for non-executive Directors.

The remuneration packages applicable to the Board and executive officers of Nimag are reviewed annually by the Board of Nimag and terms and conditions documented in formal employment contracts.

Details of the nature and amount of each major element of the remuneration of each Director and other key management personnel of the Company and the Consolidated Entity for the year are:

Remuneration of Directors and Key Management Personnel

		SHORT TERM BENEFITS		POST-EMPLOYMENT BENEFITS	SHARE BASED PAYMENTS	
		Salary & fees	Non-monetary benefits	Super-annuation benefits	Options	Total
		\$	\$	\$	\$	\$
Non-Executive Directors						
Mr R Linnell	2006	76,153	-	-	137,800	213,953
	2005	74,433	-	-	-	74,433
Mr P Cordin	2006	36,000	-	3,240	68,900	108,140
	2005	36,000	-	3,420	-	39,420
Mr B Sergeant	2006	32,196	-	1,321	68,900	102,471
	2005	24,000	-	-	-	24,000
Executive Director						
Mr S Farrell	2006	150,000	-	-	275,600	425,600
	2005	135,700	-	-	-	135,700
Total: All Directors	2006	294,349	-	4,561	551,200	850,110
	2005	270,133	-	3,420	-	273,553
Other Key Management Personnel						
Mr TG Sinclair ⁽¹⁾	2006	344,047	-	-	-	344,047
	2005	305,778	-	-	-	305,778
Mr PJ Dillon ⁽²⁾	2006	75,603	-	-	-	75,603
	2005	191,938	-	-	-	191,938
Mr BB Sinclair ⁽³⁾	2006	76,773	-	-	-	76,773
	2005	75,882	-	-	-	75,882
Total: All Named Key Management Personnel	2006	496,423	-	-	-	496,423
	2005	573,598	-	-	-	573,598

Employment Contracts of Directors and Key Management Personnel

The Company has not entered into any formal contractual agreements with any member of the Board, including the Managing Director.

The employment conditions of the following specified executives have been formalised in contracts of employment:

1. Mr TG Sinclair is employed by Nimag (Proprietary) Limited in the capacity of Managing Director. The agreement commenced on 12 December 2003 for a minimum of 3 years and a maximum of 5 years. The agreement may be terminated by written notice of 12 months;
2. Mr PJ Dillon is employed by Nimag (Proprietary) Limited in the capacity of Chief Operations Officer. The agreement commenced on 12 December 2003 for a term of a minimum of 3 years and a maximum of 5 years. Mr Dillon's involvement in Nimag was reduced during the year as part of the company's succession program, though he remains the Director responsible for operations; and
3. Mr BB Sinclair is employed by Nimag (Proprietary) Limited in the capacity of Financial Director and is entitled to receive R26,000 per month. The agreement commenced on 12 December 2003 for an initial term of 12 months. The agreement may be terminated by written notice of 3 months.

Share-Based Compensation - Options Granted to Directors and Officers of the Company

The following options were granted during the year pursuant to the GVM Metals Employee Option Plan:

Names of Directors	Number	Exercise Price	Expiry Date	Value per option at Grant Date	Date Exercisable
Mr SJ Farrell	4,000,000	50.0 cents	30 September 2011	6.89 cents	100% after 28 June 2006
Mr RJ Linnell	2,000,000	50.0 cents	30 September 2011	6.89 cents	100% after 28 June 2006
Mr P Cordin	1,000,000	50.0 cents	30 September 2011	6.89 cents	100% after 28 June 2006
Mr B Sergeant	1,000,000	50.0 cents	30 September 2011	6.89 cents	100% after 28 June 2006

All options are granted for no consideration and carry no dividend or voting rights. When exercised, each option is convertible into one ordinary share.

The names of all persons who currently hold options granted under the Employee Option Plan are entered into a register kept by the Company pursuant to Section 216C of the Corporations Act 2001 and the register may be inspected free of charge.

Directors' Insurances

During the financial year the Company did not pay any insurance premiums in respect of directors' and officers' liability and legal expense insurance contracts for current directors and secretaries of the Company and its controlled entities.

Non-Audit Services

During the prior year, the Company's auditor (Moore Stephens) performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the prior year by the auditor and is satisfied that the provision of these non-audit services during the prior year by the auditor is compatible with, and did not compromise the audit independence requirements of the Corporations Act 2001 for the following reasons:

- ⌘ all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor.
- ⌘ the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is included with the Independent Audit Report.

Details of the amounts paid to the auditor of the Company, Moore Stephens (and KPMG as previous auditor), and its related practices for audit and non-audit services provided during the year are set out below:

	Consolidated 2006 \$	Consolidated 2005 \$
Statutory audit:		
- audit and review of financial reports		
- current auditor	24,895	23,182
- previous auditor	-	41,732
	24,895	64,914
Services other than statutory audit:		
- other assurance services		
- current auditor	12,636	-
- previous auditor	-	14,700
	12,636	14,700

Auditors' Independence Declaration to the Directors

Refer to page 56 of the Financial Report.

Signed on this 19th day of September 2006 in accordance with a resolution of the Directors.



Simon Farrell
Managing Director

GVM Metals Limited has adopted systems of control and accountability as the basis for the administration of corporate governance. This statement summarises some of these policies and procedures.

The following additional information about the Company's corporate governance practices is set out on the Company's website at www.gvm.com.au:

- Corporate governance disclosures and explanations;
- Statement of Board and Management Functions;
- Nomination Committee Charter;
- policy and procedure for selection and appointment of new directors;
- summary of code of conduct for directors and key executives;
- summary of policy on securities trading;
- Audit Committee Charter;
- policy and procedure for selection of external auditor and rotation of audit engagement partners;
- summary of policy and procedure for compliance with continuous disclosure requirements;
- summary of arrangements regarding communication with and participation of shareholders;
- summary of Company's risk management policy and internal compliance and control system;
- process for performance evaluation of the Board, Board committees, individual directors and key executives;
- Remuneration Committee Charter; and
- Corporate Code of Conduct.

ASX Best Practice Recommendations

The ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period. The recommendations are not prescriptive and if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to adopt it. Where the Company considered it was not appropriate to presently comply with a particular recommendation the reasons are set out in the latter part of this statement.

Role of the Board

The role of the Board is to provide leadership for and supervision over the Company's affairs. The Board is collectively responsible for promoting the success of the Company by:

- (a) supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed, which includes but is not limited to (b) to (i);
- (b) ensuring the Company is properly managed for example by:
 - (i) appointing and removing the managing director of the Company;
 - (ii) ratifying the appointment and, where appropriate, the removal of the chief financial officer and the Company secretary;
 - (iii) input into and final approval of management's development of corporate strategy and performance objectives;

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Statement of Corporate Governance

- (iv) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- (v) monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- (c) approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- (d) approval of the annual budget;
- (e) monitoring the financial performance of the Company;
- (f) approving and monitoring financial and other reporting;
- (g) overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- (h) liaising with the Company's external auditors and Audit Committee; and
- (i) monitoring and ensuring compliance with all of the Company's legal obligations, in particular those obligations relating to the environment, native title, cultural heritage and occupational health and safety.

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities.

Board Composition

The Board comprises four Directors including one executive Director. The Directors are subject to election by shareholders. All Directors, apart from the Managing Director, are subject to re-election by rotation within every three years. The Company's Constitution provides that one-third of the Directors retire by rotation at each AGM. Those Directors who are retiring may submit themselves for re-election by shareholders, including any Director appointed to fill a casual vacancy since the date of the previous AGM. The composition of the Board is reviewed at least annually to ensure the balance of skills and experience is appropriate. The Directors have a broad range of qualifications, experience and expertise in the mining, processing and finance industries. The skills, experience and expertise of Directors are set out in the Directors' Report. The names of the Directors in office at the date of this Report, the year they were first appointed, their status as non-executive, executive or independent Directors, whether they are retiring by rotation and seeking re-election by shareholders at the 2006 Annual General Meeting, are set out in the Directors' Report.

Independence of Non-Executive Directors

The Board considers an independent director to be a non-executive director who satisfies the test for independence as set out in the ASX Best Practice Recommendations ("Independence Test"). The Board considers that Messrs Richard Linnell, Peter Cordin and Blair Sergeant meet these criteria. Messrs Linnell and Cordin have no material business or contractual relationship with the Company, other than in their capacity as a director of the company, and no conflicts of interest which could interfere with the exercise of independent judgment. Accordingly, they are considered to be independent.

Mr Sergeant was previously a principal of the firm Anthony Ho & Associates and is currently a principal of the firm Evolution Capital Partners. Anthony Ho & Associates and Evolution Capital Partners provide company secretarial services to the Company. Despite being a principal of these firms, the Board notes that the fees paid in this regard are not high enough to be material to Mr Sergeant's practice or any of the firms and are also not material to the Company. Furthermore, the Board, in the absence of Mr Sergeant, considers he is capable of and demonstrates that he consistently makes decisions and takes actions which are designed to be in the best interests of the Company and therefore consider him to possess the characteristics required of a person who would be eligible to take the role of an independent director. Therefore the Board considers Mr Sergeant to be independent.

Independent Professional Advice

The Board has adopted a formal policy on access to independent professional advice which provides that Directors are entitled to seek independent professional advice for the purposes of the proper performance of their duties. The Company will pay the reasonable expenses associated with obtaining such advice, subject to the prior approval of the Chairman.

Meetings

The Board held five scheduled meetings during the reporting year and no unscheduled meetings were held during that year. Senior management attended and made presentations at the Board Meetings as considered appropriate and were available for questioning by Directors.

Evaluation of Board Performance

During the reporting period an evaluation of the Board and its members was carried out on an informal basis, pursuant to best practice recommendation 8.1. The evaluation process comprised of an ongoing assessment of each member of the Board and the Board as a whole at each meeting by the Chairman. Further, an informal evaluation of key executives was carried out by the Board.

The Company is currently reviewing and determining measurable milestones and performance criteria for evaluation of Board performance. This includes the intention to establish more formal evaluation procedures, including quantitative measures of performance.

Remuneration Policies

The full Board carries out the functions of a remuneration committee in accordance with the Company's Remuneration Committee Charter required under best practice recommendation 9.2. Executive Directors and key executives are remunerated by way of a salary or consultancy fees, commensurate with their required level of services. Non-executive Directors however receive a fixed monthly fee for their services, in accordance with the guidelines summarised by best practice recommendation 9.3. Non-executive Directors' fees are capped at \$200,000 per annum, although this is currently being reviewed to reflect the Company's current Board structure, operations in general and requirements placed on all Board members.

Retirement benefits for Non-Executive Directors

The Company does not have any scheme relating to retirement benefits for non-executive Directors.

Board Committees

The Company does not presently have a separate audit, nomination or remuneration committee. The Board considers that at this stage, no efficiencies or other benefits would be gained by establishing separate committees. The duties of such committees have been considered and formal charters outlining the role, rights, responsibilities and requirements have been adopted by the Board.

Arrangements Regarding Communications with and Participation of Shareholders

The Company maintains a website at www.gvm.com.au

Under the heading "Investor Relations" the Company makes the following information available on a regular and up to date basis:

- company announcements (for last 3 years);
- information briefings to media & analysts (for last 3 years);
- notices of meetings and explanatory materials;
- financial information (for last 3 years); and
- annual reports (for last 3 years).

Risk Management Policy and Internal Compliance Control System

The Company has a detailed risk management policy and internal compliance and control systems which cover organisational, financial and operational aspects of the Company's affairs. It appoints the Managing Director as being responsible for ensuring the systems are maintained and complied with.

Ethical Standards

The Board is committed to promoting the practice of high ethical standards. All directors and employees are expected to act with the utmost integrity and objectivity striving at all times to enhance the reputation and performance of the Company, in the following areas:

- professional conduct;
- dealings with suppliers, advisers and regulators;
- dealings with the community; and
- dealings with other employees.

Policy on Securities Trading

The Board has adopted a policy and procedure on dealing in the Company's securities by directors, officer and employees which prohibits dealing in the Company's securities when those persons possess inside information. It also requires the chairperson of the Company to be notified when trading of securities in the Company occurs.

ASX Guidelines on Corporate Governance

Pursuant to ASX Listing Rules the Company must provide a statement disclosing the extent to which the ASX best practice recommendations have not been followed in the reporting year. The Company sets out below an explanation of the areas where GVM does not presently comply with ASX best practice recommendations.

Board Committees

The Company does not presently have a separate audit, nomination or remuneration committee. The Company is in its early stages of development and as such, the entire Board conducts the function of such committees. The duties of such committees have been considered and adopted by the Board. The board invites persons with relevant industry and financial experience when required to carry out the functions of such committees.

GVM METALS LIMITED
Income Statements
For the Year Ended 30 June 2006

		Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
	Note	\$	\$	\$	\$
REVENUE	2	<u>32,340,604</u>	<u>31,000,529</u>	<u>380,250</u>	<u>1,080,233</u>
Changes in inventories of finished goods and work in progress		(367,491)	66,834	-	-
Raw materials and consumables used		(23,529,689)	(22,480,207)	-	-
Consulting expenses		(400,187)	(413,652)	(342,066)	(306,257)
Employee expenses		(3,516,128)	(2,865,537)	(970,187)	(400,081)
Borrowing costs	3	(669,044)	(904,206)	-	(765)
Depreciation expenses	3	(242,768)	(366,226)	(16,043)	(19,013)
Office rental , outgoings and parking		(204,865)	(324,941)	(60,385)	(62,503)
Decrease/(increase) diminution in value of investments		(4,325)	(442,265)	(4,325)	(419,035)
Loss on investments disposed of		(40,197)	-	(40,197)	-
Bad debt expense		(1,159)	-	(1,159)	-
Provision for non-recoverability of loans		-	(137,866)	-	(136,660)
Other expenses from ordinary activities		(2,932,530)	(1,651,558)	(658,856)	(254,070)
Share of net profit/(losses) of associate accounted for using the equity method	8	<u>(98,630)</u>	<u>23,230</u>	<u>-</u>	<u>-</u>
Profit/(Loss) before income tax (expense)/benefit	3	333,591	1,504,135	(1,712,968)	(518,151)
Income tax expense / benefit	4	<u>(566,732)</u>	<u>(323,535)</u>	<u>-</u>	<u>400</u>
Profit/(Loss) after tax		(233,141)	1,180,600	(1,712,968)	(517,751)
Outside equity interest	19	<u>(353,870)</u>	<u>(387,262)</u>	<u>-</u>	<u>-</u>
Net profit/(loss) attributable to members of the parent entity		(587,011)	793,338	(1,712,968)	(517,751)
Basic earnings/(loss) per share (in cents)	5	(2.04)	3.22		

The accompanying notes form part of these financial statements

GVM METALS LIMITED
Balance Sheets
as at 30 June 2006

		Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
	Note	\$	\$	\$	\$
CURRENT ASSETS					
Cash assets	25(a)	985,333	1,806,353	78,191	188,202
Receivables	7	6,374,684	5,714,592	722,916	680,652
Inventory	9	3,245,656	3,363,679	-	-
TOTAL CURRENT ASSETS		10,605,673	10,884,624	801,107	868,854
NON CURRENT ASSETS					
Receivables	7	-	-	4,522,652	4,556,736
Assets held for sale	8	94,596	222,806	-	-
Intangibles	12	7,441,280	9,206,288	-	-
Other financial assets	10	699,992	925,645	4,465,409	4,279,492
Property, plant and equipment	11	1,803,312	2,434,245	27,845	43,887
Deferred tax assets	4	36,669	26,886	-	-
TOTAL NON CURRENT ASSETS		10,075,849	12,815,870	9,015,906	8,880,115
TOTAL ASSETS		20,681,522	23,700,494	9,817,013	9,748,969
CURRENT LIABILITIES					
Payables	13	5,940,126	6,178,289	328,915	168,870
Interest bearing liabilities	14	2,451,628	2,016,220	-	-
Provisions	15	125,790	99,986	212	1,254
Current tax liability		459,586	116,810	-	-
TOTAL CURRENT LIABILITIES		8,977,130	8,411,305	329,127	170,124
NON CURRENT LIABILITIES					
Payables	13	1,340,777	1,580,489	6,601,208	6,425,817
Interest bearing liabilities	14	2,702,261	4,736,731	-	-
TOTAL NON CURRENT LIABILITIES		4,043,038	6,317,220	6,601,208	6,425,817
TOTAL LIABILITIES		13,020,168	14,728,525	6,930,335	6,595,941
NET ASSETS		7,661,354	8,971,969	2,886,678	3,153,028
EQUITY					
Contributed equity	16	35,396,353	34,500,935	35,396,353	34,500,935
Reserves	17	426,521	1,244,562	687,645	136,445
Accumulated losses	18	(30,666,656)	(30,079,645)	(33,197,320)	(31,484,352)
TOTAL PARENT EQUITY INTEREST		5,156,218	5,665,852	2,886,678	3,153,028
OUTSIDE EQUITY INTEREST	19	2,505,136	3,306,117	-	-
TOTAL EQUITY		7,661,354	8,971,969	2,886,678	3,153,028

The accompanying notes form part of these financial statements

GVM METALS LIMITED
Cash Flow Statements
For the year ended 30 June 2006

		Consolidated Entity		Parent Entity	
	Note	2006	2005	2006	2005
		\$	\$	\$	\$
Cash flows from operating activities					
Interest received		84,578	157,513	30,280	108,429
Cash receipts in the course of operations		31,482,520	30,072,218	312,266	929,224
Interest paid		(669,044)	(904,206)	-	(765)
Payments to suppliers and employees		(30,499,820)	(26,965,044)	(1,327,010)	(1,075,284)
Net cash generated by /(used in) operating activities	25(b)	398,234	2,360,481	(984,464)	(38,396)
Cash flows from investing activities					
Payments for property, plant and equipment		(148,489)	(245,253)	-	(9,443)
Proceeds from the sale of property, plant and equipment		-	54,354	-	13,455
Proceeds from sale of equity investments		226,511	849,480	226,511	849,480
Payments for equity investments		(47,576)	(655,980)	(47,576)	(2,683,772)
Loans (made to)/from other entities		-	(594,050)	34,084	(712,813)
Net cash received on acquisition of subsidiary	24(b)	-	257,743	-	-
Net cash generated by / (used in) investing activities		30,446	(333,706)	213,019	(2,543,093)
Cash flows from financing activities					
Loans from controlled entities		-	-	175,391	-
Proceeds from issue of shares		543,750	1,050,950	543,750	1,031,684
Transaction costs from issue of shares		(57,707)	(19,265)	(57,707)	-
Loans from other entities		-	-	-	1,618,587
Loans repaid to other entities		(1,892,452)	(2,798,037)	-	-
Net cash generated by financing activities		(1,406,409)	(1,766,352)	661,434	2,650,271
Net increase/(decrease) in cash held		(977,729)	260,423	(110,011)	68,782
Cash at beginning of financial year		1,027,493	767,070	188,202	119,420
Cash at end of financial year	25(a)	49,764	1,027,493	78,191	188,202

The accompanying notes form part of these financial statements

GVM METALS LIMITED
Statements of Changes in Equity
as at 30 June 2006

	Ordinary share capital \$	Capital profits reserve \$	Foreign currency translation reserve \$	Share options \$	Accumulated losses \$	Total \$	Outside Equity interests \$
Consolidated entity							
Balance at 1 July 2005	34,500,935	136,445	1,108,117	-	(30,079,645)	5,665,852	3,306,117
Shares issued during the year	953,125	-	-	-	-	953,125	-
Capital raising costs incurred	(57,707)	-	-	-	-	(57,707)	-
Adjustments from translation of foreign controlled entities	-	-	(1,369,241)	-	-	(1,369,241)	-
Share based payments	-	-	-	551,200	-	551,200	-
Loss attributable to members of parent entity	-	-	-	-	(587,011)	(587,011)	-
Loss attributable to minority shareholders	-	-	-	-	-	-	(353,870)
Minority interest in reserves	-	-	-	-	-	-	221,480
Preference shares acquired by parent entity	-	-	-	-	-	-	(668,591)
Balance at 30 June 2006	35,396,353	136,445	(261,124)	551,200	(30,666,656)	5,156,218	2,505,136
Parent entity							
Balance at 1 July 2005	34,500,935	136,445	-	-	(31,484,352)	3,153,028	-
Shares issued during the year	953,125	-	-	-	-	953,125	-
Transaction costs	(57,707)	-	-	-	-	(57,707)	-
Share based payments	-	-	-	551,200	-	551,200	-
Loss attributable to members of parent entity	-	-	-	-	(1,712,968)	(1,712,968)	-
Balance at 30 June 2006	35,396,353	136,445	-	551,200	(33,197,320)	2,886,678	-

GVM METALS LIMITED
Statements of Changes in Equity
as at 30 June 2006

	Ordinary share capital \$	Capital profits reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total \$	Outside Equity interests \$
Consolidated entity						
Balance at 1 July 2004	33,469,250	136,445	599,872	(30,872,984)	3,332,583	2,690,827
Shares issued during the year	1,050,950	-	-	-	1,050,950	-
Capital raising costs incurred	(19,265)	-	-	-	(19,265)	-
Adjustments from translation of foreign controlled entities	-	-	508,245	-	508,245	-
Profit attributable to members of parent entity	-	-	-	793,339	793,339	-
Profit attributable to minority shareholders	-	-	-	-	-	387,262
Minority interest in reserves	-	-	-	-	-	228,028
Balance at 30 June 2005	34,500,935	136,445	1,108,117	(30,079,645)	5,665,852	3,306,117
Parent entity						
Balance at 1 July 2004	33,469,250	136,445	-	(30,966,601)	2,639,094	-
Shares issued during the year	1,050,950	-	-	-	1,050,950	-
Transaction costs	(19,265)	-	-	-	(19,265)	-
Loss attributable to members of parent entity	-	-	-	(517,751)	(517,751)	-
Balance at 30 June 2005	34,500,935	136,445	-	(31,484,352)	3,153,028	-

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of GVM Metals Limited and controlled entities, and GVM Metals Limited as an individual parent entity. GVM Metals Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of GVM Metals Limited and controlled entities, and GVM Metals Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

GVM Metals Limited and controlled entities, and GVM Metals Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of GVM Metals Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Refer to Note 28 for further details on changes in accounting policy.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 28 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(b) Principles of Consolidation

A controlled entity is any entity GVM Metals Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 24 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

GVM METALS LIMITED

Notes to and forming part of the Financial Statements for the year ended 30 June 2006

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(c) **Revenue Recognition**

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax ("GST"). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Sale of goods

Revenue from the sale of nickel magnesium alloys (NiMag), ferro-nickel magnesium alloys (FeNiMag), ferro-silicon magnesium alloys (FeSiMag) and other master alloys are recognised when control of the goods passes to the customer. For local sales this is usually when the customer receives the goods. For export sales it is determined based on individual sales agreements, however, control usually passes when the goods are received by the shipping agent and the bill of lading is sighted by the customer.

Interest Revenue

Interest revenue is recognised as it accrues, taking into account the effective yield of the financial asset.

Sale of non-current assets

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(d) **Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(e) **Acquisition of Assets**

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of the acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of the acquisition is used as fair value except where the notional price at which they could be placed in the market is a better indication of fair value.

(f) **Property, Plant & Equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are shown at cost. The carrying amount of freehold and buildings are reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets.

Plant and Equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

Increases in the carrying amount arising on revaluation of land and buildings and property plant and equipment are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

(g) Depreciation and Amortisation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on the straight line and reducing balance methods over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation and amortisation rates used for each class of assets are as follows:

	Range – 2006	Range – 2005
• Furniture, fittings and office equipment	13% - 50%	13% - 50%
• Motor vehicles	20% - 33%	20% - 33%
• Plant & equipment	20%	20%
• Leasehold Improvements	25%	20%
• Buildings	20%	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(h) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

During the 2002/03 financial year, legislation was enacted to allow groups, comprising of a parent entity and its Australian resident wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes. The legislation, which includes both elective and mandatory elements, is applicable to the Consolidated Entity. As at 30 June 2006, the directors of the Company have not made a decision to elect to be taxed as a single entity. The financial effect of the legislation has not been brought to account in the financial statements for the year 30 June 2006.

(j) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset (but not the legal ownership) are transferred to entities in the economic entity, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(k) Exploration and Evaluation Expenditure

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

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

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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

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

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

(l) Receivables

Amounts receivable from third parties are carried at amounts due. The recoverability of the debts is assessed at balance date and specific provision is made for any doubtful accounts.

(m) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

GVM METALS LIMITED

Notes to and forming part of the Financial Statements for the year ended 30 June 2006

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

1. Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
2. Income and expenses are translated at average exchange rates for the period; and
3. Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(n) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(o) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which include transaction costs, when the related contractual rights and obligations exist. Subsequent to initial recognition, these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Financial Instruments - Recognition and Measurement. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

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

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains or losses arising from changes in fair value are taken directly to equity.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

GVM METALS LIMITED

Notes to and forming part of the Financial Statements for the year ended 30 June 2006

Derivative Instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to income statement unless they are designated as hedges.

GVM Metals Limited and Controlled Entities designate certain derivatives as either;

1. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
or
2. hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedge asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

(p) Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(q) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or Consolidated Entity. Trade accounts payable are normally settled within 45 days.

GVM METALS LIMITED

Notes to and forming part of the Financial Statements for the year ended 30 June 2006

(r) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the Group's share of post-acquisition reserves of its associates.

GVM announced its intention to dispose of its associate Samroc during the first half of the year. Under applicable Accounting Standards, the investment in Samroc has been reclassified as a Non-Current Asset Held for Sale in the balance sheet and is measured at the lower of its carrying amount and fair value less costs to sell. The carrying value of the Samroc investment at balance sheet date was reduced by GVM's share of Samroc's trading loss up to 31 December 2005. As the Samroc investment is now classified as a Non-Current Asset Held for Sale, GVM will no longer recognise any future share of Samroc's trading results as from 1 January 2006.

(s) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance sheet date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

Share-based compensation benefits are provided to employees via an Executive Share Option Scheme.

Share options granted before 7 November 2002 and/or vested before 1 July 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Share options granted after 7 November 2002 and/or vested after 1 July 2005

The fair value of options under the Executive Share Option Scheme is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Binomial option valuation model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

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

(t) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

GVM METALS LIMITED

Notes to and forming part of the Financial Statements for the year ended 30 June 2006

(u) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of twelve months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(v) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(w) Earnings per Share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

(x) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

(y) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

The resulting accounting estimates and judgements may differ from the related actual results and may have a significant effect on the carrying amounts of assets and liabilities within the next financial year and on the amounts recognised in the financial statements. Information on such estimates and judgements are contained in the accounting policies and/or notes to the financial statements.

Key accounting estimates include:

- Asset carrying value and impairment charges;
- Capitalisation and impairment of exploration and evaluation expenditure.
- Critical judgements in applying the entity's accounting policies include determining:
- The effectiveness of forward foreign exchange contracts (Note 1(o)).

New Accounting Standards and UIG Interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The consolidated entity's assessment of the impact of these standards and interpretations is set out below.

1) UIG 4 – Determining whether an Arrangement Contains a Lease

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The consolidated entity has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition

GVM METALS LIMITED

Notes to and forming part of the Financial Statements for the year ended 30 June 2006

provisions. The consolidated entity will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is not expected to change the accounting for any of the consolidated entity's current arrangements.

ii) UIG 5 – Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The consolidated entity does not have interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the consolidated entity's financial statements.

iii) AASB 2005-9 – Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]

AASB 2005-9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The consolidated entity does not have financial guarantee contracts and this interpretation will not affect the consolidated entity's financial statements.

iv) AASB 2005-6 – Amendments to Australian Accounting Standards [AASB 121]

AASB 2005-6 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary terms that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. Application of this standard is not expected to affect the consolidated entity's financial statements.

Other standards and guidance issued in the current period are not anticipated to have an impact on the consolidated entity.

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
2. REVENUE				
Revenue from operating activities				
Sale of goods	31,324,714	29,402,751	-	-
Interest income	84,578	157,513	30,280	108,429
Other revenue	931,312	1,056,280	349,970	592,021
Revenue from outside operating activities				
Profit from sale of equity investments	-	366,328	-	366,328
Profit from sale of property, plant and equipment	-	17,657	-	13,455
Total revenue from ordinary activities	32,340,604	31,000,529	380,250	1,080,233

3. PROFIT (LOSS) FROM ORDINARY ACTIVITIES

(a) Profit/(Loss) from ordinary activities before tax has been arrived at after charging/(crediting) the following items:

Depreciation of:				
- office furniture, fittings & equipment	27,839	38,169	10,823	9,593
- leasehold improvements	5,220	9,420	5,220	9,420
- buildings	11,655	14,743	-	-
- motor vehicle	37,469	48,019	-	-
- plant & equipment	160,585	255,875	-	-
	242,768	366,226	16,043	19,013
Profit/(loss) on sale of property plant and equipment	-	17,658	-	13,455
Net foreign exchange gain/(loss)	539,096	221,491	-	-
Amount set aside to/(reversed from) provisions for:				
- employee entitlements	25,804	(198,065)	(1,041)	292
Borrowing costs - other	455,770	639,909	-	765
- related parties	213,274	264,297	-	-
Operating lease expenses	114,862	362,546	-	-

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
(b) Individually significant items included in profit/(loss) from ordinary activities before income tax				
Profit/(loss) on disposal of equity investments	(40,197)	366,328	(40,197)	366,328
Provision for diminution in value of Investments	(4,325)	(442,265)	(4,325)	(419,035)
Share-based payments to Directors	(551,200)	-	(551,200)	-
Provision for non-recoverability of loans	-	(137,866)	-	(136,660)
AIM Listing Costs	(404,335)	-	(404,335)	-

4. INCOME TAX EXPENSE AND DEFERRED TAX

a) Income tax expense				
Current tax	581,107	400,514	-	(400)
Deferred tax	(14,375)	(76,979)	-	-
Over provision in prior year	-	-	-	-
Aggregate income tax expense	566,732	323,535	-	(400)
b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit /(loss) before income tax expense	333,591	1,504,135	(1,712,968)	(518,151)
Tax at the Australian rate of 30% (2005: 30%)	100,077	451,240	(513,890)	(155,325)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Net loss / (gain) on sale of shares	12,059	(109,898)	12,059	(109,898)
Provision for diminution in value	1,298	132,680	1,298	125,711
Provision for non-recovery of loans	-	41,360	-	40,998
Share based payments	165,360	-	165,360	-
Sundry items	-	53,836	-	5,933
Other temporary differences not brought to account	287,938	(245,683)	335,173	92,181
Income tax expense	566,732	323,535	-	(400)
c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax – debited/ (credited) directly to equity	-	-	-	-

Deferred tax assets

The balance comprises temporary differences attributable to:

<i>Amounts recognised in profit or loss</i>				
Employee benefits	36,669	26,886	-	-
Amounts recognised directly in equity	-	-	-	-
Net deferred tax assets	36,669	26,886	-	-

GVM METALS LIMITED*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006***Movements**

Opening balance at 1 July	26,886	(50,093)	-	-
Charged to the income statement	14,375	76,979	-	-
Exchange rate movement	(4,592)	-	-	-
Closing balance at 30 June	36,669	26,886	-	-

The Company has approximately \$11 million and \$4.9 million in revenue and capital losses respectively not brought to account as deferred tax benefits because the directors do not believe it is appropriate to regard the utilisation of the tax benefits as probable.

	Consolidated Entity	
	2006	2005
	\$	\$
5. (LOSS) / EARNINGS PER SHARE		
Basic (loss) / profit per share		
(cents per share)	(2.04)	3.22
Weighted average number of ordinary shares used as the denominator	28,795,026	24,607,956

As at 30 June 2006, there were 8,075,000 (2005: 57,210,000) options outstanding over unissued capital exercisable at amounts ranging between \$0.500 and \$1.923 (2005: \$0.923 and \$1.923). Diluted EPS was not calculated for 2006 as the company incurred a loss per share. During 2005 there was no dilutive potential as the exercisable range of the options was substantially above market price.

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
6. AUDITORS' REMUNERATION				
Amounts received or due and receivable by the auditors of the Company:				
Moore Stephens				
- audit and review of financial reports	24,895	23,182	24,985	23,182
- other services	12,636	-	-	-
	<u>37,531</u>	<u>23,182</u>	<u>24,985</u>	<u>23,182</u>
KPMG				
- audit and review of financial reports	-	41,732	-	41,732
- other services	-	14,700	-	14,700
	<u>-</u>	<u>56,432</u>	<u>-</u>	<u>56,432</u>
Amounts received or due and receivable by the auditors of the subsidiaries				
- audit and review of financial reports	76,466	36,735	-	-
- other services	29,450	-	-	-
	<u>105,916</u>	<u>36,735</u>	<u>-</u>	<u>-</u>

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
7. RECEIVABLES				
CURRENT				
Receivable – associates	620,311	594,051	620,311	594,051
Provision for doubtful receivables – associate	(38,804)	(38,804)	(38,804)	(38,804)
Trade debtors	3,342,813	3,182,755	-	-
Other debtors	3,128,224	2,654,450	819,269	803,265
Provision for doubtful receivables – other	(677,860)	(677,860)	(677,860)	(677,860)
	6,374,684	5,714,592	722,916	680,652
NON CURRENT				
Amounts receivable from controlled entities	-	-	5,121,200	5,155,284
Provision for doubtful receivables	-	-	(598,548)	(598,548)
	-	-	4,522,652	4,556,736

Amounts receivable from controlled entities are interest free, unsecured and with no fixed term for repayment.

**8. ASSETS HELD FOR SALE
(INVESTMENT IN ASSOCIATE)**

Carrying value of investments at beginning of year	222,806	525,270	-	-
Disposal of shares during the year	(29,580)	-	-	-
Diminution in value of investment	-	(325,694)	-	-
Share of associate's net (loss) / profit	(98,630)	23,230	-	-
Carrying value at end of year	94,596	222,806	-	-

The Company has a 26.18% interest in SA Mineral Resources Corporation Ltd ("SAMROC"), a resource company whose particular focus is the manufacture of manganese chemicals. It owns the rights to a manganese deposit near Graskop, Mpumalanga, South Africa and operates the Greenhills manganese chemical plant, which is located adjacent to the mineral deposit.

SAMROC is listed on JSE Securities Exchange South Africa ("JSE"). The closing price of SAMROC on JSE as at balance date was Rand 0.01, or \$0.002. The investment was previously disclosed as an Investment in Associate. GVM has announced its intention to dispose of the investment and, therefore, the investment has been reclassified as Assets Held for Sale. The share of associate's net loss represents GVM's interest in the loss incurred by Samroc from 1 July 2005 to 31 December 2005 on which date the investment was reclassified.

GVM METALS LIMITED*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
9. INVENTORY				
Raw Materials	704,617	1,257,191	-	-
Consumable Stores	33,670	29,909	-	-
Work in progress	-	661,972	-	-
Finished Goods	428,249	133,768	-	-
Residue Stock (Nickel)	2,079,120	1,280,839	-	-
	3,245,656	3,363,679	-	-

Inventory is stated at the lower of cost and net realisable value. Cost is determined according to the weighted average method. Finished products and work-in-progress include direct manufacturing costs.

10. OTHER FINANCIAL ASSETS**Available for Sale Financial Assets:**

Investments:

Shares in other corporations listed on

Stock exchange at cost	89,151	429,660	1,694,703	2,280,960
Provision for diminution in value	(69,688)	(168,744)	(1,482,014)	(1,797,238)
At fair value	19,463	260,916	212,689	483,722

Shares in controlled entities at cost

Provision for diminution in value	-	-	11,864,731	11,423,582
	-	-	(8,292,540)	(8,292,540)
	-	-	3,572,191	3,131,042

Shares in other corporations – at cost ⁽¹⁾

	680,529	664,729	680,529	664,728
	699,992	925,645	4,465,409	4,279,492

Market value of above investments listed on
a stock exchange as at 30 June 2006

	19,463	260,916	212,689	483,722
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- (1) Shares in other corporations represent an initial payment of South African Rand 3 million (\$646,183) plus certain capitalised expenses for a 49% interest in the Holfontein Coal Project. The remainder of the purchase consideration is payable as per note 21. The initial payment will be refunded in the event of the project not proceeding to completion.

Shares in controlled entities are carried at cost. Refer to Note 24(a)

The fair value of unlisted available for sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are reflected at cost.

11. PROPERTY, PLANT & EQUIPMENT

Furniture, fittings and office equipment at cost	241,535	211,442	83,404	91,301
Less: Accumulated depreciation	(188,974)	(102,224)	(55,559)	(52,634)
	52,561	109,218	27,845	38,667
Motor vehicle at cost	181,732	233,010	-	-
Less: Accumulated depreciation	(100,621)	(87,973)	-	-
	81,111	145,037	-	-

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
11. PROPERTY, PLANT & EQUIPMENT (cont)				
Plant and equipment at cost	1,481,964	991,210	-	-
Less: Accumulated depreciation	(1,311,163)	(657,238)	-	-
	<u>170,801</u>	<u>333,972</u>	<u>-</u>	<u>-</u>
Leasehold Improvements at cost	45,702	45,702	37,784	37,784
Less: Accumulated amortisation	(39,308)	(34,088)	(37,784)	(32,564)
	<u>6,394</u>	<u>11,614</u>	<u>-</u>	<u>5,220</u>
Land and Buildings at cost	1,624,611	1,851,413	-	-
Less: Accumulated amortisation	(132,166)	(17,009)	-	-
	<u>1,492,445</u>	<u>1,834,404</u>	<u>-</u>	<u>-</u>
Total property, plant & equipment	<u>1,803,312</u>	<u>2,434,245</u>	<u>27,845</u>	<u>43,887</u>

Reconciliations of the carrying amount of each class of property, plant and equipment are set out below:

Furniture, fitting and office equipment

Carrying amount at the beginning of the year	109,218	95,154	38,667	38,818
Depreciation	(27,839)	(38,169)	(10,822)	(9,593)
Additions	2,210	52,233	-	9,442
Foreign exchange movements	(31,028)	-	-	-
Carrying amount at end of year	<u>52,561</u>	<u>109,218</u>	<u>27,845</u>	<u>38,667</u>

Motor Vehicles

Carrying amount at the beginning of the year	145,037	79,162	-	-
Depreciation	(37,469)	(48,019)	-	-
Additions	93,035	150,597	-	-
Disposals	(120,724)	(36,703)	-	-
Foreign exchange movements	1,232	-	-	-
Carrying amount at end of year	<u>81,111</u>	<u>145,037</u>	<u>-</u>	<u>-</u>

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
11. PROPERTY, PLANT & EQUIPMENT (cont)				
Plant & equipment				
Carrying amount at the beginning of the year	333,972	547,424	-	-
Depreciation	(160,585)	(255,875)	-	-
Additions	34,405	42,423	-	-
Foreign exchange movements	(36,991)	-	-	-
Carrying amount at end of year	<u>170,801</u>	<u>333,972</u>	<u>-</u>	<u>-</u>
Leasehold improvements				
Carrying amount at the beginning of the year	11,614	21,034	5,220	14,640
Depreciation	(5,220)	(9,420)	(5,220)	(9,420)
Carrying amount at end of year	<u>6,394</u>	<u>11,614</u>	<u>-</u>	<u>5,220</u>
Land and Buildings				
Carrying amount at the beginning of the year	1,834,404	1,849,147	-	-
Depreciation	(11,655)	(14,743)	-	-
Additions	18,839	-	-	-
Foreign exchange movements	(349,143)	-	-	-
Carrying amount at end of year	<u>1,492,445</u>	<u>1,834,404</u>	<u>-</u>	<u>-</u>
TOTAL PROPERTY, PLANT & EQUIPMENT	<u>1,803,312</u>	<u>2,434,245</u>	<u>27,845</u>	<u>43,887</u>

The land and buildings referred to above were subject to an independent valuation in 2003 by the Capgrow Business Group, at R7,993,593 (approximately \$1,505,952), on the basis of continued use.

12. INTANGIBLES

Goodwill:				
Goodwill on consolidation	9,399,760	9,399,760	-	-
Accumulated amortisation	(193,472)	(193,472)	-	-
Increase in Nimag investment	441,151	-	-	-
Goodwill attached to "B" Preference shares acquired by parent entity	(668,591)	-	-	-
Exchange rate movement	(1,537,568)	-	-	-
	<u>7,441,280</u>	<u>9,206,288</u>	<u>-</u>	<u>-</u>

13. PAYABLES**CURRENT**

Trade creditors	3,817,457	3,263,853	293,118	5,731
Sundry creditors and accruals	278,488	417,027	35,797	163,139
Other	1,844,181	2,497,409	-	-
	<u>5,940,126</u>	<u>6,178,289</u>	<u>328,915</u>	<u>168,870</u>

NON CURRENT

Payables – controlled entities	-	-	4,835,746	4,845,328
Payables - other	1,340,777	1,580,489	1,765,462	1,580,489
	<u>1,340,777</u>	<u>1,580,489</u>	<u>6,601,208</u>	<u>6,425,817</u>

Amounts owing to controlled entities are interest free, unsecured and with no fixed term for repayment.

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
14. INTEREST BEARING LIABILITIES				
CURRENT LIABILITIES				
Bank Overdraft	935,569	778,860	-	-
Secured Loans	764,364	715,146	-	-
Unsecured Loans	751,695	522,214	-	-
	2,451,628	2,016,220	-	-
NON-CURRENT LIABILITIES				
Secured Loans	1,577,292	2,440,174	-	-
Unsecured Loans	1,124,969	2,296,557	-	-
	2,702,261	4,736,731	-	-
Financial arrangements				
The Consolidated Entity has the access to the following lines of credit:				
General banking facility/bank overdraft	1,318,764	1,374,100	-	-
Term loan facility	3,767,897	3,926,000	-	-
Forward exchange contract facility	3,767,897	3,926,000	-	-
	8,854,558	9,226,100	-	-
Facilities utilised at reporting date				
Bank Overdraft	935,569	778,860	-	-
Secured Loans	2,341,656	3,155,320	-	-
	3,277,225	3,934,180	-	-
Facilities not utilised at reporting date				
Bank overdraft	383,195	595,240	-	-
Forward exchange contract facility	3,767,897	3,926,000	-	-
Term loan facility	1,426,241	770,680	-	-
	5,577,333	5,291,920	-	-

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

14. INTEREST BEARING LIABILITIES (cont)***Bank overdrafts, term facility and forward exchange contract facility***

The various facilities described above are secured by:

- Unlimited cession of debtors;
- Registration of a first continuing covering mortgage bond over the farm Steenkoppies Magaliesburg for an amount of \$1,130,369 (R6,000,000) supported by a cession of fire and Sasria policy;
- Registration of a general and special notarial bond over stock, plant and equipment for an amount of \$2,825,923 (R15,000,000) supported by a cession of fire and Sasria policy;
- Unlimited suretyship by GVM Metals Ltd; and
- Limited suretyship by other shareholders to the amount of \$542,954 (R2,882,000).

Secured Loans (ABSA Limited)

The loan is repayable in annual instalments which comprise capital and interest of \$1,016,961 (R5,398,029) with a final payment in March 2009. The loan bears interest at 1% above the South African prime interest rate.

Unsecured Loans (Loans from minority interests in controlled entity)

The loans are unsecured and bore interest at a rate of 8.5% during the year under review. \$751,696 (R3,990,000) is repayable on 13 December 2006 and the balance will be repaid when funds are available and can be delayed to a maximum of 5 years.

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
15. PROVISIONS				
CURRENT				
Employee entitlements	125,790	99,986	212	1,254
Number of employees				
Number of employees at year end	101	100	1	1
16. CONTRIBUTED EQUITY				
(a) Issued and paid up capital				
31,311,019 ordinary fully paid shares				
(2005: 27,498,519 ordinary fully paid shares – adjusted for share consolidation)	35,396,353	34,500,935	35,396,353	34,500,935
	35,396,353	34,500,935	35,396,353	34,500,935

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

16. CONTRIBUTED EQUITY (cont)

	2006 Number	2006 \$	2005 Number	2005 \$
(b) Movements in contributed equity				
Opening Balance	274,985,189	34,500,935	239,120,188	33,469,250
Capital raising for working capital at 2.5 cents per share	-	-	5,000,000	125,000
Capital raising for investment capital at 3.0 cents per share	-	-	30,865,001	925,950
10:1 Share consolidation	(247,486,802)	-	-	-
Revised balance post consolidation	27,498,387	-	-	-
Capital raising for working capital at 25 cents per share	3,812,500	953,125	-	-
Capital raising costs incurred	-	(57,707)	-	(19,265)
	31,310,887	35,396,353	274,985,189	34,500,935

The Company has entered into an Option Agreement whereby GVM has a call option granting it the right to acquire the remaining 26% of Nimag, for the total consideration of 6.5 million shares in GVM @ 40 cents per share. Similarly, the shareholders of the remaining 26% of Nimag have a put option granting them the right to dispose of their holding in Nimag to GVM, for the consideration of 6.5 million shares in GVM @ 40 cents per share. The Option Agreement is subject to certain terms and conditions. The option agreement was amended during the year to take cognisance of the 10:1 share consolidation in GVM. The issuing of the GVM shares is also subject to shareholder approval.

(c) Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

In the event of winding up of the Company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

(d) Options

Unissued ordinary shares of the Company under option at balance date are:-

	Number	Exercise Price	Expiry Date
Unlisted Options ⁽¹⁾	75,000	192.3 cents	30 September 2006
Unlisted Options	8,000,000	50.0 cents	30 September 2011

(1) The company consolidated its shares in the ratio of 10:1 during the year. The share options outstanding at that date were adjusted accordingly.

GVM METALS LIMITED*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
17. RESERVES				
Capital profits reserve	136,445	136,445	136,445	136,445
Share based payments	551,200	-	551,200	-
Foreign currency translation	(261,124)	1,108,117	-	-
	426,521	1,244,562	687,645	136,445
MOVEMENT DURING THE YEAR				
Foreign Currency Translation				
Opening balance	1,108,117	599,872	-	-
Foreign currency translation	(1,369,241)	508,245	-	-
Closing balance at year end	(261,124)	1,108,117	-	-

Nature & Purpose of Reserves***Foreign currency translation***

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations.

Capital profits reserve

The capital profits reserve contains capital profits derived during previous financial years.

Share based payments

Share based payments represent the value of unexercised share options to directors.

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
18. ACCUMULATED LOSSES				
Accumulated losses at the beginning of the financial year	(30,079,645)	(30,872,983)	(31,484,352)	(30,966,601)
Net profit/(loss) attributed to members of parent entity.	(587,011)	793,338	(1,712,968)	(517,751)
Accumulated losses at the end of the financial year	(30,666,656)	(30,079,645)	(33,197,320)	(31,484,352)

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

19. OUTSIDE EQUITY INTERESTS

Outside equity interests in consolidated entities comprise:

	2006	2005
	\$	\$
Interest in retained profits at the beginning of the year	303,671	(83,591)
Interest in profits from operating activities after income tax	353,870	387,262
Interests in profits at the end of the financial year	<u>657,541</u>	<u>303,671</u>
Interests in share capital	2,581,363	2,581,363
Disposal of "B" Preference shares to parent entity	(668,591)	
Interests in reserves	(65,177)	421,083
Total Outside Equity Interests	<u>2,505,136</u>	<u>3,306,117</u>

20. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE**(a) Financial Instruments*****Forward exchange contracts***

The economic entity enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the economic entity against unfavourable exchange rate movements for both the contracted and anticipated future sales and purchases undertaken in foreign currencies.

The accounting policy in regard to forward exchange contracts is detailed in note 1 (o).

At balance date, the details of the outstanding forward exchange contracts are:

Buy SA Rands	Sell US Dollars		Average exchange rate	
	2006	2005	2006	2005
	US\$	US\$		
Settlement:				
- Less than 6 months	935,000	1,025,000	6.484	6.519
	Sell US Euro Dollars			
	EU\$	EU\$		
Settlement:				
- Less than 6 months	18,800	-	8.268	-
	Sell SA Rand			
	SAR	SAR		
Settlement:				
- Less than 6 months	1,111,986	778,572	8.2984	8.068

No unrealised profit from forward exchange contracts was recognised as it is immaterial.

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

(b) Interest Rate Risk Exposures

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

2006	Note	Floating interest rate	Fixed interest maturing in:		Non-interest bearing	Total	Weighted average interest rate
			1 year or less	Over 1-5 years			
<i>Financial assets</i>							
Cash assets	25(a)	985,333	-	-	-	985,333	3%
Receivables	7	-	-	-	6,374,684	6,374,684	
Other financial assets	10	-	-	-	699,992	699,992	
		985,333	-	-	7,074,676	8,060,009	
<i>Financial liabilities</i>							
Payables	13	-	-	-	5,940,126	5,940,126	
Employee Entitlements	15	-	-	-	125,790	125,790	
Interest bearing liabilities	14	935,569	1,516,059	2,702,261	-	5,153,889	10.1%
		935,569	1,516,059	2,702,261	6,065,916	11,219,805	

2005	Note	Floating interest rate	Fixed interest maturing in:		Non- interest bearing	Total	Weighted average interest rate %
			1 year or less	Over 1-5 years			
		\$	\$	\$	\$	\$	
<i>Financial assets</i>							
Cash	25(a)	1,806,353	-	-	-	1,806,353	3%
Receivables	7	-	-	-	5,714,592	5,714,592	
Other financial assets	10	-	-	-	925,645	925,645	
		1,806,353	-	-	6,640,237	8,446,590	
<i>Financial liabilities</i>							
Payables	13	-	-	-	6,178,289	6,178,289	
Employee Entitlements	15	-	-	-	99,986	99,986	
Interest bearing liabilities	14	778,860	1,237,360	4,736,731	-	6,752,951	10.1%
		778,860	1,237,360	4,736,731	6,278,275	13,031,226	

(c) Commodity Price Risk

The Consolidated Entity enters into futures contracts to hedge (or hedge a portion of) commodity purchase prices on anticipated specific purchase commitments of nickel. The terms of these contracts are rarely more than two years. The contracts outstanding at year-end are:

	Consolidated National Principal	
	2006	2005
	\$	\$
<i>Hedging Purchases</i>		
Not later than one year	-	1,504,809
Later than one year but not later than two years	-	-
	-	1,504,809

GVM METALS LIMITED

Notes to and forming part of the Financial Statements for the year ended 30 June 2006

(d) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets, excluding investments, of the Consolidated Entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

Concentration of credit risk on trade and term debtors exists in respect of the business undertaken by Nimag. As at 30 June 2006, 92% (2005: 81%) of the Consolidated Entity's trade debtors were owed by United States and European customers.

Other than the concentration of credit risk described above, the Consolidated Entity is not materially exposed to any individual overseas country or individual customer.

Unrecognised financial instruments

Credit risk on derivative contracts, which have not been recognised on the statement of financial position, is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

As all futures contracts are transacted through a recognised futures exchange, credit risk associated with these contracts is minimal.

(e) Net Fair Values of Financial Assets and Liabilities

Valuation approach

Net fair values of financial assets and liabilities are determined by the Consolidated Entity on the following bases:

Listed shares included in "Other financial assets" are traded in an organised financial market. The net fair values of listed shares are determined by the last quoted sale price of the security as at balance date and are disclosed in Notes 8 & 10.

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from counterparties (reduced for expected credit losses) or due to suppliers where appropriate. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows. The carrying amounts of bank term deposits, accounts receivable and accounts payable approximate net fair value.

	Consolidated Entity		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
21. COMMITMENTS				
Non-cancellable operating lease expense commitments				
Future operating lease rentals not provided for in the financial statements and payable:				
Within 1 year	140,844	282,162	-	-
After 1 year but no later than 5 years	67,871	245,339	-	-
	208,715	527,501	-	-

The Consolidated Entity leases property under non-cancellable operating leases expiring in 2 years time. Leases generally provide the Consolidated Entity with a right of renewal at which time all terms are renegotiated.

The Consolidated Entity has sub-leases in place with unrelated parties reducing its exposure by approximately \$165,000 per annum.

GVM METALS LIMITED

Notes to and forming part of the Financial Statements for the year ended 30 June 2006

Contractual Commitments

Early in the second quarter of 2005, GVM, together with a South African company, entered into an agreement for the acquisition of a small South African based coal mining project known as "Hoffontein". GVM's interest in the project is 49%. The acquisition is subject to a number of conditions, principally related to the size of the economically recoverable tonnes as determined by independent experts.

In terms of the Sale and Purchase Agreement, the acquisition becomes voidable if the deposit is not larger than 8 million tonnes of economically recoverable coal. A drilling program was underway at balance sheet date to determine the size of the deposit.

The total purchase consideration of the project is South African Rand 21 million (\$4,1 million) of which South African Rand 3 million (\$646,182) became payable on the conversion of the Old Order Prospecting Rights to New Order Prospecting Rights (NOPR) and the remainder is payable on the completion of the bankable feasibility study. Payment for the property could be due as early as the end of 2006.

An initial payment of South African Rand 3 million (\$646,182) was deposited in trust with the legal representatives of the sellers during the 2005 financial year. The amount will be refunded in the event of the transaction not proceeding. If the transaction proceeds, the initial payment will go towards the payment of the South African Rand 3 million (\$646,182) payable on the conversion of the Old Order Prospecting Rights to NOPR.

22. CONTINGENT LIABILITIES

In accordance with normal industry practice the Company has agreed to provide financial support to its 100% controlled entities.

23. RELATED PARTY DISCLOSURES

The names and positions held by key management personnel in office at any time during the financial year are:

Mr S Farrell	Managing Director
Mr R Linnell	Non-Executive Chairman & Director
Mr P Cordin	Non-Executive Director
Mr B Sergeant	Non-Executive Director & Company Secretary

Key management personnel compensation is included in the Directors' Report as part of the Remuneration Report.

Equity instruments

Option holdings

Listed Options of Key Management Personnel

The movement during the reporting period in the number of options (adjusted for the share consolidation) over ordinary shares exercisable at 92.3 cents on or before 30 September 2005 held, directly, indirectly or beneficially by each key management personnel including their personally-related entities, is as follows:

	Held at 1 July 2005	Granted as remuneration	Exercised	Lapsed	Held at 30 June 2006
Directors					
Mr S Farrell	300,000	-	-	(300,000)	-
Mr R Linnell	700,000	-	-	(700,000)	-
Mr P Cordin	100,000	-	-	(100,000)	-
Mr B Sergeant	25,000	-	-	(25,000)	-

All options vested on the date of issue. No options held by the directors are vested but not exercisable.

GVM METALS LIMITED**Notes to and forming part of the Financial Statements
for the year ended 30 June 2006****Unlisted Options**

The movement during the reporting period in the number of options over ordinary shares exercisable at 50 cents on or before 30 September 2011 held, directly, indirectly or beneficially by each key management personnel including their personally-related entities, is as follows:

	Held at 1 July 2005	Granted as remuneration	Exercised	Other changes	Held at 30 June 2006
Directors					
Mr S Farrell	-	4,000,000	-	-	4,000,000
Mr R Linnell	-	2,000,000	-	-	2,000,000
Mr P Cordin	-	1,000,000	-	-	1,000,000
Mr B Sergeant	-	1,000,000	-	-	1,000,000

All options vested on the date of issue. No options held by specified directors are vested but not exercisable.

Equity holdings and transactions of key management personnel

The movement during the reporting period in the number of ordinary shares held, directly, indirectly or beneficially by each key management personnel including their personally-related entities, is as follows:

	Held at 1 July 2005	Purchases	Received on exercise of options	Sales	Held at 30 June 2006
Directors					
Mr S Farrell	2,737,416	-	-	-	2,737,416
Mr R Linnell	301,550	200,000	-	-	501,550
Mr P Cordin	412,759	-	-	-	412,759
Mr B Sergeant	-	-	-	-	-

Loans and Other Transactions with Directors and other Key Management Personnel

Details regarding loans outstanding at the reporting date from directors and other key management personnel are as follows:

- (1) Certain key management personnel have provided unsecured loans in the amount of R11,697,976 (2005: R14,357,976), bearing interest at 9.5% per annum. Agreed repayments terms are R3,990,000 (2005: R2,660,000) on 13 December 2006 and the balance when funds are available and can be delayed for a maximum of 5 years.
- (2) Nimag (Proprietary) Limited leases on arm's length terms and conditions, the head office building facilities from Gamin Properties (Pty) Limited, a company controlled by certain key management personnel, for a total of R39,066 (A\$8,127) per month.

Other Transactions with the Company or its Controlled Entities

A number of directors or their personally-related entities hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of those entities transacted with the Company or its subsidiaries during the financial year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate expense recognised during the year relating to specified directors or their personally-related entities were \$45,399. Details of the transactions are as follows:

GVM METALS LIMITED
**Notes to and forming part of the Financial Statements
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Specified Directors	Transaction	Note	2006 \$	2005 \$
Mr B Sergeant	Company secretarial fees	(i)	45,399	49,744

(i) The Company engaged Anthony Ho & Associates and Evolution Capital Partners to provide certain company secretarial, accounting and administrative services to the Consolidated Entity. Mr Sergeant is a Partner of both Anthony Ho & Associates and Evolution Capital Partners.

24. CONTROLLED ENTITIES
(a) Particulars in Relation to Controlled Entities

	Country of Incorporation	Owned %	
		2006	2005
GVM Metals Limited	Australia		
<i>Controlled Entities:</i>			
Master Alloy Traders Limited	Jersey	100	100
NiMag (Pty) Limited	South Africa	74	74
Metalloy Fibres (Pty) Limited*	South Africa	74	74
Chromet (Pty) Limited*	South Africa	74	74
Magnimount Properties (Pty) Limited*	South Africa	37	37
Magberg Manufacturing (Pty) Limited*	South Africa	74	74
NiMag Limited*	South Africa	74	74
Cove Mining NL	Australia	100	100
Evoc Mining NL	Australia	100	100
Greenstone Gold Mines NL	Australia	100	100
Golden Valley Services Pty Ltd	Australia	100	100
Golden Valley Investments Pty Ltd	Australia	100	100
PetroAsia NL	Australia	100	100

* Subsidiary companies of NiMag (Proprietary) Limited

(b) Acquisition of Controlled Entities
2006

The company did not acquire any controlled entities during the year under review.

2005

The company acquired 100% interest in Master Alloy Traders Limited ("MATS") during the financial year by means of a vendor loan of US\$1.4million. The loan is repayable out of a portion of the future dividend payments of MATS and is interest free. Details of the acquisition are as follows:

	Consolidated Entity 2005 \$
Consideration (cash)	-
Net cash acquired	257,743
Inflow of cash	257,743
Fair value of assets acquired	
Cash assets	257,743
Receivables	76,484
Payables	(206,014)
	128,213
Goodwill on acquisition	1,666,761
Total consideration	1,794,974

GVM METALS LIMITED
**Notes to and forming part of the Financial Statements
for the year ended 30 June 2006**

Consideration (non cash)	(1,794,974)
Consideration (cash)	-

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
25. NOTES TO THE STATEMENT OF CASHFLOWS				
(a) Reconciliation of cash				
For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position.				
Cash at Bank	985,333	1,806,353	78,191	188,202
Bank Overdraft	(935,569)	(778,860)	-	-
	49,764	1,027,493	78,191	188,202
(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities				
Profit/(Loss) from ordinary activities after income tax	(233,141)	1,180,600	(1,712,968)	(517,751)
<i>Add/(less) non- cash items:</i>				
Amounts set aside (reversed from) provisions	(112,735)	(184,960)	(1,042)	292
Depreciation/amortisation of property, plant and equipment	242,768	366,226	16,043	19,013
(Profit)/loss on disposal of property, plant and equipment	-	(17,658)	-	(13,455)
(Profit)/loss on disposal of equity investments	40,197	(366,328)	40,197	(366,328)
Diminution in value of investments	4,325	442,265	4,325	419,035
Provision for non-recoverability of loans	-	137,866	-	136,660
Share of associates (profit) / loss	98,630	(23,230)	-	-
Share based payments	551,200	-	551,200	-
<i>Change in assets and liabilities:</i>				
(Increase) in trade debtors and other receivables	(773,506)	(386,313)	(37,704)	200,543
(Increase)/Decrease in inventory	118,023	66,834	-	-
Increase/(Decrease) in creditors	129,480	1,453,152	160,045	83,595
Increase/(Decrease) in Tax Payable, FITB, PDIT	332,993	(307,973)	(4,560)	-
Net cash provided by / (used in) operating activities	398,234	2,360,481	(984,464)	(38,396)

(c) Non-cash investing and financing activities

The Parent entity acquired certain "B" Preference shares in Nimag from minority shareholders during the year for a consideration of \$441,151 of which \$409,375 was settled by means of a share issue.

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
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26. SEGMENT INFORMATION

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment results, asset and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprises interest or dividend-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Business segments

The Consolidated Entity comprises the following main business segments:

Manufacturing	Mineral processing by SAMROC and NiMag in South Africa
Investing	Equity investments in Australia, Canada & United Kingdom

Primary reporting

Industry	Manufacturing \$		Investing \$		Consolidated \$	
	2006	2005	2006	2005	2006	2005
Revenue						
Total segment revenue	32,290,688	30,051,449	49,916	438,060	32,340,604	30,489,509
Unallocated revenue		-			-	511,020
Total Revenue					32,340,604	31,000,529
Result						
Segment result	1,321,276	1,442,541	9,719	956,829	1,330,995	2,399,370
Share of net profit/(loss) of equity accounted investments	(98,630)	23,230	-	-	(98,630)	23,230
Unallocated items	-	-	-	-	(1,819,376)	(1,629,262)
Net Profit/(Loss)					(587,011)	793,338
Depreciation and amortisation	(226,725)	(347,212)	(16,043)	(19,014)	(242,768)	(366,226)
Provision for diminution in investment	-	-	(4,325)	(442,265)	(4,325)	(442,265)
Assets						
Segment assets	16,590,079	19,982,168	699,990	925,645	17,290,069	20,907,813
Unallocated corporate assets	-	-	-	-	3,296,857	2,569,875
Assets held for sale	94,596	222,806	-	-	94,596	222,806
Consolidated total assets					20,681,522	23,700,494
Liabilities						
Segment liabilities	11,069,343	12,813,663	1,950,825	1,914,862	13,020,168	14,728,525
Unallocated liabilities	-	-	-	-	-	-
Consolidated total liabilities					13,020,168	14,728,525

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
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26. SEGMENT INFORMATION (cont'd)**Secondary reporting****Geographical segments**

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of income generated from equity investments. Segment assets are based on the geographical location of the assets.

The Consolidated Entity has equity interests in an exploration and mining company listed in the United Kingdom, an unlisted trading company in Jersey, one listed and one unlisted manufacturing company and an unlisted exploration company in South Africa and a biotechnology company listed in Australia.

Geographical segments	North America		Europe		Africa		South-East Asia & Australasia		Consolidated	
	\$		\$		\$		\$		\$	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue by location of customers	8,701,992	9,853,200	12,194,148	11,865,875	5,799,434	5,761,980	5,645,030	3,519,474	32,340,604	31,000,529
			Europe		Africa		Australia		Consolidated	
			\$		\$		\$		\$	
Segment assets by location of assets			324,366	447,897	16,590,081	19,595,518	3,767,075	3,657,079	20,681,522	23,700,494

27. SUBSEQUENT EVENTS

During July 2006 the company raised £3,200,000 by a placing of 24,615,384 new ordinary shares.

On 22 August 2006 GVM announced that it has executed binding Heads of Agreement with Motjoli Resources (Pty) Ltd (Motjoli) to acquire Motjoli's 51% interest in the Holfontein Coal project, taking GVM's interest to 100%. Further, the Heads of Agreement includes the acquisition of Motjoli's 50% interest in the Boabab J.V. coal project and its 100% interest in three Limpopo prospecting licenses adjacent to those held by the Boabab J.V.

The consideration payable for the Holfontein and Boabab J.V. interests is 34,863,226 ordinary shares plus a further 3,417,964 ordinary shares to be issued on the grant of an export allocation to GVM at the Richards Bay Coal Terminal, for a minimum of 100,000 metric tonnes of coal per annum.

Other than that stated above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
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**28. RECONCILIATION OF EQUITY REPORTED UNDER PREVIOUS AUSTRALIAN GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES (AGAAP) TO EQUITY UNDER AUSTRALIAN EQUIVALENTS
TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)**

Reconciliation of Equity at 30 June 2005 – Consolidated Entity	Note	Previous GAAP at 30.6.2005 \$	Adjustments on introduction of Australian equivalents to IFRS \$	Australian equivalents to IFRS at 30.6.2005 \$
CURRENT ASSETS				
Cash assets		1,806,353	-	1,806,353
Receivables	28b	4,216,583	1,498,009	5,714,592
Inventory		3,363,679	-	3,363,679
Total Current Assets		9,386,615	1,498,009	10,884,624
NON CURRENT ASSETS				
Investment accounted for using the equity method		222,806	-	222,806
Intangibles	28a	8,736,300	469,988	9,206,288
Other financial assets		925,645	-	925,645
Property, plant and equipment		2,434,245	-	2,434,245
Deferred tax		26,886	-	26,886
Total Non Current Assets		12,345,882	469,988	12,815,870
TOTAL ASSETS		21,732,497	1,967,997	23,700,494
CURRENT LIABILITIES				
Payables	28b	4,680,280	1,498,009	6,178,289
Interest bearing liabilities		2,016,220	-	2,016,220
Provisions		99,986	-	99,986
Current tax liability		116,810	-	116,810
Total Current Liabilities		6,913,296	1,498,009	8,411,305
NON CURRENT LIABILITIES				
Payables		1,580,489	-	1,580,489
Interest bearing liabilities		4,736,731	-	4,736,731
TOTAL NON CURRENT LIABILITIES		6,317,220	-	6,317,220
TOTAL LIABILITIES		13,230,516	1,498,009	14,728,525
NET ASSETS		8,501,981	469,988	8,971,969
EQUITY				
Issued Capital		34,500,935	-	34,500,935
Reserves		1,244,562	-	1,244,562
Accumulated losses	28a	(30,449,104)	369,459	(30,079,645)
TOTAL PARENT EQUITY INTEREST		5,296,393	369,459	5,665,852
OUTSIDE EQUITY INTEREST	28a	3,205,588	100,529	3,306,117
TOTAL EQUITY		8,501,981	469,988	8,971,969

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

**28. RECONCILIATION OF EQUITY REPORTED UNDER PREVIOUS AUSTRALIAN GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES (AGAAP) TO EQUITY UNDER AUSTRALIAN EQUIVALENTS
TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)**

Reconciliation of Profit for the full year 30 June 2005 – Consolidated Entity	Note	Previous GAAP \$	Effect of transition to Australian equivalents to IFRS \$	Australian equivalents to IFRS \$
REVENUE	28c	31,520,378	(519,849)	31,000,529
Changes in inventories of finished goods and work in progress		66,834		66,834
Raw materials and consumables used		(22,480,207)		(22,480,207)
Consulting expenses		(413,652)		(413,652)
Employee expenses		(2,865,537)		(2,865,537)
Borrowing costs		(904,206)		(904,206)
Depreciation expenses		(366,226)		(366,226)
Amortisation of goodwill	28a	(469,988)	469,988	-
Office rental , outgoings and parking		(324,941)		(324,941)
Decrease/(increase) diminution in value of investments		(442,265)		(442,265)
Carrying value of investments disposed of	28c	(483,152)	483,152	-
Carrying value of property, plant and equipment disposed of	28c	(36,697)	36,697	-
Provision for non-recoverability of loans		(137,866)		(137,866)
Other expenses from ordinary activities		(1,651,559)		(1,651,559)
Share of net profit/(losses) of associate accounted for using the equity method		23,230		23,230
Profit from continuing operations before income tax (expense)/benefit		1,034,147	469,988	1,504,135
Income tax expense		(323,535)	-	(323,535)
Profit from continuing operations after related income tax (expense)/benefit		710,612	469,988	1,180,600
Outside equity interest	28a	(286,733)	(100,529)	(387,262)
Net profit attributable to members of the parent entity	28a	423,879	369,459	793,338

GVM METALS LIMITED

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2006*

**28. RECONCILIATION OF EQUITY REPORTED UNDER PREVIOUS AUSTRALIAN GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES (AGAAP) TO EQUITY UNDER AUSTRALIAN EQUIVALENTS
TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)**

Reconciliation of Profit for the full year 30 June 2005 – Parent Entity	Note	Previous GAAP \$	Effect of transition to Australian equivalents to IFRS \$	Australian equivalents to IFRS \$
REVENUE	2c	1,563,385	(483,152)	1,080,233
Consulting expenses		(306,257)	-	(306,257)
Employee expenses		(400,081)	-	(400,081)
Borrowing costs		(765)	-	(765)
Depreciation expenses		(19,013)	-	(19,013)
Office rental , outgoings and parking		(62,503)	-	(62,503)
Decrease/(increase) diminution in value of investments		(419,035)	-	(419,035)
Carrying value of investments disposed of	2c	(483,152)	483,152	-
Provision for non-recoverability of loans		(136,660)	-	(136,660)
Other expenses from ordinary activities		(254,068)	-	(254,070)
Loss from ordinary activities before income tax (expense)/benefit		(518,151)	-	(518,151)
Income tax expense		400	-	400
Net loss attributable to members of the parent entity		(517,751)	-	(517,751)

28a) Under AASB 3: Business Combinations, goodwill is no longer amortised but subject to annual impairment testing. All goodwill amortised under previous GAAP from 1 July 2004 has been reversed. Goodwill amounting to \$469,988 previously amortised in the 2005 full financial year has been reversed in the income statement for the year ended 30 June 2005.

28b) Under AASB 139: Financial Instruments-Recognition and Measurement, derivative financial instruments are measured at fair value at reporting date. Gains and losses resulting from changes to fair value are taken to the income statement unless they are designated as hedges, in which case the difference is taken directly to equity. The group held a number of forward exchange contracts at 30 June 2005. These forward exchange contracts have been recorded in the 30 June 2005 balance sheet as "Receivables" and reflected at fair value. A corresponding increase in current payables has also been recognised in the balance sheet at 30 June 2005. Under the previous accounting policy, these forward exchange contracts were not recorded on the balance sheet. The effect of this change in accounting policy has been to increase total assets and liabilities at 30 June 2005 by \$1,498,009 with no effect on net assets.

28c) Under AIFRS, revenue from the sale of non-current assets must be reflected as the gain or loss on sale rather than the proceeds from sale of those assets. This reclassification has been adjusted in the 30 June 2005 Income Statements. The effect of this change in accounting policy was to reduce reported revenue from outside operating activities in 30.6.2005 by \$519,849. There is however, no effect on the net results for both years as this is purely a reclassification adjustment within the Income Statement.

28d) The reconciliation of equity as at 1 July 2004 has not been disclosed on the basis that there are no material differences between the financial statements presented under previous Australian GAAP and Australian equivalents to IFRS.

GVM METALS LIMITED
Directors' Declaration

In the opinion of the directors of GVM Metals Limited ("the Company")

- (a) the financial statements and notes set out on pages 17 to 54 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations and other mandatory reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 9 to 11 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the Corporations Regulations 2001.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by Section 295A of the Corporations Act 2001.

Dated at Perth, Western Australia this 19th day of September 2006.

Signed in accordance with a resolution of the Directors:



Simon Farrell
Managing Director

**GVM METALS LIMITED
ABN 98 008 905 388**

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF GVM METALS LIMITED**

As lead auditor for the audit of GVM Metals Ltd for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

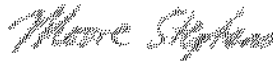
(i) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

This declaration is in respect of GVM Metals Ltd and the entities it controlled during the period.



**NEIL PACE
PARTNER**



**MOORE STEPHENS
CHARTERED ACCOUNTANTS**

Signed at Perth this 20th day of September 2006.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GVM METALS LIMITED

SCOPE

The Financial Report, Remuneration Disclosures & Directors' Responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both GVM Metals Limited (the "Company") and GVM Metals Ltd Group ("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 Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 124: *Related Party Disclosures*, under the heading "Remuneration Report" in pages 9 to 11 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 and the *Corporations Regulations 2001*. 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, Accounting Standards, 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, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with Accounting Standard AASB 124 and the *Corporations Regulations 2001*.

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 remuneration disclosures, 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.

INDEPENDENCE

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

AUDIT OPINION

In our opinion:

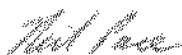
(1) the financial report of GVM Metals Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

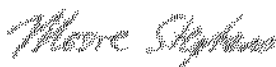
- (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia; and

(2) the remuneration disclosures that are contained in pages 9 to 11 of the directors' report comply with Accounting Standard AASB 124 and the *Corporations Regulations 2001*.



NEIL PACE
PARTNER



MOORE STEPHENS
CHARTERED ACCOUNTANTS

Signed at Perth this 20th day of September 2006.