Australian Mines Limited

ABN 68 073 914 191

AUSTRALIAN MINES LIMITED
ABN 68 073 914 191

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006

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AUSTRALIAN MINES LIMITED

DIRECTORS' REPORT

The Directors present their report together with the financial report of Australian Mines Limited ("the Company" or "Australian Mines") and its controlled entities ("the consolidated entity") for the year ended 30 June 2006 and the auditor's report thereon.

1. DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Neil Warburton – Non-Executive Chairman appointed 13 October 2005, director since 22 April 2003
Associate Mining Engineering – WASM, FIAMM

Neil Warburton, is a qualified mining engineer with more than 26 years experience in the development and mining of gold and nickel projects in Australia.

He has held executive and board positions with a number of Australian resource companies and is currently Western Australian General Manager of Operations for Barminco Ltd.

Mr Warburton is a Member of the Australasian Institute of Mining and Metallurgy.

APPOINTMENTS

Mick Elias – Non-Executive Director appointed 1 July 2005
BSc(Hons) FAusIMM CPGeo
Mick Elias, has over 24 years of extensive, international experience in all aspects of nickel resource development in both laterites and sulphides, from project generation and evaluation, exploration planning and management, development studies, open cut and underground mine geology, resource/reserve estimation, and resource economics.

He previously held the positions of Chief Geologist – WA Nickel Operations and Chief Geologist – Nickel Resource Development at WMC Resources Ltd. Mr Elias holds a Bachelor of Science (Honours) in Geology from the University of Melbourne. Mr Elias is a director of Mercator Gold plc and Braemore Resources plc.

Brett Young – Executive Director appointed 17 October 2005, Chief Operating Officer/Company Secretary since 1 September 2004
CA BComm
Brett Young, is a Chartered Accountant and holds a Bachelor of Commerce Degree from UWA. He has more than 20 years commercial and financial experience in resource based companies.

Mr Young has held senior management positions with major resource companies including Commercial Manager for Pasminco Century Zinc in the start up phase, KCGM, Newcrest and WMC. He has experience in commercial evaluation of projects, company secretarial, implementing corporate strategies and developing information systems.

RESIGNATIONS

Barry John Cahill – Managing Director appointed 31 May 2004 (appointed executive director 10 May 2004). BEng (Mining) WASM.
Resigned 15 July 2005

Barry Cahill is a highly experienced mining engineer with a strong track record in operational management. He has more than 15 years experience in the management and operation of a number of mining projects in Australia, including the Leinster Nickel Operations, Fortnum gold mine, the Tarmoola gold project, Yilgarn Star gold mine and the Mt Pleasant Gold Project. Mr Cahill was, until recently, the Executive Director - Operations for Perilya Limited and was responsible for the Broken Hill base metal operations.

Mr Cahill is a member of the Australasian Institute of Mining and Metallurgy.

Keith S. Liddell – Non-Executive Chairman appointed 2 June 2003 (appointed executive director 24 May 2001). BSc, MSc CP (Metallurgy) & CP (Management) (Australia), C Eng (UK), Pr Eng (South Africa) FIE Aust, FSAIMM, MIMM.
Resigned 13 October 2005

Keith Liddell is an experienced metallurgical engineer and resource company manager, having worked exclusively in the minerals industry for 25 years. His technical expertise includes engineering of plant and equipment, process development, project management, and risk planning. He has particular experience with the development of resource projects for platinum group metals, base metals, gold, diamonds and industrial minerals. He holds a number of patents in his name.

Mr Liddell has extensive experience in the management of resource companies, including the formulation and implementation of corporate strategy, managing stakeholder relationships, and in arranging corporate project finance. He is the former Managing Director of Aquarius Platinum Limited, a leading platinum mining company that successfully developed the Kroondal Platinum Mine in South Africa under his direction, and is the former Executive Chairman of Sally Malay Mining Limited.

He is also Chairman of CopperCo Limited, Tianshan Goldfields Limited and Mineral Securities Limited. He has also been a past director of Sally Malay Mining Limited.

2. COMPANY SECRETARY

The Company Secretary of the Company during the year and at the end of the financial year is:

Brett Young - CA BComm, appointed 1 September 2004
(see details above)

3. DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year is as follows:

Director	Board Meetings		Remuneration Committee	
	Held	Attended	Held	Attended
Neil Warburton	12	12	1	1
Mick Elias	12	12	1	1
Brett Young	12	12	1	1
Barry Cahill (resigned)	Nil	Nil	Nil	Nil
Keith Liddell (resigned)	3	3	Nil	Nil

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

4. PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year comprised the mining of nickel ore at the Blair Nickel Mine and exploration for nickel and gold in the surrounding tenements located near Kalgoorlie in Western Australia.

5. OPERATING AND FINANCIAL REVIEW

Company overview

Review of financial condition

The consolidated entity made a loss of $821,000 compared with a loss of $7.5 million for 2005.

A comparison of the company's financial performance is included in the table below.

Financials	**2006**	**2005**
	$'000 s	**$'000 s**
Revenue from operating activities	17,877	18,200
EBITDA before impairment losses	4,960	2,451
Depreciation and amortisation	6,013	5,296
Net Loss	(821)	(7,461)
Cash in Bank	1,907	882

Result of Operations.

The physical mining activity at the Blair Mine for the year is summarised in the table below.

Blair Mine Operating Statistics			Full year ended Jun-06
Ore Mined	Tonnes		41,091
Contained Ni Mined	Tonnes		1,440
Ore Treated	Tonnes		41,339
Grade	% Ni		3.49%
Contained Ni	Tonnes		1,444
Recovered Ni	Tonnes		1,290
Nickel price (received)	A$/lb		9.58
Operating cash cost	A$/lb		7.19
Total cost with capital development	A$/lb		8.72

Review of principal business

- The full year production was 41,339 dry tonnes at a grade of 3.49% Nickel for 1,444 contained Ni Tonnes.
- Quarterly production was quite consistent from quarter to quarter with the highlight being a record quarterly grade of 4.48% Ni achieved in the June 06 quarter.
- Mining focus continued to be in the Blair Deeps and Area 57 regions of the mine however ore was accessed on the L01C surface, at approximately 905mRL, for the first time in the mine's history. This provides an alternative ore source of approximately 210 tonnes per vertical metre.
- In addition a southerly extension of Area 57 was discovered during the June 06 quarter with mining development and this will be further explored in the September 06 quarter through mining and exploratory drilling.
- In-ore decline development continued during the year with the decline approaching the 430mRL level at the end of June 06.
- The in-ore decline accessed ore horizons at 470mRL, 457mRL, 460mRL, 448mRL, 445mRL and 438mRL during the financial year.
- Mining commenced to develop a bypass from the 480mRL to the 460mRL to allow for recovery of pillars sterilised by in-ore decline development between 460 and 480 mRL. This development will be completed in July 06.
- Underground contractor Australian Contract Mining Pty Ltd (ACM) was commissioned in August 2005 to develop the in-ore decline utilising a single boom jumbo. ACM were still on site developing at the end of June 2006.
- The FY cash costs were $7.19 per lb Ni payable and FY Revenue received 9.58 per lb Ni payable
- In the June 2005 quarter, the consolidated entity produced a record quarter of 474 tonnes of nickel at an average cash cost of A$6.92 per lb of Ni payable.

Blair Deeps Expansion

In June 2005 a decision was made to develop a smaller dimension in-ore decline to access ore horizons below the 480mRL.

As at the end of the financial year 2005-2006 this small sized development has accessed ore to a depth of 438mRL, however, loader tramming distances for waste and ore are becoming prohibitive and ground conditions in development in close proximity to the ore zones are worsening.

An added detraction for the in-ore decline concept is the sterilisation of ore in decline floor and crown pillars which can be ill-afforded considering the already relatively low tones per vertical metre in the Blair Deeps.

Added to this are extremely high nickel prices that have necessitated a review of operations and especially the possibility of extending the large decline from the current suspended position to greater depths to shorten tramming distances and improve the viability of continuing to profitably mine the Blair Deeps.

Additional ore from L01C and Area 57 higher in the mine, compliments the continuance of the Blair Deeps ore zones and improves the ongoing viability of the Blair Nickel Mine as a whole.

Continued exploration of these areas is planned for the 2006/2007 financial year and will be pivotal to the review and feasibility outcome.

Significant changes in the state of affairs

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

- In July 2005, the company completed an entitlements Issue on the basis of two shares for one in the Company at one cent per share. The issue raised $2.8m and resulted in the issue of 289,852,264 additional shares in the Company.

- In September 2005 the Company settled an outstanding debt of $1.2 million with a cash payment of $820,630 and the issue of 17.5 million shares in the Company.

- Australian Mines has entered into a nickel JV with Pioneer Nickel on tenements surrounding the Blair mine. Pioneer can earn a 51% interest in metals other than gold with initial expenditure of $2.25m on nickel exploration over 3 years.

- Australian Mines can then elect to either fund 49%, or within a further period of 3 years, dilute to 30% by Pioneer spending another $3m. The JV excludes the Blair mine and its extensions. Australian Mines retains the gold rights on all tenements within the JV area.

6. DIVIDENDS

No dividends were paid or declared by the Company during the year.

7. EVENTS SUBSEQUENT TO BALANCE DATE

There were no material events subsequent to balance date.

8. LIKELY DEVELOPMENTS

At the date of this report, there have been developments in the operations of the consolidated entity that are likely to be finalised within the next year. These include Blair Deeps expansion as mentioned above.

9. DIRECTORS' INTERESTS

The number of shares in the Company held during the financial year by each Director of Australian Mines Limited and other key management personnel of the parent entity and the consolidated entity, including their personally-related parties, are as follows:

	Held at 1 July 2005	Purchases and Entitlements	Received on exercise of options	Sales	Held at resignation	Held at 30 June 2006
Specified directors						
N Warburton (i)	11,400,000	22,800,000*	-	-	-	34,200,000
M Elias	-	1,000,000*	-	-	-	1,000,000
B Young	-	4,184,294*	-	-	-	4,184,294
B Cahill (iii)	385,000	-	-	-	(385,000)	-
K S Liddell (iii)	13,100,500	26,201,000*	-	(39,301, 500)	-	-
Specified executives						
G Evans	-	-	-	-	-	-
E Poole (ii)	-	1,050,000	-	-	-	1,050,000
C Winn (iii)	-	-	-	-	-	-

(i) The 34,200,000 shares in which Mr N Warburton has a relevant interest are owned by Michlange Pty Ltd, a company of which Mr Warburton is a Director.

(ii) The 1,050,000 shares in which Mr E Poole has a relevant interest are owned by a personally-related entity, Ms A M Nahm.

(iii) Mr B Cahill resigned on 15 July 2005, Mr K S Liddell on 13 October 2005 and Mr C Winn on 21 December 2005.

* These shares were acquired as a result of the 2 for 1 entitlements issue Australian Mines Limited completed in July 2005. Mr B Young and Mr M Elias purchased their shares from a proportion of underwritten shares that were not taken up through the issue.

There have been no further movements in Directors' share interests since the end of the financial year.

10. SHARE OPTIONS

The number of options over ordinary shares in the Company held during the financial year, by each Director of Australian Mines Limited and other key management personnel of the parent entity and the consolidated entity, including their personally-related parties, are as follows:

	Held at 1 July 2005	Granted as remuneration	Exercised	Other changes*	Held at resignation	Held at 30 June 2006
Specified directors						
N Warburton	11,333,333	-	-	(11,333,3333)	-	-
M Elias	-	-	-	-	-	-
B Young	-	-	-	-	-	-
B Cahill (i)	500,000	-	-	-	(500,000)	-
K S Liddell	7,750,000	-	-	(7,750,000)	-	-
Specified executives						
G Evans (ii)	-	248,000	-	-	-	248,000
E Poole (ii)	-	250,000	-	-	-	250,000
C Winn (iii)	-	-	-	-	-	-

(i) These options lapsed on retirement, pursuant to the terms of issue.
(ii) Exercise price $0.02, expiry date 2 November 2009.
(iii) Mr C Winn resigned on 21 December 2005.

* Other changes represent options that expired during the year.

No options have been granted since the end of the financial year.

Employee Option Plan

Persons eligible to participate in the Australian Mines Employee Option Plan ('Plan') include Directors (subject to shareholder approval) and all employees of the Company.

Options are granted under the plan for no consideration for a maximum period of 4 years and can be exercised at any time between the date the option is granted and the expiry date.

There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of securities offered to shareholders of the Company during the currency of the options. An optionholder is required to exercise options in order to participate in any new issue of securities offered to shareholders by the Company for subscription on a pro rata basis.

Options are only capable of exercise if the daily volume weighted average sale price of shares on the ASX exceeds the hurdle price (if any) for not less than 5 consecutive trading days and the minimum service period is also met. The minimum service period will be waived so as to not be applicable in the event of a takeover offer or a merger of the Company.

Each option exercised will entitle the holder to one ordinary share in the capital of the Company.

Where the employee ceases for any reason to be employed with the Company, all unexercised options automatically expire 14 days after the date of ceasing to be employed.

As a result of the plan, there are currently 498,000 unissued shares of the company under option. The fair value of the options are estimated at the date of grant using the Black-Scholes model. The following table sets out the assumptions made in determining the fair value of the options granted.

Dividend yield	0.00%
Expected volatility	40.00%
Risk-free interest rate	5.25%
Expected life of option (years)	0.5 – 4.00
Option exercise price	$0.020
Share price at date of grant	$0.025

Unissued shares under options

At the date of this report unissued ordinary shares of the company under option are:

Expiry date	Exercise price	Number of shares
2 November 2009	$0.02	498,000

11. REMUNERATION REPORT

11.1 Overview of Remuneration Policies - audited

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and Executives with a remuneration package that reflects the person's responsibilities, duties and personal performance. An employee option scheme for key Executives is in place.

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

The Board has established a Remuneration and Nomination Committee (Remuneration Committee) responsible for making recommendations to the Board on remuneration arrangements for Directors and Executives of the Company (further details on the Remuneration Committee can be found in the Corporate Governance Statement on pages 59 to 71).

11.2 Principles of compensation – audited

Remuneration of directors and executives is referred to as compensation as defined in AASB 124.

Compensation levels for key management personnel, and relevant key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives.

Fixed compensation

Fixed compensation consists of base compensation as well as employer contributions to superannuation funds. Compensation levels are reviewed annually through a process that considers individual and overall performance of the Consolidated Entity.

Performance linked compensation

Performance linked compensation includes long-term incentives in the form of options that are able to be issued under the Employee Option Scheme. During the financial year options were only issued to Mr G Evans and Mr E Poole under this Scheme.

Consequences of performance on shareholder wealth

In considering the Consolidated Entity's performance and benefits for shareholder wealth, the Remuneration Committee take into account profitability, share price movements and total production of the Consolidated Entity when setting the total amount of any bonuses.

Service contracts

Executive Director

The Company has entered into a service agreement contract with Executive Director, Mr Brett Young who is employed on a salary of $187,000 plus 9% superannuation.

The Company had a service agreement contract with Executive Director, Mr Barry Cahill, who subsequently resigned from the Company on 15th July 2005.

Contracts of employment may be terminated by the Company forthwith if the Executive Director (amongst other items) breaches duties connected with the performance of services; commits an act of bankruptcy; engages in misconduct; is of ill health or unsound mind. Under such circumstances the Company will pay an amount equal to the aggregate of unpaid salary, annual leave and long service leave accrued to the date of termination. If an Executive Director elects to terminate the contract, written notice will be provided to the Company.

The Company provides insurance for Executive Directors for any liability arising from statute or common law and public indemnity insurance in respect of shareholder or third party actions.

The Remuneration Committee undertakes to review Directors' remuneration on an annual basis to take into account changes to the cost of living and changes in the scope of the Directors' roles and responsibilities. If warranted the Remuneration Committee may approve bonus payments up to a reasonable limit for exceptional performance.

Executive Officers

The Company has entered into employment contracts with Executive Officers,

Mr G Evans as Operation Manager has a salary of $193,000 plus 9% superannuation.

Mr E Poole as Chief Geologist has a salary of $140,000 plus 9% superannuation.

The contracts are for an unlimited term and may be terminated with four weeks written notice. Mr C Winn resigned on 21 December 2005.

Non-Executive Directors

Total remuneration for all Non-Executive Directors, is not to exceed $200,000 per annum and are set with reference to fees paid to other Non-Executive Directors of comparable companies. Directors' base fees are presently $41,000 per annum. The Non-Executive Chairman receives a fee of $80,000 per annum.

The Chairperson and Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main board activities and membership of committees.

Directors' and executive officers' remuneration

Details of the nature and amount of each major element of the remuneration of each Director of the Company and the executive officers of the Company and the consolidated entity receiving the highest remuneration are:

Directors		Directors' fees	Executive salaries	Super-annuation contribution	Termination and Retirement benefit	Options Issued (A)	Insurance Premiums	Total
		$	$	$	$	$	$	$
Non-executive								
Mr N Warburton	2006	56,250	-	-	-	-	5,200	61,450
	2005	18,750	-	-	-	-	4,500	23,250
Mr K S Liddell(i)	2006	-	-	-	-	-	-	-
	2005	26,250	-	-	-	-	4,500	30,750
Mr M Elias (ii)	2006	37,500	-	-	-	-	5,200	42,700
Mr A W Fairweather (iii)	2006	-	-	-	-	-	-	-
	2005	18,750	-	-	-	-	4,500	23,250
Executive								
Mr B J Cahill (iv)(A)	2006	-	18,490	798	-	-	-	19,288
	2005	-	225,469	18,277	-	20,750	4,500	268,996
Mr B Young (v)	2006	-	157,473	14,965	-	-	5,200	177,638
Total compensation: Directors	2006	93,750	175,963	15,763	-	-	15,600	301,076
	2005	63,750	225,469	18,277	-	20,750	18,000	346,246

(i) Mr K S Liddell resigned 13 October 2005.
(ii) Mr Elias was appointed 1 July 2005.
(iii) Mr A W Fairweather resigned 28 April 2005.
(iv) Payment for Mr Cahill's services as Managing Director commenced in July 2004 and he resigned on 15 July 2005.
(A) 500,000 options issued to Mr B Cahill lapsed as at 15 July 2005 pursuant to the terms of issue.
(v) Mr B Young was appointed 17 October 2005.

		Salary	Super-annuation contributions	Termination and Retirement benefit	Options Issued (A)	Insurance Premiums	Total
		$	$	$	$	$	$
Executive Officers							
Mr B Young (i)	2005	109,345	9,841	-	-	4,500	123,686
Mr C Winn (ii)	2006	93,174	7,959	-	-	2,600	103,733
	2005	71,777	6,975	-	-	4,500	83,252
Mr G Evans (iii) (A)	2006	75,600	6,804	-	2,398	2,600	87,402
Mr E Poole (A)	2006	115,141	11,884	-	2,417	5,200	134,642
	2005	74,664	7,688	-	-	-	82,352
Total compensation Executive Officers	2006	283,915	26,647	-	4,815	10,400	325,777
	2005	255,786	24,504	-	-	9,000	289,290

(i) Mr B Young appointed Executive Director on 17 October 2005
(ii) Mr C Winn resigned on 21 December 2005
(iii) Mr G Evans was appointed 2 March 2006

(A) The estimated value disclosed above is calculated at the date of grant using a Black-Scholes model. Further details of options granted during the year are set out under "Options" above. This value has been ascertained using the following inputs and assumptions:

- a share price of 2.5 cents being the sale price of ordinary shares on 30 June 2006 being the date of valuation;
- option exercise price of 2 cents;
- a risk free rate of 5.25%;
- a volatility factor of 40% which has been determined with reference to the historical trading of the Company's shares on ASX; and
- an expiry date of 2 November 2009.

Other director related transactions with the Company or its controlled entities

The company has paid Fairweather & Lemonis, a firm associated with Mr T Fairweather (a Non-Executive Director with the Company from 12 June 2001 to 28 April 2005) $28,675 (2005: $22,069) for legal services in relation to the Company's business operations in the reporting period.

There were no other related party transactions for the year.

12. CORPORATE GOVERNANCE

The Company's corporate governance policies and practices are set out in pages 59 to 71.

13. ENVIRONMENTAL REGULATIONS

The Company has conducted mining and exploration activities on mineral tenements. The right to conduct these activities is granted, subject to environmental conditions and requirements. The Company aims to ensure a high standard of environmental care is achieved and, as a minimum, to comply with relevant environmental regulations.

14. FINANCIAL REPORTING

The Directors and the Chief Operating Officer have declared, in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

15. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Company has entered into Director and Officer Protection Deeds (Deed) with each Director and the Company Secretary (officers). Under the Deed, the Company indemnifies the officers to the maximum extent permitted by law and the Constitution against legal proceedings, damage, loss, liability, cost, charge, expense, outgoing or payment (including legal expenses on a solicitor/client basis) suffered, paid or incurred by the officers in connection with the officers being an officer of the Company, the employment of the officer with the Company or a breach by the Company of its obligations under the Deed.

Also pursuant to the Deed, the Company must insure the officers against liability and provide access to all board papers relevant to defending any claim brought against the officers in their capacity as officers of the Company.

The Company has paid insurance premiums during the year of $26,000 in respect of liability for any current and future Directors, Company Secretary, executives and employees of the Company.

16. NON-AUDIT SERVICES

During the year KPMG, the consolidated entity's auditor, did not perform any services other than their statutory audits.

In the event that non-audit services are provided by KPMG, the board has established certain procedures to ensure that the provision of non-audit services are compatible with, and do not compromise, the auditor independence requirements of the Corporations Act 2001. These procedures include:

- Non-audit services will be subject to the corporate governance procedures adopted by the Company and will be reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- ensuring non-audit services do 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.

17. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 15 and forms part of this Directors' Report for the year ended 30 June 2006.

18. ROUNDING OFF

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the Directors

....
Brett Young
Director
Dated: 29 September 2006

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Australian Mines Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in 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.

KPMG

KPMG

T R Hart
Partner

Perth
29 September 2006

AUSTRALIAN MINES LIMITED

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		The Company	
	Notes	**2006 $000**	**2005 $000**	**2006 $000**	**2005 $000**
Revenue	2	17,877	18,200	-	-
Cost of product sold					
Site operating costs		(10,832)	(13,706)	-	-
Royalties		(894)	(971)	-	-
Depreciation and amortisation	4	(6,013)	(5,296)	(41)	-
Change in ore stocks		35	76	-	-
Total cost of product sold		(17,704)	(19,897)	(41)	-
Gross profit / (loss)		173	(1,697)	(41)	-
Financial income	3, 7	116	44	1,281	1,061
Financial Expenses:					
Interest expense	7	(197)	(35)	(3)	-
Corporate overheads and indirect expenses		(913)	(1,157)	(897)	(1,217)
Impairment losses:					
- Mine properties		-	(3,382)	-	-
- Intercompany receivables	4	-	-	(2,000)	(2,000)
- Investment in controlled entity	4	-	-	-	(4,184)
- Exploration expenses	4	-	(1,234)	-	(1,234)
Loss before income tax expense		(821)	(7,461)	(1,660)	(7,574)
Income tax expense	8	-	-	-	-
Net loss for the period	22	(821)	(7,461)	(1,660)	(7,574)
Basic loss per share (cents)	9	(0.18)	(5.15)		

The consolidated entity's potential ordinary shares are not dilutive and accordingly diluted earnings per share are the same as basic earnings per share.

These income statements are to be read in conjunction with the accompanying notes.

AUSTRALIAN MINES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

Consolidated	Issued capital $000	Retained earnings $000	Employee option reserve $000	Total equity $000
Opening balance at 1 July 2005	17,870	(15,726)	1,246	3,390
Employee Option Reserve	-	-	5	5
Loss for the year	-	(821)	-	(821)
Shares issued during the year	3,358	-	-	3,358
Transaction costs from issue of shares	(206)	-	-	(206)
Transfer from option premium reserve	-	1,246	(1,246)	-
Closing balance at 30 June 2006	21,022	(15,301)	5	5,726

Consolidated	Issued capital $000	Retained earnings $000	Employee option reserve $000	Total equity $000
Opening balance at 1 July 2004	17,866	(8,265)	1,246	10,847
Loss for the year	-	(7,461)	-	(7,461)
Shares issued during the year	38	-	-	38
Transaction costs from issue of shares	(34)	-	-	(34)
Closing balance at 30 June 2005	17,870	(15,726)	1,246	3,390

AUSTRALIAN MINES LIMITED

BALANCE SHEETS

AS AT 30 JUNE 2006

	Notes	Consolidated 2006 $000	Consolidated 2005 $000	The Company 2006 $000	The Company 2005 $000
CURRENT ASSETS					
Cash assets	10	1,907	882	17	37
Receivables	11	6,150	3,146	-	-
Inventory	12	193	158	-	-
TOTAL CURRENT ASSETS		8,250	4,186	17	37
NON CURRENT ASSETS					
Receivables	11	-	-	4,858	3,606
Exploration and evaluation expenditure	14	3,911	2,991	42	30
Property, plant and equipment	15	1,344	3,396	23	62
TOTAL NON CURRENT ASSETS		5,255	6,387	4,923	3,698
TOTAL ASSETS		13,505	10,573	4,940	3,735
CURRENT LIABILITIES					
Payables	16	2,888	3,707	100	128
Interest bearing liabilities	17	2,222	2,278	6	284
Derivative financial instruments	18	1,823	73	-	-
Employee benefits	19	330	193	60	41
TOTAL CURRENT LIABILITIES		7,263	6,251	166	453
NON-CURRENT LIABILITIES					
Interest bearing liabilities	17	303	792	-	5
Provisions	20	213	140	-	-
		516	932	-	5
TOTAL LIABILITIES		7,779	7,183	166	458
NET ASSETS		5,726	3,390	4,774	3,277
EQUITY					
Contributed equity	21	21,022	17,870	21,022	17,870
Employee option reserve	21	5	1,246	5	1,246
Accumulated losses	22	(15,301)	(15,726)	(16,253)	(15,839)
TOTAL EQUITY		5,726	3,390	4,774	3,277

These balance sheets are to be read in conjunction with the accompanying notes.

AUSTRALIAN MINES LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Consolidated 2006 $000	Consolidated 2005 $000	The Company 2006 $000	The Company 2005 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operations		17,519	16,601	-	-
Cash payments in the course of operations		(14,086)	(14,319)	(850)	(241)
Interest received		64	49	29	11
Borrowing costs		(197)	(35)	(3)	-
Net cash provided / (used) in operating activities	27	3,300	2,296	(824)	(230)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for exploration, evaluation and development	14	(920)	(999)	(12)	(93)
Payments for property, plant and equipment	15	(3,170)	(2,941)	(1)	(71)
Proceeds from sale of plant and equipment		-	41	-	-
Net cash used in investing activities		(4,090)	(3,899)	(13)	(164)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	21	3,358	-	3,358	-
Transaction costs from issue of shares	21	(206)	(34)	(206)	(34)
Repayments of loans to controlled entity		-	-	(2,053)	(1,509)
Proceeds from loans		66	1,462	-	277
Repayments of loans		(277)	-	(277)	-
Finance lease payments		(1,126)	(696)	(5)	(5)
Net cash provided / (used) by financing activities		1,815	732	817	(1,271)
Net increase/(decrease) in cash held		1,025	(871)	(20)	(1,665)
Cash at the beginning of the financial year		882	1,753	37	1,702
Cash at the end of the financial year	10	1,907	882	17	37

The statement of cash flows are to be read in conjunction with the accompanying notes.

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

1. SIGNIFICANT ACCOUNTING POLICIES

Australian Mines Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in jointly controlled entities.

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

(a) Statement of compliance

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

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied. Financial statements of Australian Mines until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("AGAAP"). AGAAP differs in certain respects from AIFRS. When preparing Australian Mines 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The consolidated entity has taken the exemption available under AASB 1 to only apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005.

An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 33.

(b) Basis of preparation

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

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)

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

Issued standards not early adopted

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

- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007

- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006

- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts and* AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

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

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified as available-for-sale.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The financial report has been prepared on the basis of historical cost except that certain assets and liabilities are stated at fair value such as derivative financial instruments.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note (u).

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards –AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

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

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Joint ventures

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

(iii) Jointly controlled entities

In the consolidated financial statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The consolidated entity's share of the jointly controlled entity's net profit or loss is recognised in the consolidated statement of financial performance from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves. In the Company's financial statements, investments in joint venture entities are carried at cost.

(iv) Jointly controlled operations and assets

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

(v) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates net profit' accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

(d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(e) Derivative financial instruments

Current accounting policy

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operating, financing and investing activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy f).

Comparative period policy

The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity uses the following derivative financial instruments to hedge these risks: forward foreign exchange contracts and futures commodity price contracts. Derivative financial instruments are not held for speculative purposes.

The quantitative effect of the change in accounting policy is set out in note 33.

(f) Hedging

Current accounting policy

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Derivative financial instruments for the year ended 30 June 2006 did not qualify for hedge accounting.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

For cash flow hedges, other than those described above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Comparitive period policy

(iii) Cash Flow hedges

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged. These transactions are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated.

Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the income statement.

The net amount receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded in the balance sheet from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency rates current at reporting date.

The net amounts receivable or payable under currency, forward rate agreements and futures contracts and the associated deferred gains or losses are not recorded in the balance sheet until the hedge transaction occurs. When recognised the net receivables or payables are revalued using the interest or commodity rates current at reporting date.

Option premiums are recorded in 'other assets' when paid and included in the measurement of the transaction when it occurs. When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the income statement.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains and losses that arose on the hedge prior to its termination are included in the income statement for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. Any gains or losses relating to the hedge instrument are included in the income statement for the period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the income statement.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy l). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to Australian Accounting Standards – AIFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Mining property and development assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable and subsequent costs to develop the mine to the production phase.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy l). The property held under finance leases and leased out under operating lease is classified as investment property and stated at fair value. Lease payments are accounted for as described in accounting policy (r). Property held under operating leases that would otherwise meet the definition of investment property may be classified as investment property on a property-by-property basis.

(iii) Subsequent costs

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

(iv) Depreciation

With the exception of freehold land and mining property and development assets, depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Mining property and development assets are depreciated on a units of production basis over the life of the economically recoverable reserves.

The estimated useful lives in the current and comparative periods are as follows:

• buildings	2 years
• plant and equipment	2 years
• leased plant and equipment	3 years
• mine property and development expenditure	
Production phase (recovered nickel tones)	1,311 (2005: 1,371)

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(h) Exploration and evaluation assets

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment, accounting policy (l)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation assets to mining property and development assets within property, plant and equipment.

(i) Trade and other receivables

Other trade and other receivables

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

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of mining inventories is determined using a weighted average basis. Cost includes direct material, overburden removal, mining, processing, labour, related transportation costs to the point of sale, mine rehabilitation costs incurred in the extraction process and other fixed and variable overhead costs directly related to mining activities.

The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment

The carrying amounts of the consolidated entity's assets, inventories (see accounting policy j) and deferred tax assets (see accounting policy s), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy l(i)).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Derecognition of financial assets and liabilities

Current accounting policy

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired
- the consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the consolidated entity has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

Comparative period policy

A financial asset was derecognised when the contractual right to receive or exchange cash no longer existed. A financial liability was derecognised when the contractual obligation to deliver or exchange cash no longer existed.

(m) Interest-bearing borrowings

Current accounting policy

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Comparative period policy

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in note 23 *Financial Instruments*.

(n) Employee benefits

(i) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

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

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iii) Share-based payment transactions

The share option programme allows consolidated entity employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(iv) Defined contribution superannuation funds

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

(o) Provisions

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

(i) Mine rehabilitation

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cashflows. The estimated cost of rehabilitation includes the current cost of recontouring, topsoiling and revegetation employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation. The amount of the provision relating to rehabilitation of mine infrastructure and dismantling obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset included in mining property and development assets.

At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amount of the costs to be incurred. Changes in the liability relating to rehabilitation of mine infrastructure and dismantling obligations are added to or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost in the income statement as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written-down to nil and the excess is recognised immediately in the income statement. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the write-down recognised in the income statement in the period in which it occurs.

The amount of the provision relating to rehabilitation of environmental disturbance caused by on-going production and extraction activities is recognised in the income statement as incurred. Changes in the liability are charged to the income statement as rehabilitation expense, other than the unwinding of the discount which is recognised as a finance cost.

(p) Trade and other payables

Trade and other payables are stated at their amortised cost.

(q) Revenue

Goods sold

Revenue from the sale of nickel bearing ore is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

(r) Expenses

Operating lease payments

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

Finance lease payments

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy f). Borrowing costs are expensed as incurred and included in net financing costs.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(s) Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 9 April 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Australian Mines Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(t) Goods and services tax

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

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

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

(u) Accounting estimates and judgements

Management discussed with the Board the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Key sources of estimation uncertainty*

Note 18 contains detailed analysis about the foreign exchange exposure of the consolidated entity and risks in relation to foreign exchange movements.

(ii) *Mine rehabilitation and site restoration provision*

The consolidated entity assesses its mine rehabilitation provision at each balance date in accordance with accounting policy (o). Significant judgement is required in determining the provision for mine rehabilitation. Factors that will affect this liability include, changes in technology and price increases. When these factors change, such differences will impact the site rehabilitation provision and asset in the period in which they change.

(iii) *Fair value of derivative instruments*

The consolidated entity assesses the fair value of its foreign currency options at each balance date in accordance with accounting policy (e) and Note 23. Fair values have been determined based on market conditions existing at the time of the audit. These calculations require the use of estimates and assumptions. When these assumptions change or become known in the future, such differences will impact asset and liability carrying values and the profit and loss in the period in which they change or become known.

(iv) *Units of production method of amortisation*

The consolidated entity amortises mine properties in production on a units of production basis over the economically recoverable tonnes. Significant judgement is required in assessing the available reserves and resources under this method. Factors that must be considered in determining reserves and resources are the, product prices, foreign exchange rates, cost structures and future developments. When these factors change in the future, such differences will impact the carrying value of mine property assets.

(v) Share Capital

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

	Consolidated		The Company	
	2006	**2005**	**2006**	**2005**
	$000	**$000**	**$000**	**$000**
2. REVENUE				
Revenue from nickel sales	20,522	17,966	-	-
Revenue from copper sales	283	185	-	-
Realised "settled" loss	(1,092)	(427)	-	-
Unrealised fair value movements	(1,823)	-	-	-
Exchange (loss)/gain	(13)	476	-	-
Revenue from operating activities	17,877	18,200	-	-
3. OTHER INCOME				
Management fees	-	-	1,200	1,050
Other	52	(5)	52	-
Total revenue from ordinary activities	52	(5)	1,252	1,050
4. OTHER EXPENSES				
Depreciation and amortisation of:				
Buildings	15	23	-	-
Plant and equipment	813	313	34	50
Plant and equipment leased	1,459	986	7	7
Mine properties	3,726	3,974	-	-
	6,013	5,296	41	57
Impairment losses:				
Capitalised exploration expenditure	-	1,234	-	1,234
Intercompany loans (i)	-	-	2,000	2,000
Investment in controlled entity	-	-	-	4,184
Mine properties	-	3,222	-	-
Buildings	-	40	-	-
Plant and equipment	-	120	-	-
	-	4,616	2,000	7,418

(i) The consolidated entity incurred impairment losses in 2006 of $2 million on the intercompany loan with subsidiary company to reflect the uncertainty of realising the amount recorded in the balance sheet.

Impairment losses in 2005 relate to the assessment of the recoverable amount of the capitalised development costs relating to the Blair Mine. Due to the uneconomic performance the holding cost was adjusted to nil value. Further impairment was incurred by the Company to reflect the lower recoverable amount by reducing the investment in controlled entities. Finally the exploration and evaluation expenditure was impaired to account for the divestment of West Musgrave.

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	Consolidated		The Company	
	2006 $000	2005 $000	2006 $000	2005 $000
5. **PERSONNEL EXPENSES**				
Wages and salaries	3,213	2,441	355	650
Other associated personnel expense	176	136	28	44
Contributions to superannuation funds	285	154	32	50
Increase in liability for annual leave	57	66	11	(10)
Employee Option expenses	5	-	5	-
	3,736	2,797	431	734

	2006 $	2005 $	2006 $	2005 $
6. **AUDITOR'S REMUNERATION**				
Audit services				
Auditors of the company				
KPMG Australia:				
- Audit and review of financial reports	53,644	38,249	53,644	38,249

	2006 $000	2005 $000	2006 $000	2005 $000
7. **NET FINANCING COSTS**				
Interest income	64	49	29	11
Financial income	64	49	29	11
Interest expense	72	35	-	-
Interest on finance leases	125	-	3	
Financial expenses	197	35	3	-
Net financing costs (income)	133	(14)	(26)	(11)

	Consolidated 2006 $000	Consolidated 2005 $000	The Company 2006 $000	The Company 2005 $000
8. INCOME TAX EXPENSE				
Current tax expense/(benefit)				
Current year	(239)	(2,230)	(491)	2,264
Deferred tax expenses/ (benefit) losses not recognised	239	2,230	491	(2,264)
Total income tax benefit / expense in Income statement	-	-	-	-

	Consolidated 2006 $000	Consolidated 2005 $000	The Company 2006 $000	The Company 2005 $000
Numerical reconciliation between tax expense and pre-tax profit				
Loss before tax	(821)	(7,461)	(1,660)	(7,574)
Income tax benefit using the domestic corporate tax rate of (30%) (2005:30%)	(246)	(2,238)	(498)	(2,272)
Increase in income tax expense due to:				
Non-deductible expenses	7	8	7	8
	(239)	(2,230)	(491)	(2,264)
Tax losses not brought to account	239	2,230	491	2,264
Income tax expense	-	-	-	-

Unrecognised deferred tax assets and liabilities
Deferred tax assets have not been recognised in respect of the following items:

	Consolidated 2006 $000	Consolidated 2005 $000	The Company 2006 $000	The Company 2005 $000
Deductible temporary differences	(185)	(247)	14	12
Tax losses	5,370	5,146	5,370	5,146
	5,185	4,899	5,384	5,158

The deductible temporary differences and tax losses do not expire under the current tax legislation. Deferred tax assets have been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from.

	Consolidated 2006 $000	Consolidated 2005 $000	The Company 2006 $000	The Company 2005 $000
Unrecognised deferred tax assets and (liabilities)				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Exploration	(1,173)	(897)	(11)	(8)
Property plant and equipment	730	421	7	8
Borrowing costs	110	108	-	-
Provisions	148	121	18	12
Tax losses	5,370	5,146	5,370	5,146
Net deferred tax assets and liabilities	5,185	4,899	5,384	5,158

	Consolidated		The Company	
	2006	2005	2006	2005
	$000	$000	$000	$000
8. **INCOME TAX EXPENSE (continued)**				
Movements in temporary differences				
Opening balance at 1 July 2005	4,899	2,775	5,158	3,973
Exploration	(276)	59	(4)	331
Property plant and equipment	309	1,145	-	6
Borrowing costs	3	(34)	-	-
Provisions	26	111	6	5
Tax losses	224	843	224	843
Closing balance at 30 June 2006	5,185	4,899	5,384	5,158

Tax Consolidation

Effective as of 9 April 2003, for the purposes of income taxation, Australian Mines Limited and its 100% wholly owned subsidiary formed a tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, there is no income tax liability. The head entity of the tax consolidated group is Australian Mines Limited.

9. **EARNINGS PER SHARE**

Basic earnings (loss) per share	(0.18)	(5.15)	-	-

The calculation of basic earnings per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of $820,668 (2005: $7,460,582) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 434,448,217 (2005: 144,841,654), calculated as follows:

	Consolidated	
	2006	2005
	$000	$000
Profit attributable to ordinary shareholders		
Loss for the period	821	7,461
Dividends paid	-	-
Loss attributable to ordinary shareholders	821	7,461

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9. **EARNINGS PER SHARE (continued)**

Weighted average number of ordinary shares	**Consolidated 2006**	**Consolidated 2005**
Issued ordinary shares at 1 July	144,926,132	144,676,132
Effect of issue for payment of Duplex Hill South acquisition November 2004	-	250,000
Effect of 2 for 1 issue in July 2005	289,852,264	-
Effect of issue re: debt settlement in September 2005	19,780,000	-
Issued ordinary shares at 30 June	454,558,396	144,926,132
Weighted average number of ordinary shares at 30 June	434,448,217	144,841,654

	Consolidated		The Company	
	2006 $000	**2005 $000**	**2006 $000**	**2005 $000**
10. CASH AND CASH EQUIVALENTS				
Bank balances	512	226	17	37
Call deposits	1,395	656	-	-
Cash and cash equivalents in the statement of cash flows	1,907	882	17	37
11. TRADE AND OTHER RECEIVABLES				
Current				
Trade debtors	6,130	3,136	-	-
Other debtors and prepayments	20	10	-	-
	6,150	3,146	-	-
Non current				
Loan to controlled entity (i)	-	-	10,606	7,354
Provision for non-recovery	-	-	(5,748)	(3,748)
	-	-	4,858	3,606

(i) The loan to the controlled entity is unsecured, interest free and repayable on demand.

	Consolidated 2006 $000	Consolidated 2005 $000	The Company 2006 $000	The Company 2005 $000
12. INVENTORIES				
Current				
Ore stocks at cost	193	158	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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		Consolidated		The Company	
		2006 $000	2005 $000	2006 $000	2005 $000
13.	**INVESTMENTS**				
	Non current				
	Investment in controlled entity				
	Blair Nickel Mine Pty Ltd	-	-	4,183	4,183
	Provision for impairment	-	-	(4,183)	(4,183)
		-	-	-	-
14.	**EXPLORATION AND EVALUATION ASSETS**				
	Exploration and evaluation				
	Opening balance	2,991	3,188	30	1,133
	Exploration expenditure	920	1,037	12	131
	Exploration impaired	-	(1,234)	-	(1,234)
	Exploration costs carried forward	3,911	2,991	42	30

The ultimate recoupment of costs carried forward for mineral properties in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

15.	**PROPERTY, PLANT AND EQUIPMENT**				
	Mine properties				
	Mine properties	14,848	12,070	-	-
	Impairment loss	(3,222)	(3,222)	-	-
	Accumulated amortisation	(11,098)	(7,372)	-	-
	At recoverable amount	528	1,476	-	-
	Building				
	At cost	88	88	-	-
	Impairment loss	(40)	(40)	-	-
	Accumulated depreciation	(45)	(30)	-	-
	At recoverable amount	3	18	-	-
	Plant & equipment				
	At cost	1,629	1,022	127	126
	Impairment loss	(120)	(120)	-	-
	Accumulated depreciation	(1,259)	(445)	(108)	(74)
	At recoverable amount	250	457	19	52
	Leased plant & equipment				
	At cost	3,116	2,539	18	17
	Accumulated depreciation	(2,553)	(1,094)	(14)	(7)
	At recoverable amount	563	1,445	4	10
	Total property, plant and equipment	1,344	3,396	23	62

	Consolidated		The Company	
	2006 $000	2005 $000	2006 $000	2005 $000

15. **PROPERTY, PLANT AND EQUIPMENT (continued)**

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

	2006 $000	2005 $000	2006 $000	2005 $000
Mine property and development				
Opening balance	1,476	6,130	-	-
Exploration costs transferred	-	-	-	-
Development expenditure	2,778	2,542	-	-
Amortisation	(3,726)	(3,974)	-	-
Impairment loss	-	(3,222)	-	-
Carrying amount at end of year	528	1,476	-	-
Buildings				
Carrying amount at beginning of year	18	81	-	-
Additions	-	-	-	-
Impairment loss	-	(40)	-	-
Depreciation	(15)	(23)	-	-
Carrying amount at end of year	3	18	-	-
Plant and equipment				
Carrying amount at beginning of year	457	538	52	33
Additions	392	352	1	69
Reclassifications	214	-	-	-
Impairment loss	-	(120)	-	-
Depreciation	(813)	(313)	(34)	(50)
Carrying amount at the end of year	250	457	19	52
Plant and equipment leased				
Carrying amount at beginning of year	1,445	1,053	10	-
Additions	791	1,426	-	17
Reclassifications	(214)	-	-	-
Disposals	-	(48)	-	-
Amortisation	(1,459)	(986)	(7)	(7)
Carrying amount at end of year	563	1,445	3	10

	Consolidated 2006 $000	Consolidated 2005 $000	The Company 2006 $000	The Company 2005 $000
16. TRADE AND OTHER PAYABLES				
Current (unsecured)				
Trade creditors and accruals	2,700	3,477	94	120
Other creditors and accruals	188	230	6	8
	2,888	3,707	100	128
17. INTEREST-BEARING LOANS AND BORROWINGS				
Current liabilities				
Bank loans secured (i)	1,253	1,184	-	-
Loans unsecured	-	277	-	277
Lease liabilities (ii)	969	817	6	7
	2,222	2,278	6	284
Non current				
Lease liabilities	303	792	-	5
	303	792	-	5

(i) The consolidated entity has access to a facility totalling US$2,000,000 (A$2,631,000) which provides immediate cash against sales receivables and is secured against nickel receivables. As at 30 June 2006, the consolidated entity had drawn down US$951,520 (A$1,252,000) of the facility, leaving US$1,048,480 (A$1,379,000) unused in the event of future sales proceeds.

(ii) Finance lease liabilities
Finance lease liabilities of the consolidated entity are payable as follows:

	Consolidated					
	Minimum lease payments 2006	**Interest 2006**	**Principal 2006**	**Minimum lease payments 2005**	**Interest 2005**	**Principal 2005**
Less than one year	1,033	64	969	900	83	817
Between one and five years	312	9	303	873	81	792
	1,345	73	1,272	1,773	164	1,609

17. **INTEREST-BEARING LOANS AND BORROWINGS (continued)**

(ii) Finance lease liabilities (continued)

	The Company					
	Minimum lease payments 2006	**Interest 2006**	**Principal 2006**	**Minimum lease payments 2005**	**Interest 2005**	**Principal 2005**
Less than one year	6	-	6	8	1	7
Between one and five years	-	-	-	5	-	5
	6	-	6	13	1	12

18. **DERIVATIVE FINANCIAL INSTRUMENTS**

(a) **Foreign exchange risk**

The consolidated entity enters into forward foreign exchange contracts to hedge a proportion of anticipated sales commitments denominated in US dollars expected in each month, subject to Board approval limits. The amount of anticipated future sales is forecast in light of current conditions in foreign markets, commitments from customers and experience. All sales from the first of each month are designated as being hedged until all hedge contracts are fully utilised.

The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

Australian dollar forward exchange contracts:

	CONSOLIDATED			
	2006	**2005**	**2006**	**2005**
	Weighted average rate		**$'000**	**$'000**
Sell US Dollars				
Not later than one year	.7470	.7735	6,576	2,559

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency purchases and sales are recognised in the income statements and the timing of their anticipated recognition as part of sales or purchases are:

	CONSOLIDATED	
	Net gains/(losses)	
	2006	**2005**
	$'000	**$'000**
Not later than one year	42	(62)

18. **DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

(b) **Commodity price risk**

Forward Nickel Sales

The consolidated entity enters into commodity contracts to hedge commodity prices on anticipated specific sale commitments of nickel. The contracts outstanding at year end are:

	CONSOLIDATED Notional Principal	
	2006 $'000	2005 $'000
Hedging purchases		
Not later than one year	6,576	2,952

The net deferred gains and losses on hedges of anticipated future commodity purchase contracts are recognised in income statements and the timing of their anticipated recognition as part of sales are:

	CONSOLIDATED Net gains/(losses)	
	2006 $'000	2005 $'000
Not later than one year	(1,865)	4

Australian dollar nickel call options:

	CONSOLIDATED	
	2006 $'000	2005 $'000
Sell Nickel tonnes		
Not later than one year	-	1,900

The net deferred gains and losses on hedges of nickel call options are recognised in the income statements and the timing of their anticipated recognition as part of sales are:

	CONSOLIDATED Net gains/(losses)	
	2006 $'000	2005 $'000
Australian dollar nickel call options		
Not later than one year	-	(73)

	Consolidated		The Company	
	2006 $000	2005 $000	2006 $000	2005 $000
19. **EMPLOYEE BENEFITS**				
Current				
Salaries and wages accrued	50	-	-	-
Liability for annual leave	157	100	26	15
Liability for sick leave	123	67	34	20
FBT payable	-	26	-	6
	330	193	60	41

Share based payments
The Board has introduced the Australian Mines Limited Employee Option Plan, an equity-based employee option scheme, to promote continuity of employment and to provide additional incentive to increase shareholder wealth. Equity-based employee option schemes are provided as options over ordinary shares of the Company and may be issued to directors, executives and employees. Details of equity-based employee options issued to senior management and employees are contained in section 10 of the Directors' Report (page 7).

	Consolidated		The Company	
	2006 $000	2005 $000	2006 $000	2005 $000
20. **PROVISIONS**				
Current	-	-	-	-
Non current				
Mine rehabilitation:				
Opening balance	140	-	-	-
Additions	73	140	-	-
Closing balance	213	140	-	-

21. **CAPITAL AND RESERVES**

	Consolidated		The Company	
	2006 $000	2005 $000	2006 $000	2005 $000
Issued and paid up capital				
454,558,396 (2005: 144,926,132) ordinary shares fully paid	21,022	17,870	21,022	17,870

	Consolidated		The Company	
	2006 $000	2005 $000	2006 $000	2005 $000
21. **CAPITAL AND RESERVES (continued)**				
Reconciliation of contributed equity				
Balance at beginning of year	17,870	17,866	17,870	17,866
Acquisition of Duplex Hill South 250,000 ordinary shares at 15 cents.	-	38	-	38
2 for 1 entitlements issue of shares at one cent per share, 289,852,264 ordinary shares issued.	2,899	-	2,899	-
Allotted additional to prospectus, 2,280,000 ordinary shares issued	23	-	23	-
Debt settlement to mining contractor by issue of 17,500,000 ordinary shares at 2.48 cents per share	436	-	436	-
Cost of capital raising	(206)	(34)	(206)	(34)
Balance at end of year	21,022	17,870	21,022	17,870

Option Premium Reserves				
Balance at beginning of year	1,246	1,246	1,246	1,246
Employee option reserve	5	-	5	-
Transferred to equity	(1,246)	-	(1,246)	-
Balance at end of year	5	1,246	5	1,246

The Employee Option Reserve represents the fair value of share options granted. The estimate of fair value of the services received is based on the Black-Scholes model. The calculated value is based on parameters as set out in Note 10 in the Directors' Report.

22. **ACCUMULATED LOSSES**				
Balance at beginning of period	(15,726)	(8,265)	(15,839)	(8,265)
Net loss for the year	(821)	(7,461)	(1,660)	(7,574)
Transfer from option premium reserve	1,246	-	1,246	-
Accumulated losses at end of period	(15,301)	(15,726)	(16,253)	(15,839)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

23. **FINANCIAL INSTRUMENTS**

Exposure to credit, interest rate and currency risks arises in the normal course of the consolidated entity's business.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The consolidated entity does not require collateral in respect of financial assets.

Transactions involving derivative financial instruments are with counterparties with whom the consolidated entity has a signed netting agreement as well as sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

The consolidated entity does not have a policy in place to hedge interest rate risks.

Interest rate risk exposures

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

	Note	Weighted average interest rate	6 months or less $'000	6 – 12 months $'000	1 to 5 years $'000	Non-interest bearing $'000	Total $'000
2006							
Financial assets							
Cash assets	10	5.10%	1,907	-	-	-	1,907
Receivables	11		-	-	-	6,150	6,150
			1,907	-	-	6,150	8,057
Financial liabilities							
Payables	16		-	-	-	2,888	2,888
Loan Secured	17	5.91%	1,253	-	-	-	1,253
Lease liabilities (current)	17	8.70%	-	969	-	-	969
Lease liabilities (non-current)	17	8.77%	-	-	303	-	303
Derivative financial instruments	18					1,823	1,823
Employee benefit	19		-	-	-	330	330
Other Provisions	20		-	-	-	213	213
			1,253	969	303	5,254	7,779

	Note	Weighted average interest rate	6 months or less $'000	6 – 12 months $'000	1 to 5 years $'000	Non-interest bearing $'000	Total $'000
2005							
Financial assets							
Cash assets	10	5.30%	882	-	-	-	882
Receivables	11		-	-	-	3,146	3,146
			882	-	-	3,146	4,028
Financial liabilities							
Payables	16		-	-	-	3,707	3,707
Loans secured	17	4.16%	1,184	-	-	-	1,184
Loans unsecured	17		-	-	-	277	277
Lease liabilities (current)	17	8.70%	-	817	-	-	817
Lease liabilities (non-current)	17	8.77%	-	-	792	-	792
Employee benefits	19		-	-	-	193	193
Other provisions	20		-	-	-	140	140
			1,184	817	792	4,317	7,110

Foreign currency risk
The consolidated entity is exposed to foreign currency risk on sales and borrowings that are denominated in a currency other than the AUD. The currency giving rise to this risk is primarily U.S. Dollars.

Forecasted transactions
The consolidated entity classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts during the year was adjusted against the profit and loss at that date.

Recognised assets and liabilities
Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of revenue from operating activities (see note 2).

	Consolidated		The Company	
	2006 $000	2005 $000	2006 $000	2005 $000
24. **OPERATING LEASES**				
Leases as lessee				
Non-cancellable operating lease rentals are payable as follows:				
Less than one year	65	58	65	58
	65	58	65	58

The Company leases an office facility on a yearly lease basis, the lease expires May 2007.

	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
25. **CAPITAL AND OTHER COMMITMENTS**				
Exploration expenditure commitments				
Within one year	868	1,246	868	450

In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report and are payable as stated in the table above.

26. **CONSOLIDATED ENTITIES**

	Country of Incorporation	Ownership interest 2006	Ownership interest 2005
Parent entity			
Australian Mines Limited			
Subsidiary			
Blair Nickel Mine Proprietary Limited	Australia	100	100

27. **RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Cash flows from operating activities:				
Net loss	(821)	(7,461)	(1,660)	(7,574)
Add/(less) items classified as investing/financing activities:				
Unrealised loss on derivative financial instrument	1,823	73	-	-
Profit on sale of assets	-	7	-	-
Add back non cash expenses:				
Depreciation and amortisation	6,013	5,296	40	59
Management fees	-	-	(1,200)	-
Write downs to recoverable amour	-	3,382	-	-
Exploration expenditure written off	-	1,234	-	1,234

	Consolidated		The Company	
	2006	2005	2006	2005
	$000	$000	$000	$000
27. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES (continued)				
Provision for intercompany receivables	-	-	2,000	2,000
Investment in controlled entity written off	-	-	-	4,184
Option expense	5	-	5	-
Movement in operating assets and liabilities:				
(Increase)/decrease in receivables	(3,004)	(1,293)	-	20
(Increase)/decrease in inventories	(35)	64	-	-
Increase/(decrease) in payables	(768)	695	(9)	(168)
Increase/(decrease) in provisions and employee benefits	87	299	-	15
Net cash (used in)/generated by operating activities	3,300	2,296	(824)	(230)

28. SEGMENT INFORMATION

The Company operates predominantly in one industry segment, being mining and exploration and in one geographical segment being Western Australia.

29. CONTINGENT LIABILITIES

The Company's mining tenements are subject to native title applications. At this stage it is not possible to quantify the impact (if any) that native title may have on the operations of the Company.

30. INTEREST IN JOINT VENTURES

During the year the Company relinquished its 51% interest in the joint venture, Cavenagh Range E69/1389 and E69/1391 and the Blackstone Range E69/1390 tenements.

Included in the assets of the consolidated and parent entity are the following items, which represent the consolidated and parent entities' interest in the assets, employed in the joint venture recorded in accordance with the accounting policies described in Note 1(b).

	Consolidated		The Company	
	2006	2005	2006	2005
	$000	$000	$000	$000
Non-current assets				
Exploration expenditure carried forward in respect of the following areas of interest	-	30	-	30

31. ECONOMIC DEPENDENCY

The Consolidated entity has a sale contract whereby 100% of life of mine nickel ore is contracted for sale to BHP Billiton – WMC Resources Limited.

32. SUBSEQUENT EVENTS

There were no material events subsequent to balance date.

33. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

The rules for the first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The significant changes in accounting policies adopted in transitioning to AIFRS are provided in note 1. The financial impacts to the consolidated entity of the transition to AIFRS have been outlined in the preceding schedules. Further information in relation to the adjustments outlined in these reconciliations are provided below:

(a) Restoration provision

Under Australian GAAP, provisions are made for mine rehabilitation and restoration on an incremental basis during the course of the mine life. The provision is determined on an undiscounted basis based on current costs, current legal requirements and current technology.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written down to nil and the excess is recognised immediately in profit or loss. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable an impairment test is performed.

The transitional adjustments made at 1 July 2004 and 30 June 2005 in the consolidated entity as a result of the above is an increase by $140,000 to the provision for rehabilitation. The corresponding adjustment has been made against opening retained earnings on the basis that the corresponding rehabilitation asset is impaired. The effects of discounting have been excluded given the short mine life of the Blair nickel mine.

(b) Financial instruments / change in accounting policy

The Company has elected to take advantage of the transition rules contained in AASB 1 to not restate comparatives for AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

The entity has followed Australian GAAP in accounting for financial instruments within the scope of AASB 132 and AASB 139 as described in Note 1 Statement of significant accounting policies.

The impact of this change has had no material impact as at 1 July 2005, being the date of transition for AASB 132 and AASB 139

(c) Share Based Payments

Under AIFRS the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees becomes unconditionally entitled to the options. The fair value of options granted will be measured using the binomial method, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustment has been made for options granted before 7 November 2002 which have vested before 1 January 2004. Options granted after 7 November 2002 remaining unvested at 1 July 2004 have been recognised in the opening balance sheet through retained earnings resulting in a nil impact on transition.

1. RECONCILIATION OF BALANCE SHEET REPORTED UNDER AGAAP TO AIFRS

	Note	Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
		1 July 2004			30 June 2005			1 July 2004			30 June 2005		
CURRENT ASSETS													
Cash assets		1,753	-	1,753	882	-	882	1,702	-	1,702	37	-	37
Receivables		1,854	-	1,854	3,146	-	3,146	20	-	20	-	-	-
Inventories		222	-	222	158	-	158	-	-	-	-	-	-
Total Current Assets		3,829		3,829	4,186		4,186	1,722		1,722	37		37
NON CURRENT ASSETS													
Receivables		-	-	-	-	-	-	4,097	-	4,097	3,606	-	3,606
Other financial assets		-	-	-	-	-	-	4,183	-	4,183	-	-	-
Property, plant and		7,802	-	7,802	3,396	-	3,396	33	-	33	62	-	62
Exploration and evaluation		3,188	-	3,188	2,991	-	2,991	1,133	-	1,133	30	-	30
Total Non Current Assets		10,990		10,990	6,387		6,387	9,446		9,446	3,698		3,698
Total Assets		14,819		14,819	10,573		10,573	11,168		11,168	3,735		3,735
CURRENT LIABILITIES													
Payables		3,012	-	3,012	3,707	-	3,707	296	-	296	128	-	128
Interest bearing liabilities		190	-	190	2,278	-	2,278	-	-	-	284	-	284
Provisions		34	-	34	266	-	266	25	-	25	41	-	41
Total Current Liabilities		3,236		3,236	6,251		6,251	321		321	453		453

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
	Note	1 July 2004			30 June 2005			1 July 2004			30 June 2005		
NON CURRENT LIABILITIES													
Interest bearing liabilities		736	-	736	792	-	792	-	-	-	5	-	5
Provisions	(a)		140	140	140	-	140	-	-	-	-	-	-
Total Non Current Liabilities		736		876	932		932	-		-	5		5
Total Liabilities		3,972		4,112	7,183		7,183	321		321	458		458
NET ASSETS		10,847		10,707	3,390		3,390	10,847		10,847	3,277		3,277
EQUITY													
Contributed equity		17,866	-	17,866	17,870	-	17,870	17,866	-	17,866	17,870	-	17,870
Reserve		1,246	-	1,246	1,246	-	1,246	1,246	-	1,246	1,246	-	1,246
Accumulated losses	(a)	(8,265)	(140)	(8,405)	(15,726)	-	(15,726)	(8,265)	-	(8,265)	(15,839)	-	(15,839)
Total Equity		10,847		10,707	3,390		3,390	10,847		10,847	3,277		3,277

2. RECONCILIATION OF INCOME STATEMENT REPORTED UNDER AGAAP TO AIFRS.

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
	Note	1 July 2004			30 June 2005			1 July 2004			30 June 2005		
Loss before income tax		(6,843)	-	(6,843)	(7,461)	-	(7,461)	(6,843)	-	(6,843)	(7,574)	-	(7,574)
Income tax benefit		-	-	-	-	-	-	-	-	-	-	-	-
Loss for the period		(6,843)		(6,843)	(7,461)		(7,461)	(6,843)		(6,843)	(7,574)		(7,574)

3. RECONCILIATION OF CASH-FLOW UNDER AGAAP TO CASH-FLOW UNDER AIFRS

The adoption of AIFRS has not resulted in any material adjustments to the cash-flow statements for the period ended 30 June 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

DIRECTORS' DECLARATION

1 In the opinion of the Directors of Australian Mines Limited ('the Company'):

(a) the financial statements and notes and the remuneration disclosures that are contained in the Remuneration report, section 11 of the Directors' report, set out on pages 2 to 55, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the 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 financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the remuneration disclosures that are contained in the Remuneration report, section 11 of the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*

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

2 The directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the Chief Operating Officer for the financial year ended 30 June 2006.

Dated at.........Perth....29 day of......September....2006.

Signed in accordance with a resolution of the directors:

B Young

....
Brett Young
Director

KPMG

Independent audit report to members of Australian Mines Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statements, statements of changes in equity, balance sheets, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Australian Mines Limited (the "Company") and Australian Mines Limited and its Controlled Entities (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.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" in sections 11.1 and 11.2 of the directors' report and not in the financial report.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the Remuneration 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 preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. 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 AASB 124. 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*, Australian 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 and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

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

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

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

KPMG

Audit opinion

In our opinion:

(1) the financial report of Australian Mines 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 financial year ended on that date; and;

ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia; and

(2) the remuneration disclosures that are contained in sections 11.1 and 11.2 of the remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures.*

KPMG

KPMG

T R Hart
Partner

Perth
29 September 2006

CORPORATE GOVERNANCE STATEMENT 2005 - 2006

INTRODUCTION

Corporate Governance

The Australian Stock Exchange ("**ASX**") Listing Rules ("**Listing Rules**") require a listed entity to include in its annual report a statement on corporate governance practices disclosing the extent to which it has followed the "best practice" corporate governance recommendations set by the ASX Corporate Governance Council. If the entity has not followed any of the recommendations, it must identify them and give reasons why. It must state the period during which the recommendations were followed. For this purpose, Listing Rules Guidance Note 9A sets out the 10 essential corporate governance principles and the applicable "best practice recommendations".

The concept of "*corporate governance*" is the systems, policies and procedures under which an entity is directed and managed. The benefits of good corporate governance are accountability, systems of control and the encouragement to create value.

There is no single model of good corporate governance. Corporate governance will evolve as an entity's circumstances change and must be tailored to its circumstances.

Compliance with ASX Listing Rule 4.10.3

Listing Rule 4.10.3 and Guidance Note 9A reflect ASX policy that it is "*appropriate to focus on disclosure of corporate governance practices rather than prescribe adoption of a particular practice*". Therefore, an entity's obligation is to highlight areas of departure from the recommendations: the "*if not, why not?*" approach.

The Company's Approach

The Board and senior management of Australian Mines Limited (the "**Company**") are committed to acting responsibly, ethically and with high standards of integrity as the Company works to create shareholder value. To achieve this goal, the Board has developed and adopted corporate governance practices and policies that have been implemented throughout management and governance. This Corporate Governance Statement summarises these practices as they have been adopted by the Company.

Adoption by the Board

The Board of the Company has reviewed and considered this Corporate Governance Statement and has adopted it. A Board resolution to this effect has been passed.

This Statement and some specific corporate governance policies are available on the Company's website.

Summary of Compliance

The Company has complied with 22 of the 28 corporate governance recommendations. The non-compliance with 6 of the recommendations relates to the Board considering it appropriate for the Company to not separately constitute an audit committee and nomination committee and the Company further not having a majority of independent directors. The full Board deals with matters that would otherwise be dealt with by audit and nomination committees. The Board considers the make-up of the Board is appropriate given the Company's size and operations. The effectiveness of the Board is achieved through knowledge and experience specific to the business and the industry in which it operates.

ESSENTIAL PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Principle 1: Lay Solid Foundations for Management and Oversight
"Recognise and publish the respective roles and responsibilities of the board and management"
Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.
The Board has adopted a formal statement of its roles, functions and responsibilities.
The Board's primary role is the optimisation of Company performance and protection and enhancement of shareholder value. Its functions and responsibilities include:

- setting policy and strategic direction and adopting a corporate strategy;
- monitoring Company and management's performance against this strategy;
- overseeing control and accountability systems;
- identifying the principal risks and opportunities of the Company's business;
- ensuring appropriate risk management systems are established and reviewed;
- ensuring there are sufficient resources to meet objectives and strategies;
- approving and monitoring financial reporting, capital management and compliance;
- appointing senior management, monitoring senior management's conduct and performance and overseeing remuneration, development and succession;
- adopting procedures to ensure the business of the Company is conducted in an honest, open and ethical manner consistent with Company values;
- approving all significant business transactions;
- ensuring the Company meets its continuous disclosure obligations and that its shareholders have available all information reasonably required to make informed assessments of the Company's prospects;
- overseeing the Company's commitment to sustainable development, the environment, health and safety of employees, contractors, customers and the community;
- ensuring that the Board remains appropriately skilled to meet Company needs;
- reviewing and approving corporate governance systems; and
- delegating authority to management where appropriate.

This statement is included on the Company's website, and is to be reviewed annually to ensure it remains appropriate to the needs of the Company given its size, complexity and ownership structure and the skills of directors and managers.

The Board is also governed by the Company's Constitution and its various policies, as described elsewhere in this Statement.

A strategic balance is maintained between the responsibilities of the Board, chief executive officer, the Company's chief operating officer ("**COO**").

The chief executive officer/Chief Operating Officer is accountable to the Board for management of the Company and its subsidiaries within authority levels reviewed and approved by the Board each year, has authority to approve capital expenditure within predetermined limits set out by the Board and is subject to the supervision of the Board. Material strategic and policy decisions are made by the Board.

The chief executive officer/chief operating officer (who is also Company Secretary) is responsible for maintaining financial control across the Company and its subsidiaries. This includes management reporting to the Board, statutory accounting, auditing, taxation and insurance. Financial performance is monitored against financial control guidelines.
The Board adopted its formal statement and its various policies in June 2005.

Principle 2: Structure the Board to Add Value
"Have a board of an effective composition size and commitment to adequately discharge its responsibilities and duties"
Recommendation 2.1: A majority of the board should be independent directors.
The Company currently has three directors, Neil Warburton, Mick Elias and Brett Young. Mr B Cahill and Mr K S Liddell resigned as directors of the Company during the 2005 – 2006 year. Details of these directors, including their skills, experience and terms of office are set out in the Company's annual report.

Mr Warburton although a non-executive director is an officer of or otherwise associated with substantial shareholders (more than 5%) of the Company. Thereby in accordance with guidelines adopted by the Board he is not considered independent.

Mr Elias is considered to be an independent non-executive director whilst Mr Young is not considered independent.

Of the 2 past directors Mr Cahill former Managing Director and Mr Liddell Chairman were not independent.

The Board has adopted a materiality threshold relating to a director's current or former association with a supplier, professional adviser or consultant to the Company. From the Company's viewpoint, material is more than 5% of the Company's total consolidated expenses for the relevant financial year. From the director's viewpoint when assessing an association, material is more than 5% of the total revenue of the supplier, adviser or consultant as the case may be.
The substantial shareholders associated with Mr Warburton each own between 5% and 10% of the shares of the Company. The Board does not consider that this will hinder his independent decision making.

The Board considers the make-up of the Board is appropriate given the Company's size and operations. The effectiveness of the Board is achieved through knowledge and experience specific to the business and the industry in which it operates.

The Board has also adopted procedures intended to ensure that independent decision making occurs. All directors are entitled to seek independent professional advice, at the Company's cost, in carrying out their duties, subject to the chairperson's prior approval of the expenditure, which will not be unreasonably withheld. Further, in accordance with the *Corporations Act 2001* (Cth) and policies adopted by each member of the Board is required to keep the Board advised on an ongoing basis of any potential conflict of interest which may exist with the Company. If a conflict does exist, the director concerned must absent themselves from any Board discussion in relation to the relevant item and not vote upon such an item. Non-executive directors are also encouraged to confer on a needs basis without management in attendance.

CORPORATE GOVERNANCE STATEMENT 2005 – 2006 (CONTINUED)

Recommendation 2.2*: The chairperson should be an independent director.*
The Company's chairperson, Neil Warburton, is not an independent director, as set out above in relation to best practice recommendation 2.1. However, due to his experience and expertise in the areas in which the Company operates and as a company director, the Board considers that Mr Warburton is highly appropriate to perform the role of chairperson. This includes the leadership of the Board, organisation and conduct of its function and the briefing of directors on board matters. The Board is confident that he is able to facilitate effective contributions from other directors. The Board does not consider that Mr Warburton's other directorships or chairmanships affect his ability to effectively perform these functions for the Company.

Recommendation 2.3*: The roles of the chairperson and chief executive officer should not be exercised by the same individual.*

The role of the Company's chairperson has been fulfilled by Neil Warburton, and the role of chief executive officer was fulfilled by Barry Cahill until his resignation on 15th July 2005 and by Brett Young thereafter. The division of responsibility between the Company's chairperson and its chief executive officer is set out in the Statement of Board's Role, Functions and Responsibilities referred to in relation to best practice recommendation 1.

Recommendation 2.4*: The board should establish a nomination committee.*
The Board has not established a nomination committee as, due to the Company's size and its operations, the Board considers a separately established committee is not warranted and its functions and responsibilities can be adequately and efficiently discharged by the Board as a whole. The Board assesses the experience, knowledge and expertise of potential directors before any appointment is made and adheres to the principle of establishing a board comprising directors with a blend of skills, experience and attributes appropriate to the Company and its business. The main criterion for the appointment of directors is an ability to add value to the Company and its business. All directors appointed by the Board are subject to election by shareholders at the following annual general meeting of the Company.

Recommendation 2.5*: Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 2.*
The Company has complied with providing the relevant information in this Statement including the procedure for the selection and appointment of new directors to the Board.

Principle 3: Promote Ethical and Responsible Decision- Making
"Actively promote ethical and responsible decision making"
Recommendation 3.1*: Establish a code of conduct to guide directors, the chief executive office (or equivalent), the chief operating officer (or equivalent) and any other key executives as to:*
3.1.1 - the practices necessary to maintain confidence in the company's integrity
3.1.2 – the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
The Company adopted, in 2002, the Australian Institute of Company Director's Code of Conduct ("**AICD Code**") to set appropriate standards of ethical and professional behaviour for its directors. In June 2005, the Company adopted a "Code of Conduct for Directors and Key Executives", which affirmed the Company's adoption of the AICD Code as appropriately setting the standards of ethical behaviour for directors. The Board will review compliance with this Code of Conduct every 12 months.
The Company's Code of Conduct for Directors and Key Executives prescribes standards including acting honestly and in good faith, exercising powers for a proper purpose, using due care and diligence, exercising independent judgment and avoiding a conflict of interest.

The Company has also adopted a "General Corporate Code of Conduct" ("**General Code**") which details the Company's commitment to appropriate corporate practices to its legitimate stakeholders and sets the standards expected of officers and employees in carrying out their duties.

Recommendation 3.2: *Disclose the policy concerning trading in company securities by directors, officers and employees.*

The Company has in place a trading policy concerning trading in Company securities, a copy of which is provided to all officers and employees of the Company.
The trading policy imposes certain restrictions on the Company's officers and employees trading in the Company's securities to prevent breaches of the insider trading provisions of the Corporations Act 2001 (Cth). The key aspects of the policy are that:

- trading in Company securities and other tradeable financial products is only permitted upon notification, in the case of employees, to the Company's chief executive officer, chief operating officer or, in the case of officers, to the Company's Chairman. If the Chairman wishes to trade he must notify the Company's Managing Director. Trading is only permitted for 2 weeks following notification and confirmation of trading must be provided to the chief executive officer or Chairman (as the case may be);

- no trading is permitted at any time where an officer or employee is in possession of information which, if it was generally available, a reasonable person would expect to have a material effect on the price or value of the security or product, or for a period of 2 days following a public announcement by the Company in relation to the matter the subject of that information; and

- active dealing, being trading in a manner which involves frequent and regular trading, in the Company's securities is not permitted.

The trading policy is provided to all the Company officers and employees and compliance with it is reviewed at least annually. The Company's current trading policy was adopted in June 2005 but reflects the position adopted under its previous trading policies.

The implementation of and compliance with the Company's trading policy is dealt with in the procedures and mechanisms set out in the Company's risk oversight and management policy, set out below in relation to best practice recommendation 7.1.

Recommendation 3.3: *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 3.*

The Company has complied with providing the relevant information including a summary of the Company's "Code of Conduct for Directors and Key Executives" and its current trading policy.

Principle 4: Safeguard Integrity in Financial Reporting
"Have a structure to independently verify and safeguard the integrity of the company's financial reporting"
Recommendation 4.1: *Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.*

The Company's chief executive officer/chief operating officer//chief financial officer report in writing to the Board that the Company's financial statements for each half and full year present a true and fair view in all material respects, of the Company's financial condition and operational results and are in accordance with accounting standards.

Recommendation 4.2: *The board should establish an audit committee.*
The Board has not established an audit committee as, due to the Company's size and its operations, the Board considers an audit committee's functions and responsibilities can be adequately and efficiently

discharged by the Board as a whole, operating in accordance with the Company's codes of conduct and other mechanisms designed to ensure independent judgment in decision making, as set out in relation to best practice recommendation 2.

Recommendation 4.3: *Structure the audit committee so that it consists of:*

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

As the Board as a whole fulfils the functions and responsibilities of an audit committee, the structure of the audit committee is not met.

Recommendation 4.4: *The audit committee should have a formal charter.*
Although there is no separate audit committee and hence no formal charter, in fulfilling the functions and responsibilities of an audit committee, the Board considers and deals with matters which would ordinarily be attended to by an audit committee, including:

- to recommend engagement and monitor performance of the external auditor;
- to review the effectiveness of management information and internal control;
- to review all areas of significant financial risk and risk management;
- to review significant transactions not a normal part of the Company's business;
- to review financial information and ASX reporting statements; and
- to monitor internal controls and accounting compliance.

Recommendation 4.5: *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 4.*

As the Board as a whole fulfils the functions and responsibilities of an audit committee, the names and qualifications of each of the members of the Board, and details of attendance at Board meetings, are set out in the Company's annual report.

The Board has not formalised any procedures for the selection and appointment of the Company's external auditor or rotation of external audit engagement partners, but reviews these matters on an ongoing basis and implements changes as required.

The Board has so far as it is applicable provided relevant information in this statement.

Principle 5: Make Timely and Balanced Disclosure
"Promote timely and balanced disclosure of all material matters concerning the company"
Recommendation 5.1: *Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.*
The Company has in place a continuous disclosure policy, a copy of which is provided to all Company officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

In addition, at each of its meetings, the Board discusses continuous disclosure issues as a standing item and a list of all recent Company announcements is presented.
The continuous disclosure policy aims to ensure compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 (Cth) and Listing Rules. The aim of the policy is to:

- assess information and co-ordinate the timely disclosure to the ASX or the seeking of advice on the information;
- provide an audit trail of decisions regarding disclosure; and
- ensure officers and employees of the Company understand the obligation to bring relevant information to the attention of the chairperson.

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairman, who in consultation with the Board (where practicable) and any other appropriate personnel will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary. This continuous disclosure policy was adopted in June 2005 and reflects the position adopted under its previous continuous disclosure policies.

Recommendation 5.2: *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 5.*
The Company has provided relevant information in this Statement upon the continuous disclosure policy.

Principle 6: Respect the Rights of Shareholders
"Respect the rights of shareholders and facilitate the effective exercise of those rights"
Recommendation 6.1: *Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.*

The Company has in place a communications policy, which reflects the Company's commitment to dealing fairly, transparently and promptly with shareholders, encouraging and facilitating active participation at shareholder meetings and dealing promptly with their enquiries. The policy focuses on the disclosure of information.
The key aspects of the policy are:

- diligent compliance with the Company's continuous disclosure and trading policies to keep shareholders informed of all relevant information;
- prompt, transparent compliance with statutory reporting and meeting obligations, including sending reports and notices to shareholders by email;
- effective use of the Company's website, electronic communication and its share registry to keep shareholders up to date and to deal with their enquiries, including the posting of Company announcements, company reports, notices of meeting and explanatory statements on the Company's website; and
- compliance with applicable privacy requirements.

The communications policy was adopted in June 2005 and is to be reviewed annually.

Recommendation 6.2*: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.*
The Company's external auditor attends the Company's annual general meeting, and other meetings where it is appropriate to do so.

Principle 7: Recognise and Manage Risk
"Establish a sound system of risk oversight and management and internal control"
Recommendation 7.1*: The board or appropriate committee should establish policies on risk oversight and management.*
The Company has in place a risk oversight and management policy, which sets out the Company's systems for risk oversight, management and internal control. The key aspects of the policy are that:

- the Board oversees the establishment and implementation of risk management systems and control frameworks, and in the absence of a separate audit committee as set out in relation to best practice recommendation 4.2, has the responsibility to establish, implement and maintain these systems and frameworks; and

- the Company's senior management are delegated the tasks of management of operational risk and the implementation of risk management strategies with the chief executive officer and Chief Operating Officer/Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

The Board and reviews the Company's risk management systems and control frameworks, and the effectiveness of their implementation, annually. The Board also considers the management of risk at its regular meetings. The Company's risk profile, which is assessed and determined on the basis of the Company's business in commercial mining and mineral exploration, is reviewed annually upon advice from management including, where appropriate, as a result of regular interaction with management and relevant staff from across the Company's business.

The Board or the Company's senior management may consult with the Company's external accountants on external risk matters as required.

The Company's risk management systems and control frameworks for identifying, assessing, monitoring and managing its material risks, as established by the Board in conjunction with management, include:

- the Board's ongoing monitoring of management and operational performance;

- a comprehensive system of budgeting, forecasting and reporting to the Board;

- approval procedures for significant capital expenditure above threshold levels;

- regular Board review of all areas of significant financial risk and all significant transactions not part of the Company's normal business activities;

- regular presentations to the Board by management on the management of risk;

- comprehensive written policies in relation to specific business activities;

- comprehensive written policies in relation to corporate governance issues;

- regular communication between directors on compliance and risk matters; and

- consultation and review processes between the Board and external accountants.

The Company's risk oversight and management policy was adopted in June 2005.

***Recommendation 7.2**: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state to the board in writing that:*

7.2.1 – the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board
7.2.2 – the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects
The Company's chief executive officer and chief operating officer/chief financial officer together report in writing to the Board that the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

***Recommendation 7.3**: Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 7.*
The Company has provided relevant information in this Statement upon recognising and managing risk.

Principle 8: Encourage Enhanced Performance
"Fairly review and actively encourage enhanced board and management effectiveness"
***Recommendation 8.1**: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.*

The Company has adopted self-evaluation processes to measure Board performance. The performance of all directors is assessed through analysis, review and specific discussion by the Board of issues relating to individual directors' attendance at and involvement in Board meetings, interaction with management, performance of allocated tasks and any other matters identified by the Board or other directors. Any significant issues identified are actioned by the Board on an ongoing basis. Evaluation of the Board's Committees is conducted on a similar basis. Due to the Board's assessment of the effectiveness of these processes, the Board has not formalised qualitative performance indicators to measure director's performance.

The evaluation of key executives is carried out by the Board via ongoing monitoring of management performance, based on management's reporting, interaction and involvement with and to the Board and Company performance, and the functioning of the Company's Remuneration Committee and its reporting processes.

Principle 9: Remunerate Fairly and Responsibly
"Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined"
***Recommendation 9.1**: Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.*

The Company's remuneration policies are value driven and reflected in the Charter of the Remuneration Committee. The essence of the Company's current remuneration policy is to competitively set remuneration including incentives to executive directors and senior management, to motivate key executives to pursue the long term growth and success of the Company within an appropriate control framework and to demonstrate a clear relationship between corporate (and key executive) performance and remuneration.

The Company's current policies are as follows:

- the fixed remuneration of key executives will be reasonable and fair taking into account level of responsibility, the Company's legal and industrial obligations and scale of the Company's business;

- to ensure performance and remuneration are appropriately linked, key executives will be entitled to appropriate equity based remuneration, including options linked to performance hurdles such as corporate performance (measured by matters such as the Company share price or other performance or production hurdles) and/or a minimum period of service;

- except in exceptional circumstances, no termination payments will be agreed with key executives other than a reasonable period of notice of termination as detailed in the executive's employment contract;

- non-executive directors will be remunerated by cash benefits alone, will not be provided with retirement benefits (except in exceptional circumstances) and aggregate remuneration will not exceed the amount approved by shareholders (currently $200,000); and

- all remuneration packages be reviewed by the Board annually or on an ongoing basis if required in accordance with relevant remuneration packages.

Further details of directors' remuneration during the 2005 – 2006 year are set out in the Company's financial report.

Recommendation 9.2: *The board should establish a remuneration committee.*
A Remuneration Committee was established by the Board prior to the 2004 – 2005 year. A majority of the members of the Committee are required to be non-executive directors and the Committee is required to be chaired by the non-executive Chairman.

The names of the members of the Remuneration Committee are Neil Warburton, Mick Elias and Brett Young. Their attendance at Remuneration Committee meetings during the 2005 – 2006 year is set out in the Company's annual report.

During the 2005 – 2006 year the Committee was chaired by Neil Warburton, the non-executive Chairman due to his experience and expertise in the areas in which the Company operates and his non-executive status, the Board considers that he is suitably skilled to perform the role of chair of the Remuneration Committee. The Committee did not consist of a majority of independent directors as there is only one independent director in the Board, as set out in relation to best practice recommendation 2.1.

The Remuneration Committee's Charter sets out its duties, which include:

- reviewing and recommending remuneration packages and incentive policies for executive directors and senior management;

- reviewing and recommending the remuneration of non-executive directors within the aggregate limit set by shareholders;
- assisting the Board in evaluating the performance of the executive directors;
- reviewing succession and career development plans for key executives;
- assisting the executive directors to develop effective and innovative remuneration arrangements;
- administer and be responsible for the Company's share option scheme, incentive performance packages, superannuation entitlements and retirement and termination entitlements; and
- supervise employment and human resources management policies.

***Recommendation 9.3**: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.*
Non-executive directors will be remunerated by cash benefits alone, will not be provided with retirement benefits (except in exceptional circumstances) and aggregate remuneration will not exceed the amount approved by shareholders (currently $200,000). Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration.

***Recommendation 9.4**: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.*
The Company ensures that payment of equity-based executive remuneration is made in accordance with the share option scheme approved by shareholders on 24 November 2004.

***Recommendation 9.5**: Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 9.*

The Remuneration Committee's Charter is included on the Company's website. The Company has provided relevant information in this Statement upon its remuneration policies.

Principle 10: Recognise the Legitimate Interests of Stakeholders
"Recognise legal and other obligations to all legitimate stakeholders"
***Recommendation 10.1**: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.*
As set out in relation to best practice recommendation 3.1, the Company has adopted a "General Corporate Code of Conduct" setting the standards expected of officers, employees and contractors in carrying out their duties. Under the "General Corporate Code of Conduct", officers and employees must, in all aspects of Company operations:

- act honestly, in good faith and in the best interests of the Company as a whole;

- seek to understand and comply with all applicable laws and Company policies (the Company has comprehensive written policies covering environmental principles, resource development on or near Aboriginal land, health safety and the environment and environmental management and monitoring);

- endeavour to avoid all forms of conflict of interest or divided loyalties;

- be professional, responsible and accountable;

- protect the Company's assets and ensure their efficient use;

- maintain confidentiality of non-public information except where disclosure is authorised or legally mandated; and

- deal responsibly with the community and specifically in all dealings with traditional landowners.

The Board and management monitor implementation of the "General Corporate Code of Conduct", and any breaches of it are reported by employees or contractors to their supervisor and by management or directors to the Board or the Company's Chairman.