

Glengarry Resources Limited

ACN 009 468 099

Financial Report

30 June 2006

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GLENGARRY RESOURCES LIMITED and controlled entities

Corporate Directory

Directors

K G McKay BSc (Hons), FAusIMM
Chairman

D R Richards BSc (Hons), MAIG, MAICD
Managing Director

D P Gordon CA, FFin, ACIS

W F Manning BA, LLB, FAICD

Secretaries

D J Kelly BComm, CPA, MAICD
J P Burns Bbus (Acc/Law)

Share register

Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009
(08) 9389 8033

Auditor

PricewaterhouseCoopers
Chartered Accountants
"QV1"
250 St Georges Terrace
Perth WA 6000

Solicitors

Blakiston & Crabb
1202 Hay Street
West Perth WA 6005

Bankers

Australia and New Zealand Banking Group
77 St George's Terrace
Perth WA 6000

Stock exchange listings

Glengarry Resources Limited shares are listed on the Australian Stock Exchange

Ordinary fully paid shares (ASX code: GGY)

Principal registered office in Australia

35 Havelock Street
West Perth WA 6005
(PO Box 975, West Perth WA 6872)

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Directors' Report

Your directors present their report on the Consolidated Entity ("Group") consisting of Glengarry Resources Limited ("Glengarry" or "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2006.

Directors

The following persons were directors of Glengarry Resources Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

K G McKay
D R Richards

D P Gordon was appointed a director on 10 March 2006 and continues in office at the date of this report.

W F Manning was appointed a director on 10 March 2006 and continues in office at the date of this report.

I J Gordon was a director from the beginning of the financial year until his resignation on 28 November 2005.

A T Harris was a director from the beginning of the financial year until his retirement on 10 March 2006.

Principal activities

During the year the principal continuing activities of the consolidated entity consisted of exploration for gold and other mineral resources.

Review of operations

A summary of consolidated revenues and results is set out below:

	2006	2005
	\$	\$
Revenue	86,798	77,636
Other income	41,658	50,004
	128,456	127,640
Loss before income tax expense	(1,927,436)	(1,102,206)
Income tax expense	-	-
Loss attributable to members of Glengarry Resources Limited	(1,927,436)	(1,102,206)

Financial Position

During the year the Company had a net increase in contributed equity of \$2,175,632 (from \$7,071,146 to \$9,246,778) as a result of:

- a placement of 23,682,590 ordinary shares at 4 cents each;
- a placement of 27,000,000 ordinary shares at 5 cents each;
- the exercise of employee options resulting in the issue of 400,000 ordinary shares at 5 cents each; and
- payment of share and option issue transaction costs of \$141,672.

At the end of the financial year the Company had net cash balances of \$1,475,251 (2005: \$1,186,288) and net assets of \$4,164,991 (2005: \$3,855,590).

Total liabilities amounted to \$245,964 (2005: \$77,355) and were limited to trade and other creditors and employee entitlements.

Directors' Report

Review of operations (continued)

Exploration

Glengarry Resources Limited maintained its focus on the Greenvale Project in North Queensland during the financial year. Significant mineralization was intersected at the Maitland copper-molybdenum and Oasis uranium prospects and further drilling on these targets has been a priority in 2006. Exploration will also be carried out on a number of other prospects that have been defined within the Project area.

The Snake Creek, Mt Guide and Inningarra Projects are subject to farm-out joint venture agreements and exploration on these properties is being managed by other companies. Glengarry has agreed to sell the Charters Towers Project in North Queensland to Mantle Mining Limited. Mantle Mining Limited is to pay Glengarry \$600,000 in shares upon successful listing of the Company.

Corporate

On 12 September 2005 the Company raised a total of \$947,303.60 via a 15% placement of 23,682,590 ordinary shares at 4 cents each.

On 10 March 2006 the Company raised a total of \$1,350,000 via a 15% placement of 27,000,000 ordinary shares at 5 cents each.

On 10 March 2006 the Company raised a total of \$20,000 via the exercise of employee options, resulting in the issue of 400,000 ordinary shares at 5 cents each.

Significant changes in the state of affairs

Other than those matters shown above, no significant changes in the state of affairs of the consolidated entity occurred during the financial year.

Matters subsequent to the end of the financial year

On 13 September 2006 the Company announced that it had completed a placement of 24,000,000 ordinary shares at 4.2 cents per share to sophisticated and institutional investors. The placement raised a total of \$1,008,000.

On 13 September 2006 the Company also announced an offer to shareholders to participate in a Share Purchase Plan ("SPP"). Under the SPP, up to \$5,000 worth of shares was offered to each registered holder at the record date of 14 September 2006. The SPP is underwritten to the maximum amount allowable under the ASX Listing Rules. At the date of this report the SPP was not yet complete.

No other matter or circumstance has arisen since 30 June 2006 that has significantly affected, or may significantly affect:

- (a) the consolidated entity's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Other than likely developments contained in the "Review of Operations", further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is subject to the environmental laws and regulations imposed under the Mining Act 1978 (Western Australia), the Mineral Resources Act 1989 (Queensland) and the Mining Act (Northern Territory) depending on the activities being undertaken. The Company is currently engaged in exploration activities which are governed by conditions or recommendations imposed through the granting of a licence or permit to explore.

Directors' Report

Environmental regulation (continued)

Compliance with these laws and regulations is regarded as a minimum standard for the Company to achieve. There were no known breaches of any environmental laws or regulations during the year.

Information on directors

K G McKay, BSc (Hons), FAusIMM. *Chairman - non-executive Age 60*

Experience and expertise

Independent non-executive director appointed 26 August 2004. Appointed Chairman 23 November 2004. Geologist with 38 years experience in the mining industry. Former Managing Director of Gallery Gold Limited and Battle Mountain (Aust.) Inc, former Chairman of Gindalbie Metals Limited.

Other directorships

During the last three years Mr McKay held directorships in the following ASX listed companies:

Gindalbie Metals Limited (appointed October 1997, resigned May 2006)

Gallery Gold Limited (appointed December 1998, resigned June 2003)

Special responsibilities

Chairman of the Board

Member of the Remuneration Committee

D R Richards, BSc (Hons), MAIG, MAICD *Managing Director Age 45*

Experience and expertise

Managing Director appointed 1 September 2003. Geologist with 24 years experience in the mining industry. Former Chief Geologist, New Projects Australia of Auriongold Limited.

Other directorships

Mr Richards held no other directorships of ASX listed companies during the last three years.

Special responsibilities

Managing Director

D P Gordon CA, FFin, ACIS *Non-executive Director Age 34*

Experience and expertise

Independent non-executive director appointed 10 March 2006. Mr Gordon is a Chartered Accountant with over 15 years experience in the mining sector. He is currently Chief Financial Officer and Company Secretary of Gindalbie Metals Limited

Other directorships

Mr Gordon held no other directorships of ASX listed companies during the last three years.

Special responsibilities

Chairman of the Audit Committee

Member of the Remuneration Committee

Directors' Report

Information on directors (continued)

W F Manning BA, LLB, FAICD *Non-executive Director Age 59*

Experience and expertise

Independent non-executive director appointed 10 March 2006. Mr Manning is a resources lawyer with over 30 years experience in Perth, Brisbane and Melbourne. He is currently Chairman of the Lung Institute of WA (Inc) (previously the Asthma Allergy Research Institute (Inc)) and has previously been a director of Wiluna Mines Limited, Australian Mining & Petroleum Law Association Limited, Queensland Cement Limited and Cement Australia Limited.

Other directorships

Mr Manning held no other directorships of ASX listed companies during the last three years.

Special responsibilities

Chairman of the Remuneration Committee
Member of the Audit Committee

Company secretaries

D J Kelly BComm, CPA, MAICD

Mr Kelly was appointed to the position of Joint Company Secretary on 10 March 2006. Mr Kelly has extensive experience in the resources sector and is currently Company Secretary to a number of ASX listed companies including Universal Resources Limited, Terrain Minerals Limited, Midwest Corporation Limited and Nylex Limited.

Special responsibilities

Chief Financial Officer

J P Burns Bbus (Acc/Law)

Ms Burns was appointed to the position of Joint Company Secretary on 10 March 2006. Ms Burns has over 10 years experience in the resources sector. She was previously the Chief Accountant of Gallery Gold Limited and currently provides management services to several ASX listed exploration companies.

Special responsibilities

Company Accountant

Directors' interests in shares and options

As at the date of this report the interests of the Directors in the shares and options of the Company were:

	Ordinary Shares		Options over Ordinary Shares	
	Direct	Indirect	Direct	Indirect
K G McKay	-	-	-	-
D R Richards	630,000	-	-	2,500,000
D P Gordon	-	350,000	-	-
W F Manning	-	-	-	-

Directors' Report

Meetings of directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2006 and the number of meetings attended by each director were:

	Meetings of Directors		Meetings of Committees			
	Held	Attended	Audit Held	Attended	Remuneration Held	Attended
K G McKay	12	12	1	1	2	2
D R Richards	12	11	*	*	*	*
D P Gordon	4	4	-	-	2	2
W F Manning	4	4	-	-	2	2
A T Harris	8	8	*	*	-	-
I J Gordon	5	4	1	1	-	-

Held – denoted the number of meetings held during the time the director held office or was a member of the committee during the year.

* - denotes that the director is not a member of the relevant committee

The Company does not have a formal Nomination Committee. This function is performed by the full Board.

Retirement, election and continuation in office of directors

Mr A T Harris retired as a director on 10 March 2006.

Mr D P Gordon was appointed as a director on 10 March 2006. In accordance with the Constitution Mr Gordon retired as a director at a General Meeting held 20 June 2006 and, being eligible, offered himself for re-election. He was duly re-elected.

Mr W F Manning was appointed as a director on 10 March 2006. In accordance with the Constitution Mr Manning retired as a director at a General Meeting held 20 June 2006 and, being eligible, offered himself for re-election. He was duly re-elected.

Mr K G McKay is the director retiring by rotation who, being eligible, offers himself for re-election.

Remuneration report

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

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

The information provided under headings A to D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in section E are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

Directors' Report

Remuneration report (continued)

A Principles used to determine the nature and amount of remuneration (audited)

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

In consultation with external remuneration consultants, the Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- focuses on exploration success as the creation of shareholder value and returns
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework currently consists of fixed salaries.

The overall level of executive reward takes into account the performance of the consolidated entity over a number of years, with greater emphasis given to the current and prior year. Over the past 5 years, the consolidated entity was involved in mineral exploration and did not derive a profit and therefore growth in earnings is not considered relevant. Shareholder wealth is dependent upon exploration success and has fluctuated accordingly. During the same period, average executive remuneration has been maintained in accordance with industry standards.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also has agreed to the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Non-executive directors' fees

Non-executive directors remuneration consists of set fee amounts and statutory superannuation. The current base remuneration was last reviewed with effect from 10 March 2006. Directors' remuneration is inclusive of committee fees.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The total maximum currently stands at \$200,000.

Retirement allowances for directors

There is no provision for retirement allowances for non-executive directors.

Directors' Report

Remuneration report (continued)

Executive pay

The executive pay and reward framework has three components:

- base pay and benefits
- long-term incentives through participation in the Employee Incentive Scheme and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

- *Base pay*
Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any senior executives' contracts.

- *Benefits*
Executives may receive benefits including health insurance, professional memberships, motor vehicle allowances, reasonable entertainment allowances and other benefits as agreed between the executive and the Board of Directors.
- *Retirement benefits*
Directors and employees are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.
- *Employee Incentive Scheme*
Information on the Employee Incentive Scheme is set out on page 57 to 58.

B Details of remuneration (audited)

Details of the remuneration of the directors and the key management personnel of Glengarry Resources Limited for the parent and the consolidated entity are set out in the following tables.

Directors' Report

Remuneration report (continued)

2006	Short-term benefits	Post-employment Benefits	Share-based payments	
Name	Cash salary and fees \$	Superannuation \$	Options \$	Total \$
<i>Directors of Glengarry Resources Limited</i>				
K G McKay	57,463	5,172	-	62,635
D R Richards *	149,800	14,803	19,100	183,703
D P Gordon**	14,233	1,281	-	15,514
W F Manning***	14,233	1,281	-	15,514
A T Harris****	73,902	1,942	-	75,844
I J Gordon*****	12,949	1,165	-	14,114
<i>Other key management personnel</i>				
K M Seymour *****	123,836	11,145	9,550	144,531
D J Kelly *****	4,000	-	7,640	11,640
J P Burns *****	13,467	-	5,730	19,197
Total	463,883	36,789	42,020	542,692

* D R Richards - remuneration for the year does not include the value of the unvested portion of share based payments of \$51,000.

** D P Gordon was appointed as a director on 10 March 2006.

*** W F Manning was appointed as a director on 10 March 2006.

**** A T Harris resigned as a director on 10 March 2006.

***** I J Gordon resigned as a director on 28 November 2005.

***** K M Seymour - remuneration for the year does not include the value of the unvested portion of share based payments of \$25,500.

***** Mosman Management Pty Ltd is the Company providing the services of Mr Kelly (Joint Company Secretary and Chief Financial Officer) and Ms Burns (Joint Company Secretary and Company Accountant). Mr Kelly and Ms Burns were appointed on 10 March 2006. Mosman Management pays the salaries of Mr Kelly and Ms Burns. Remuneration for the year does not include the value of the unvested portion of share based payments of \$35,700 (Kelly - \$20,400, Burns - \$15,300).

2005	Short-term benefits	Post-employment Benefits	Share-based payments	
Name	Cash salary and fees \$	Superannuation \$	Options \$	Total \$
K G McKay*	36,016	3,241	-	39,257
A T Harris	105,445	3,048	-	108,493
D R Richards	146,789	14,391	615	161,795
I J Gordon	41,083	2,506	-	43,589
A J Alston**	44,018	2,538	-	46,556
<i>Other key management personnel</i>				
K M Seymour***	84,014	7,561	8,270	99,845
Total	457,365	33,285	8,885	499,535

* K G McKay was appointed a director on 26 August 2004.

** A J Alston resigned as a director on 17 September 2004.

*** K M Seymour was appointed Exploration Manager on 1 September 2004.

Directors' Report

Remuneration report (continued)

C Service Agreements (audited)

Remuneration and other terms of employment for the Managing Director, Exploration Manager and the Company Secretaries are formalised in service agreements.

The agreements for the Managing Director and Exploration Manager provide for the provision of other benefits including car allowances and participation, when eligible, in the Employee Incentive Scheme.

Other major provisions of the agreements relating to remuneration are set out below.

D R Richards, Managing Director

- Term of agreement - no set term, notice period of six months.
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$192,000, to be reviewed annually. Mr Richards' remuneration was reviewed and increased to \$250,000 effective 1 July 2006. Provision of four weeks annual leave.

K M Seymour, Exploration Manager

- Term of agreement - no set term, notice period of three months
- Base salary, inclusive of superannuation, for the year ended 30 June 2006 of \$140,000, to be reviewed annually. Mr Seymour's remuneration was reviewed and increased to \$175,000 effective 1 July 2006. Provision of four weeks annual leave.

Mosman Management Pty Ltd for services of D J Kelly and J P Burns

- Term of agreement – twelve months, notice period of two months
- Annual consulting fees of \$57,000 for the 12 months from 10 March 2006, renegotiable at the end of the contract period.

D Share-based compensation (audited)

Options are granted under the Employee Incentive Scheme which was approved by shareholders at the 2004 annual general meeting. All staff are eligible to participate in the scheme (including executive directors) who have been continuously employed by the consolidated entity for a period of at least six months unless the directors in their absolute discretion determine otherwise.

Options are granted under the scheme for no consideration and are granted for a period of up to 5 years.

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Vesting date
6 October 2004	1 September 2006	10 cents	\$0.00486	Vested
6 October 2004	1 September 2007	15 cents	\$0.00554	Vested
11 February 2005	30 June 2007	15 cents	\$0.00070	Vested
10 April 2006	10 April 2011	11 cents	\$0.0382	Vested
10 April 2006	10 April 2011	13 cents	\$0.0356	10 April 2007
10 April 2006	10 April 2011	15 cents	\$0.0332	10 April 2008

Options granted under the scheme carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is determined by the directors which shall be not less than 80% of market price on the date upon which the directors first resolved to grant the options.

Directors' Report

Remuneration report (continued)

Details of options over ordinary shares provided as remuneration to each director of Glengarry Resources Limited and each of the key management personnel of the group are set out below.

	Number of Options Granted During the Year		Number of Options Vested During the Year	
	2006	2005	2006	2005
<i>Directors of Glengarry Resources Limited</i>				
K G McKay	-	-	-	-
D R Richards	2,000,000	1,000,000	500,000	1,000,000
D P Gordon	-	-	-	-
W F Manning	-	-	-	-
A T Harris	-	-	-	-
I J Gordon	-	-	-	-
A J Alston	-	-	-	-
<i>Other key management personnel</i>				
K M Seymour	1,000,000	1,500,000	250,000	1,500,000
D J Kelly	800,000	-	200,000	-
J P Burns	600,000	-	150,000	-

The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date of options granted to key management personnel, allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

Grant date	10 April 2006	10 April 2006	10 April 2006
Expiry date	10 April 2011	10 April 2011	10 April 2011
Quantity	1,450,000	1,100,000	2,200,000
Exercise price	\$0.11	\$0.13	\$0.15
Consideration	Nil	Nil	Nil
Share price at grant date	\$0.072	\$0.072	\$0.072
Expected price volatility of the Company's shares	70%	70%	70%
Expected dividend yield	Nil	Nil	Nil
Risk-free interest rate	5.5%	5.5%	5.5%

During the year there were no ordinary shares provided to any key management personnel as a result of the exercise of options.

E Additional information (unaudited)

Given Glengarry Resources Limited is involved in mineral exploration and performance is measured by exploration success, the remuneration of the persons referred to above is not dependent on the satisfaction of a performance condition other than share price appreciation.

Directors' Report

Remuneration report (continued)

Further details relating to options are set out below.

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B-D \$
D R Richards	29.87%	70,100	-	995	69,105
K M Seymour	20.61%	35,050	-	-	35,050
D J Kelly	87.50%	28,040	-	-	28,040
J P Burns	60.96%	21,030	-	-	21,030

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Loans to directors and executives

There are no loans to directors or executives.

Share options granted to directors and the most highly remunerated officers

Options over unissued ordinary shares of Glengarry Resources Limited granted during or since the end of the financial year under the Employee Incentive Scheme to any of the directors or the 5 most highly remunerated officers of the Company and consolidated entity as part of their remuneration were as follows:

	Date of grant	Options granted
Directors		
D R Richards, <i>Managing Director</i>	10 April 2006	2,000,000
Other key management personnel of Glengarry Resources Limited and the consolidated entity		
K M Seymour, <i>Exploration Manager</i>	10 April 2006	1,000,000
D J Kelly, <i>Joint Company Secretary</i>	10 April 2006	800,000
J P Burns, <i>Joint Company Secretary</i>	10 April 2006	600,000

Shares under option

Unissued ordinary shares of Glengarry Resources Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
6 October 2004	1 September 2006	10 cents	500,000
6 October 2004	1 September 2007	15 cents	500,000
11 February 2005	30 June 2007	15 cents	500,000
10 April 2006	10 April 2011	11 cents	1,450,000
10 April 2006	10 April 2011	13 cents	1,100,000
10 April 2006	10 April 2011	15 cents	2,200,000
			<u>6,250,000</u>

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

Directors' Report

Shares issued on the exercise of options

The following ordinary shares of Glengarry Resources Limited were issued during the year ended 30 June 2006 on the exercise of options granted under the Glengarry Resources Limited Employee Share Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date options originally granted	Issue price	Number of shares issued
8 March 2004	5 cents	400,000

Insurance of officers

During the financial year, Glengarry Resources Limited paid a premium of \$26,174 to insure the directors, executive officers and secretaries of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of the Company

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

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

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

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

	Consolidated	
	2006	2005
	\$	\$
Assurance services		
Audit Services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	28,490	20,700

Directors' Report

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

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

A handwritten signature in black ink, appearing to read 'D Richards', with a stylized flourish at the end.

D R Richards
Managing Director
Perth, Western Australia

29 September 2006

PricewaterhouseCoopers
ABN 52 780 433 757

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Auditors' Independence Declaration

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

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

This declaration is in respect of Glengarry Resources Limited and the entities it controlled during the period.



Nick Henry
Partner
PricewaterhouseCoopers

Perth
29 September 2006

GLENGARRY RESOURCES LIMITED and controlled entities

Corporate Governance Statement

Glengarry Resources Limited (the "Company") and the Board are committed to achieving and demonstrating high standards of corporate governance. A review of the Company's corporate governance framework was completed in light of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in March 2003. The Company's framework is largely consistent with the recommendations and changes have been made as a result of this review and other recent governance developments. The Company and its controlled entities together are referred to as the Group in this statement. This statement includes a reference to non-compliance with the recommendations.

The relationship between the Board and senior management is important to the Group's long term success. The directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are delegated by the Board to the Managing Director and senior executives as set out in the Group's delegations policy. These delegations are reviewed on an annual basis.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

The board of directors

Details of directors

K G McKay, BSc (Hons), FAusIMM Age 60

Status: Independent non-executive director.

Tenure: Appointed a director on 26 August 2004 and chairman on 23 November 2004.

Skills, experience and expertise: Geologist with 38 years experience in the mining industry as a senior executive, Company director and chairman. Former Chairman of Gindalbie Metals Limited and former Managing Director of Gallery Gold Limited.

Responsibilities: Chairman of the Board and Member of the Remuneration Committee

D R Richards, BSc (Hons), MAIG, MAICD

Age 45

Status: Executive director.

Tenure: Appointed Managing Director on 1 September 2003

Skills, experience and expertise: Geologist with 24 years experience in the mining industry as a senior executive.

Responsibilities: Managing Director

D P Gordon CA, FFin, ACIS

Age 34

Status: Independent non-executive director.

Tenure: Appointed a director on 10 March 2006.

Skills, experience and expertise: Chartered Accountant with over 15 years experience in the mining sector. He is currently Chief Financial Officer and Company Secretary of Gindalbie Metals Limited.

Responsibilities: Chairman of the Audit Committee and Member of the Remuneration Committee.

Corporate Governance Statement

The board of directors (continued)

W F Manning BA, LLB, FAICD	Age 59
Status:	Independent non-executive director.
Tenure:	Appointed a director on 10 March 2006.
Skills, experience and expertise:	A resources lawyer with over 30 years experience in Perth, Brisbane and Melbourne. He is currently Chairman of the Lung Institute of WA (Inc) (previously the Asthma Allergy Research Institute (Inc)) and has previously been a director of Wiluna Mines Limited, Australian Mining & Petroleum Law Association Limited, Queensland Cement Limited and Cement Australia Limited.
Responsibilities:	Chairman of the Remuneration Committee and Member of the Audit Committee.

The Board operates in accordance with the broad principles set out in its charter which is available from the corporate governance information section of the Company's website at www.glengarry.com.au. The charter details the Board's composition and responsibilities.

Board composition

The Charter states:

- the Board is to be comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring an independent perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgment and review and constructively challenge the performance of management.
- in recognition of the importance of independent views and the Board's role in supervising the activities of management the Chairman should be an independent non-executive director, the majority of the Board should be independent of management and all directors are required to bring independent judgment to bear in their Board decision making.
- the Chairman is elected by the full Board and is required to meet regularly with the Managing Director.
- the Company is to maintain a mix of directors on the Board from different backgrounds with complementary skills and experience.
- the Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.
- each director is encouraged to own shares in the Company.

The extent to which the Company does not comply with the above Charter is set out in the non-compliance statement on pages 25 and 26.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Company including contributing to the development of and approving the corporate strategy.
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives.
- overseeing and monitoring:
 - organisational performance and the achievement of the Group's strategic goals and objectives.
 - compliance with the Company's Code of Conduct (see pages 24 and 25).
 - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments.

Corporate Governance Statement

The board of directors (continued)

- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors.
- appointment, performance assessment and, if necessary, removal of the Managing Director.
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the Chief Financial Officer and the Company Secretary.
- ensuring there are effective management processes in place and approving major corporate initiatives.
- enhancing and protecting the reputation of the organisation.
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

Board members

Details of the members of the Board, their experience, qualifications, term of office and independent status are set out in the Directors' Report under the heading "Information on directors". There are three independent non-executive directors and one executive director at the date of signing the Directors' Report.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or independent perspective.
- the size of the Board is conducive to effective discussion and efficient decision making.

Directors' independence

The Board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

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

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it impacts the shareholders' understanding of the director's performance.

Recent thinking on corporate governance has introduced the view that a director's independence may be perceived to be impacted by lengthy service on the Board. To avoid any potential concerns, the Board has determined that a director will not be deemed independent if he or she has served on the Board of the Company for more than ten years. The Board will continue to monitor developments on this issue.

Corporate Governance Statement

The board of directors (continued)

Term of office

The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting following their last election. Where eligible, a director may stand for re-election.

Chairman and Chief Executive Officer (CEO)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives.

The CEO is responsible for implementing Group strategies and policies. The Board Charter specifies that these are separate roles to be undertaken by separate people.

Commitment

The Board held twelve Board meetings and regular management meetings during the year.

Non-executive directors are expected to spend at least 40 days a year preparing for and attending Board and management meetings and associated activities.

The number of meetings of the Company's Board of Directors held during the year ended 30 June 2006, and the number of meetings attended by each director is disclosed on page 8.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior written approval of the Board. No appointments of this nature were accepted during the year ended 30 June 2006.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests

Entities connected with Mr A T Harris, Mr I J Gordon and Mr D J Kelly had business dealings with the consolidated entity during the year, as described in Note 22 to the financial statements. In accordance with the Board Charter the directors concerned declared their interests in those dealings to the Company and took no part in decisions relating to them or the preceding discussions. In addition, the directors concerned did not receive any papers from the Group pertaining to those dealings.

Independent professional advice

Directors and Board Committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Performance assessment

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. Management are invited to contribute to this appraisal process. The results and any action plans are documented together with specific performance goals which are agreed for the coming year.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

Corporate Governance Statement

The board of directors (continued)

Corporate reporting

The Managing Director and Chief Financial Officer have made the following certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards.
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees

Each committee is comprised entirely of non-executive directors. The committee structure and membership is reviewed on an annual basis.

Each Board committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company's website. All matters determined by committees are submitted to the full Board as recommendations for Board decision.

Minutes of Board committee meetings are tabled at the immediately subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the Charter of the individual committees.

Remuneration Committee

The Remuneration Committee operates in accordance with its charter which is available on the Company website. The Remuneration Committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Committee members may receive regular briefings from an external remuneration expert on recent developments on remuneration and related matters.

Each member of the senior executive team signs an employment contract at the time of their appointment covering a range of matters, including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration is set out in the Remuneration Report.

The Remuneration Committee's terms of reference include responsibility for reviewing any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed.

The Committee also assumes responsibility for management succession planning, including the implementation of appropriate executive development programs and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Audit Committee

The Audit Committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the mining industry.

Corporate Governance Statement

The board of directors (continued)

The Audit Committee operates in accordance with a charter which is available on the Company's website. The main responsibilities of the Committee are to:

- review, assess and approve the annual report, the half-year financial report and all other financial information published by the Company or released to the market.
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework.
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance.
- consider the independence and competence of the external auditor on an ongoing basis.
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence.
- review and monitor related party transactions and assess their propriety.
- oversee the Group's transition to Australian equivalents to International Financial Reporting Standards (AIFRS)
 - see Note 34
- report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit Committee:

- receives regular reports from management, the external auditors and the IFRS transition project team.
- meets with the external auditors at least twice a year or more frequently if necessary.
- reviews the processes the Chief Executive Officer and Chief Financial Officer have in place to support their certifications to the Board.
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved.
- provides the external auditors with a clear line of direct communication at any time to the Chairman of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers were appointed as the external auditors in 1989 (Coopers and Lybrand). It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy a new audit engagement partner will be introduced for the year ended 30 June 2007.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in Note 23 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee.

The external auditor is requested 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 audit report.

Corporate Governance Statement

The board of directors (continued)

Risk assessment and management

The Board, through the Audit Committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the Company's website. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct (see pages 24 and 25) is required at all times and the Board actively promotes a culture of quality and integrity.

The Company risk management policy and the operation of the risk management and compliance system is managed by the Board. The Board assesses material risks that may impede meeting business objectives. The Board conducts an annual corporate strategy workshop which reviews the Company's strategic direction in detail and includes specific focus on the identification of the key business and financial risks which could prevent the Company from achieving its objectives. The Board is required to ensure that appropriate controls are in place to effectively manage those risks.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. The Board reports on the key business risks. The basis for this report is a half-yearly review of the past performance of the Company's activities and the current and future risks the Company faces. The review is undertaken by the Board away from the day to day pressure of their operational activities.

In addition, the Board requires that each major proposal submitted to the Board for decision be accompanied by a comprehensive risk assessment and, where required, management's proposed mitigation strategies.

The environment, health and safety management system

The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the Board facilitates the systematic identification of environmental and OH&S issues and ensures they are managed in a structured manner. This system allows the Company to:

- monitor its compliance with all relevant legislation.
- continually assess and improve the impact of its operations on the environment.
- encourage employees to actively participate in the management of environmental and OH&S issues,
- work with trade associations representing the entity's business to raise standards.
- use energy and other resources efficiently; and
- encourage the adoption of similar standards by the entity's principal suppliers, contractors and distributors.

Information on compliance with significant environmental regulations is set out in the Directors' Report.

Code of Conduct

The Company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and apply to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

Corporate Governance Statement

Code of Conduct (continued)

In summary, the Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies.

The purchase and sale of company securities by directors and employees is not permitted within two business days before and after the release to the market of market sensitive information, or when otherwise privy to information not yet released. The Chairman must be advised prior to any proposed transaction in the company's securities.

This Code and the Company's trading policy is discussed with each new employee as part of their induction training and all employees are asked to sign an annual declaration confirming their compliance.

The Code requires employees who are aware of unethical practices within the Group or breaches of the Company's trading policy to report these to the Company. This can be done anonymously.

The directors are satisfied that the Group has complied with the principles of proper ethical standards, including trading in securities.

A copy of the Code and the share trading policy are available on the Company's website.

Continuous disclosure and shareholder communication

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings. A summary of these policies and procedures is available on the Company's website.

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and, in conjunction with the Managing Director, co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

All shareholders receive a copy of the Company's annual report. In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. Recent initiatives to facilitate this include making all Company announcements, media briefings, details of Company meetings, press releases, and financial reports available on the Company's website.

Non-compliance statement

The Company has not followed all of the best practice recommendations set out in Australian Stock Exchange Limited Listing Rule 4.10.3.

Corporate Governance Statement

Non-compliance statement (continued)

The best practice recommendations that have not been followed and the explanation of any departures are as follows:

- A performance evaluation for the Board and its members has not taken place in the reporting period.

Explanation: There were major changes to the composition of the Board during the reporting period as follows:

28 November 2005	-	Mr I J Gordon resigned as a director
10 March 2006	-	Mr A T Harris resigned as a director
	-	Mr D P Gordon appointed as a director
	-	Mr W F Manning was appointed a director

The Company has scheduled a complete performance evaluation for the Board and its members to take place in March 2007.

- Nomination Committee not in place. Nominations dealt with by the full Board.

Glengarry Resources Limited

Financial report – 30 June 2006

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This financial report covers both Glengarry Resources Limited as an individual entity and the Consolidated Entity consisting of Glengarry Resources Limited and its controlled entities.

Glengarry Resources Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Glengarry Resources Limited
35 Havelock Street
West Perth WA 6005

A description of the nature of the Consolidated Entity's operations and its principal activities is included in the Directors' Report, which is not part of this Financial Report.

The financial report was authorised for issue by the directors on 29 September 2006. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the Company. All press releases, financial reports and other information are available on our website: www.glengarry.com.au.

For queries in relation to our reporting please call (08) 9322 4929 or e-mail info@glengarrynl.com.au.

GLENGARRY RESOURCES LIMITED and controlled entities
Income Statements
For the year ended 30 June 2006

	Notes	Consolidated		Parent entity	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue	5	86,798	77,636	86,798	77,636
Other income	6	41,658	50,004	41,658	50,004
Employee benefits expense	7	(380,695)	(271,399)	(380,695)	(271,399)
Depreciation and amortisation expenses	7	(7,972)	(12,480)	(7,972)	(12,480)
Write down of exploration and evaluation	7	(1,272,882)	(582,628)	(1,272,882)	(582,628)
Write down of investments	7	-	(22,859)	-	(22,859)
Consultancy costs		(77,866)	(74,712)	(77,866)	(74,712)
Insurance costs		(39,289)	(40,238)	(39,289)	(40,238)
Office accommodation expenses		(36,220)	(37,388)	(36,220)	(37,388)
Shareholder expenses		(40,864)	(18,372)	(40,864)	(18,372)
Professional fees		(30,164)	(37,700)	(30,164)	(37,700)
Stock Exchange fees		(14,584)	(8,249)	(14,584)	(8,249)
Other expenses from ordinary activities		(155,356)	(123,821)	(155,356)	(123,821)
Loss before income tax		(1,927,436)	(1,102,206)	(1,927,436)	(1,102,206)
Income tax expense	8	-	-	-	-
Net loss for the year		(1,927,436)	(1,102,206)	(1,927,436)	(1,102,206)
Loss attributable to members of Glengarry Resources Limited	20	(1,927,436)	(1,102,206)	(1,927,436)	(1,102,206)
		Cents	Cents		
Basic and diluted loss per share	33	(1.04)	(0.75)		

The above Income Statements should be read in conjunction with the accompanying notes.

GLENGARRY RESOURCES LIMITED and controlled entities
Balance Sheets
As at 30 June 2006

	Notes	Consolidated		Parent entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	9	1,475,251	1,186,288	1,475,251	1,186,288
Receivables	10	78,575	87,486	78,575	87,486
Non-current assets classified as held for sale	11	600,000	-	600,000	-
Total current assets		2,153,826	1,273,774	2,153,826	1,273,774
Non-current assets					
Other financial assets	14	-	21,571	-	21,571
Exploration and evaluation	15	2,212,338	2,619,488	2,212,338	2,619,488
Plant and equipment	16	44,791	18,112	44,791	18,112
Total non-current assets		2,257,129	2,659,171	2,257,129	2,659,171
Total assets		4,410,955	3,932,945	4,410,955	3,932,945
Current liabilities					
Trade and other payables	17	245,964	77,355	245,964	77,355
Total current liabilities		245,964	77,355	245,964	77,355
Total liabilities		245,964	77,355	245,964	77,355
Net assets		4,164,991	3,855,590	4,164,991	3,855,590
Equity					
Contributed equity	18	9,246,778	7,071,146	9,246,778	7,071,146
Reserves	19	70,090	8,885	70,090	8,885
Accumulated losses	20	(5,151,877)	(3,224,441)	(5,151,877)	(3,224,441)
Total equity	21	4,164,991	3,855,590	4,164,991	3,855,590

The above Balance Sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

For the year ended 30 June 2006

	Notes	Consolidated		Parent entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Total equity at the beginning of the financial year		3,855,590	3,866,292	3,855,590	3,866,292
Loss for the year		(1,927,436)	(1,102,206)	(1,927,436)	(1,102,206)
Total recognised income and expense for the year		(1,927,436)	(1,102,206)	(1,927,436)	(1,102,206)
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity net of transaction costs	18	2,175,632	1,082,619	2,175,632	1,082,619
Employee options	19	61,205	8,885	61,205	8,885
Total equity at the end of the financial year		4,164,991	3,855,590	4,164,991	3,855,590

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Cash Flow Statements

For the year ended 30 June 2006

	Notes	Consolidated		Parent entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Cash flows from operating activities					
Sundry income received (inclusive of goods and services tax)		-	112,670	-	112,670
Payments to suppliers and employees (inclusive of goods and services tax)		(736,181)	(714,137)	(736,181)	(714,137)
Interest received		80,574	72,457	80,574	72,457
Net cash outflow from operating activities	32	(655,607)	(529,010)	(655,607)	(529,010)
Cash flows from investing activities					
Payments for plant and equipment		(6,014)	(2,417)	(6,014)	(2,417)
Refunds (payments) for security deposits		13,500	(22,500)	13,500	(22,500)
Exploration and evaluation expenditure		(1,301,777)	(981,000)	(1,301,777)	(981,000)
Proceeds from sale of plant and equipment		-	17,728	-	17,728
Proceeds from sale of investments		63,229	146,802	63,229	146,802
Proceeds from sale of tenements		-	250,000	-	250,000
Net cash outflow from investing activities		(1,231,062)	(591,387)	(1,231,062)	(591,387)
Cash flows from financing activities					
Proceeds from issues of securities	18(b)	2,317,304	1,105,188	2,317,304	1,105,188
Securities issue costs	18(b)	(141,672)	(22,569)	(141,672)	(22,569)
Net cash inflow from financing activities		2,175,632	1,082,619	2,175,632	1,082,619
Net increase (decrease) in cash held		288,963	(37,778)	288,963	(37,778)
Cash at the beginning of the financial year		1,186,288	1,224,066	1,186,288	1,224,066
Cash at the end of the financial year	9	1,475,251	1,186,288	1,475,251	1,186,288

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

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For the year ended 30 June 2006

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Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report contains separate financial statements for Glengarry Resources Limited as an individual entity and the consolidated entity consisting of Glengarry Resources Limited and its subsidiaries.

(a) Basis of preparation of the financial report

This general purpose financial report has been prepared in accordance with Australian Equivalents to International Financial Accounting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Glengarry Resources Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments Presentation and Disclosure*.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Glengarry Resources Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Glengarry Resources Limited 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 the Glengarry Resources Limited financial report for the year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group 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.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in Note 34.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Glengarry Resources Limited ("Company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Glengarry Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(g)).

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

(c) Segment reporting

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

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Interest revenue is recognised using the effective interest method.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

Tax consolidation legislation

Glengarry Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Glengarry Resources Limited, and the controlled entities in the tax consolidated group continue to account for their own deferred tax amounts. These tax amounts are measured as if each entity in the Group continued to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Glengarry Resources Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in Note 8.

Any difference between amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(f) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

(g) Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(h) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 120 days from the date of recognition.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(l) Investments and other financial assets

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

From 1 July 2005

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

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

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

(m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

(n) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Machinery	10-15 years
- Vehicles	3-5 years
- Furniture, fittings and equipment	3-8 years

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(q) Employee benefits

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

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

(ii) Long service leave

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

(iii) Retirement benefit obligations

The Group contributes to various defined contribution funds for its employees.

Contributions to the defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Employee Incentive Scheme.

Shares and options granted before 7 November 2002 and/or vested before 1 January 2005

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

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

Shares and options granted after 7 November 2002 and vested after 1 January 2005

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

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

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

The market value of shares issued to employees for no cash consideration under the Employee Incentive Scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(r) Contributed equity

Ordinary shares are classified as equity.

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

(s) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(t) Financial instrument transaction costs

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Group was immaterial.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

(u) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by or on behalf of the consolidated entity is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation.

Exploration and evaluation expenditure for each area of interest, other than that acquired from the purchase of another mining Company, is carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Expenditure which fails to meet at least one of the conditions outlined above is written off, furthermore, the directors regularly review the carrying value of exploration and evaluation expenditure and make write downs if the values are not expected to be recoverable.

Identifiable exploration assets acquired from another mining Company are recognised as assets at their cost of acquisition, as determined by the requirements of AASB 6 *Exploration for and Evaluation of Mineral Resources*. Exploration assets acquired are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions referred to in AASB 6 is met.

Exploration and evaluation expenditure incurred subsequent to acquisition in respect of an exploration asset acquired, is accounted for in accordance with the policy outlined above for exploration expenditure incurred by or on behalf of the entity.

Acquired exploration assets are not written down below acquisition cost until such time as the acquisition cost is not expected to be recovered.

When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off.

Expenditure is not carried forward in respect of any area of interest/mineral resource unless the Company's rights of tenure to that area of interest are current.

(v) Goods and services tax (GST)

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

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

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

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

(w) New accounting standards and UIG interpretations

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006. There are no anticipated changes to Glengarry Resources Limited's accounting policies in future periods as a result of these changes. Below is a summary of recently amended or issued Accounting Standards relevant to Glengarry Resources Limited:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Company
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-4	AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 1028: <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-5	AASB 1: <i>First-time adoption of AIFRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings Per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007

Notes to the Financial Statements
For the year ended 30 June 2006

Note 1. Summary of Significant Accounting Policies (continued)

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Company
New standard	AASB 7: <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

Note 2. Financial risk management

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

Risk management is carried out by the full Board of Directors. The Board identifies and evaluates financial risks in close co-operation with management and provides written principles for overall risk management. The Board considers that there is no exposure to market or credit risk.

(i) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, prudent oversight of future funding requirements and maintaining ongoing contact to facilitators of further funding.

(ii) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

Note 3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

- *Exploration and evaluation expenditure*

The Company has carrying balances for exploration and evaluation. Each year the Company assesses whether these balances have suffered any impairment, in accordance with the accounting policy stated in Note 1(h).

Notes to the Financial Statements
For the year ended 30 June 2006

Note 4. Segment information

(a) *Business segments*

The Consolidated Entity operates predominantly in one industry. Its principal activities are those of prospecting and mineral exploration.

(b) *Geographical segments*

The Consolidated Entity operates only in Australia.

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$

Note 5. Revenue

Other revenue

Interest received	80,932	72,407	80,932	72,407
Tenement cost recoveries	5,866	5,130	5,866	5,130
Expenses recouped	-	99	-	99
	86,798	77,636	86,798	77,636

Note 6. Other income

Other income

Net gain on sale of available-for-sale financial assets	41,658	50,004	41,658	50,004
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Note 7. Expenses

Loss before income tax includes the following specific expenses

Net loss on disposal of plant and equipment	-	10,029	-	10,029
Depreciation				
Plant and equipment	7,972	12,480	7,972	12,480
Exploration and evaluation expenditure written off	1,272,882	582,628	1,272,882	582,628
Write down of investments to recoverable amount	-	22,859	-	22,859
Rental expense relating to operating leases	36,220	37,388	36,220	37,388
Employee benefits expense				
Salaries, fees and other benefits	497,591	473,591	497,591	473,591
Superannuation	43,244	44,323	43,244	44,323
Share-based payments	61,205	8,885	61,205	8,885
Amount capitalised	(221,345)	(255,400)	(221,345)	(255,400)
Net employee benefits expense	380,695	271,399	380,695	271,399

Notes to the Financial Statements
For the year ended 30 June 2006

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Note 8. Income tax				
(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-
Income tax expense attributable to:				
Profit from continuing operations	-	-	-	-
Deferred income tax expense included in income tax expense comprises:				
(Decrease)/increase in deferred tax assets	(122,231)	31,032	(122,231)	31,032
Decrease/(increase) in deferred tax liabilities	122,231	(31,032)	122,231	(31,032)
	-	-	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss from continuing operations before income tax expense	(1,927,436)	(1,102,206)	(1,927,436)	(1,102,206)
Tax at the Australian tax rate of 30% (2005 – 30%)	(578,230)	(330,662)	(578,230)	(330,662)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share-based payments	18,361	2,665	18,361	2,665
Sundry items	(1,669)	10,430	(1,669)	10,430
	(561,538)	(317,567)	(561,538)	(317,567)
Current year tax assets not recognised	561,538	317,567	561,538	317,567
Income tax expense	-	-	-	-
	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$

Notes to the Financial Statements
For the year ended 30 June 2006

Note 8. Income tax (continued)

The tax losses comprise temporary differences attributable to:

Deferred tax assets

Employee benefits	7,501	10,176	7,501	10,176
Tax losses	662,045	781,601	662,045	781,601
	669,546	791,777	669,546	791,777

Movements

Opening balance	791,777	760,745	791,777	760,745
Credit/(charge) to the income statement	(122,231)	31,032	(122,231)	31,032
Closing balance at 30 June	669,546	791,777	669,546	791,777

Deferred tax liabilities

Exploration expenditure	663,701	785,846	663,701	785,846
Prepayments	5,845	5,931	5,845	5,931
Set off of deferred tax assets pursuant to set off provisions	669,546	791,777	669,546	791,777
	(669,546)	(791,777)	(669,546)	(791,777)
	-	-	-	-

Movements

Opening balance	791,777	760,745	791,777	760,745
Credit/(charge) to the income statement	122,231	(31,032)	122,231	(31,032)
Closing balance at 30 June	669,546	791,777	669,546	791,777

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	21,869,269	19,892,882	21,869,269	19,892,882
Potential tax benefit @ 30%	6,560,781	5,967,865	6,560,781	5,967,865

(d) Deferred tax assets not recognised relate to the following:

Deferred tax assets

Tax losses	6,539,729	5,868,761	6,539,729	5,868,761
Other temporary differences	21,052	99,104	21,052	99,104
Net deferred tax assets	6,560,781	5,967,865	6,560,781	5,967,865

(e) Tax consolidation legislation

Glengarry Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2004. The accounting policy in relation to this legislation is set out in note 1(e).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Glengarry Resources Limited.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 8. Income tax (continued)

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Glengarry Resources Limited for any current tax payable assumed and are compensated by Glengarry Resources Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Glengarry Resources Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$

Note 9. Current assets – Cash assets

Cash at bank and on hand	28,815	7,080	28,815	7,080
Deposits at call	348,119	82,617	348,119	82,617
Bill of exchange	1,098,317	1,096,591	1,098,317	1,096,591
	1,475,251	1,186,288	1,475,251	1,186,288

Deposits at call

The deposits are bearing floating interest rates between 4.5% and 4.75% (2005 – 4.6% and 5.41%).

At 30 June 2006 the Bill of Exchange bore an interest rate of 5.73%.

Note 10. Current assets – Receivables

Other receivables	6,590	1,766	6,590	1,766
Security deposits	52,500	66,000	52,500	66,000
Prepayments	19,485	19,720	19,485	19,720
	78,575	87,486	78,575	87,486

Note 11. Current assets – Non-current assets classified as held for sale

Mineral tenements	600,000	-	600,000	-
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Note 12. Non-current assets – Receivables

Loans to controlled entities	-	-	4,935,255	4,935,255
Less: Provision for non-recovery	-	-	(4,935,255)	(4,935,255)
	-	-	-	-

Notes to the Financial Statements
For the year ended 30 June 2006

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Note 13. Non-current assets - Available-for-sale financial assets				
At the beginning of the year	-	-	-	-
Adjustment on adoption of AASB 132 and AASB 139	21,571	-	21,571	-
Revaluation transferred to equity	13,005	-	13,005	-
Disposals (sale)	(34,576)	-	(34,576)	-
At end of year	-	-	-	-

Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards of 1 July 2005:

- equity securities with a carrying amount of \$21,571 that were classified in the balance sheet under previous AGAAP as other financial assets were designated and reclassified as available-for-sale financial assets; and
- an adjustment was recognised as the carrying value represented measurement to fair value of assets that under previous AGAAP had been measured at cost.

Note 14. Non-current-assets – Other financial assets

Equity securities	-	21,571	-	21,571
Shares in controlled entities - at cost (Note 28)	-	-	2,205,010	2,205,010
Less: Provision for non-recovery	-	-	(2,205,010)	(2,205,010)
	-	21,571	-	21,571

Notes to the Financial Statements
For the year ended 30 June 2006

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$

Note 15. Non-current assets – Exploration and evaluation assets

Exploration and evaluation

Exploration and evaluation - at cost less amounts written off

2,212,338	2,619,488	2,212,338	2,619,488
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Reconciliation

Reconciliation of the carrying amounts of exploration and evaluation at the beginning and end of the current and previous financial year are set out below.

Exploration and evaluation

At the beginning of the financial year	2,619,488	2,515,995	2,619,488	2,515,995
Expenditure during the financial year	1,465,732	908,061	1,465,732	908,061
Sale of mineral tenements	-	(221,940)	-	(221,940)
Reclassified as non-current assets classified as held-for-sale	(600,000)	-	(600,000)	-
Expenditure written off	(1,272,882)	(582,628)	(1,272,882)	(582,628)
At the end of the financial year	2,212,338	2,619,488	2,212,338	2,619,488

The ultimate recoupment of exploration and evaluation expenditure carried forward is dependent on successful development and commercial exploitation or, alternatively, sale of the respective project areas.

Note 16. Non-current assets – Plant and equipment

Plant and equipment

Plant and equipment -- at cost	155,987	126,248	155,987	126,248
Less: Accumulated depreciation	(111,196)	(108,136)	(111,196)	(108,136)
	44,791	18,112	44,791	18,112

Non-current assets pledged as security

Non-current assets are not pledged as security by either the parent entity or its controlled entities.

Reconciliation

Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year are set out below.

Plant and equipment

At the beginning of the financial year	18,112	55,932	18,112	55,932
Additions	35,193	2,417	35,193	2,417
Disposals	(542)	(27,757)	(542)	(27,757)
Depreciation expense (Note 7)	(7,972)	(12,480)	(7,972)	(12,480)
At the end of the financial year	44,791	18,112	44,791	18,112

Notes to the Financial Statements
For the year ended 30 June 2006

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$

Note 17. Current liabilities – Payables

Trade and other creditors	219,859	20,629	219,859	20,629
Accrued expenses	1,101	22,807	1,101	22,807
Employee entitlements	25,004	33,919	25,004	33,919
	245,964	77,355	245,964	77,355

Note 18. Contributed equity

	Notes	Parent entity		Parent entity	
		2006	2005	2006	2005
		Shares	Shares	\$	\$
(a) Share capital					
Ordinary shares					
Fully paid		208,966,528	157,883,938	8,720,815	6,545,183
Option issue premium		-	-	525,963	525,963
(b)		208,966,528	157,883,938	9,246,778	7,071,146

(b) Movements in ordinary share capital

Date	Details	Notes	Shares No.	Issue price \$	\$
1 July 2004	Balance	(f)(i)	126,307,151		5,988,527
1 October 2004	Rights Issue	(f)(i)	11,648,158	0.035	407,686
8 November 2004	Rights Issue	(f)(i)	2,244,817	0.035	78,569
24 November 2004	Rights Issue	(f)(i)	1,700,000	0.035	59,500
3 December 2004	Rights Issue	(f)(i)	5,036,666	0.035	176,283
16 December 2004	Rights Issue	(f)(i)	10,947,146	0.035	383,150
	Less: Transaction costs arising on placement of shares				(22,569)
1 July 2005	Balance		157,883,938		7,071,146
12 September 2005	Placement of shares	(f)(ii)	23,682,590	0.04	947,304
10 March 2006	Placement of shares	(f)(iii)	27,000,000	0.05	1,350,000
10 March 2006	Exercise of options	(f)(iv)	400,000	0.05	20,000
	Less: Transaction costs arising on placement of shares				(141,672)
			208,966,528		9,246,778

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Employee incentive scheme

Information relating to the Employee Incentive Scheme, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 26.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 18. Contributed equity (continued)

(e) Movements in listed options

	2006 Options	Parent entity 2005 Options
Balance at the beginning of the financial year	-	54,685,775
Exercised during the year	-	-
Expired	-	(54,685,775)
Balance at the end of the financial year	-	-

Listed options granted on 12 June 2002 expired 31 March 2005.

(f) Ordinary share issues

- (i) On 24 August 2004 the Company invited its shareholders to subscribe to a rights issue of 31,576,787 ordinary shares at an issue price of 3.5 cents per share on the basis of 1 share for every 4 fully paid ordinary shares held. The issue was fully subscribed.
- (ii) On 12 September 2005 the Company placed 23,682,590 ordinary shares to institutional and sophisticated investors.
- (iii) On 10 March 2006 the Company placed 27,000,000 ordinary shares to institutional and sophisticated investors.
- (iv) On 10 March 2006 the Company issued 400,000 ordinary shares to employees as a result of the exercise of options issued under the Employee Share Option Plan.

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Share based payments reserve	70,090	8,885	70,090	8,885
Available-for-sale investments revaluation reserve	-	-	-	-
	70,090	8,885	70,090	8,885

Movements in reserves

<i>Share based payments reserve</i>				
Balance at the beginning of the financial year	8,885	-	8,885	-
Option expense	61,205	8,885	61,205	8,885
	70,090	8,885	70,090	8,885
<i>Available-for-sale investments revaluation reserve</i>				
Balance at the beginning of the financial year	-	-	-	-
Revaluation	13,005	-	13,005	-
Transfer to net profit	(13,005)	-	(13,005)	-
Balance at the end of the financial year	-	-	-	-

Notes to the Financial Statements
For the year ended 30 June 2006

Note 19. Reserves (continued)

Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

Available-for-sale investments revaluation reserve

Changes in the fair value of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve as described above. Amounts are recognised in profit and loss when the associated assets are sold or impaired.

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$

Note 20. Accumulated losses

Accumulated losses at the beginning of the financial year	(3,224,441)	(2,122,235)	(3,224,441)	(2,122,235)
Net loss attributable to members of Glengarry Resources Limited	(1,927,436)	(1,102,206)	(1,927,436)	(1,102,206)
Accumulated losses at the end of the financial year	(5,151,877)	(3,224,441)	(5,151,877)	(3,224,441)

Note 21. Equity

Total equity at the beginning of the financial year	3,855,590	3,866,292	3,855,590	3,866,292
Loss for the year	(1,927,436)	(1,102,206)	(1,927,436)	(1,102,206)
Increase in reserves	61,205	8,885	61,05	8,885
Transactions with owners as owners:				
Contributions of equity, net of transaction costs	2,175,632	1,082,619	2,175,632	1,082,619
Total equity at the end of the financial year	4,164,991	3,855,590	4,164,991	3,855,590

Note 22. Key management personnel disclosures

(a) Directors

The following persons were directors of Glengarry Resources Limited during the financial year:

Chairman - non-executive
K G McKay

Executive directors
D R Richards, Managing Director

Non-executive directors
D P Gordon (from 10 March 2006)
W F Manning (from 10 March 2006)
I J Gordon (resigned effective 28 November 2005)
A T Harris (retired 10 March 2006)

Notes to the Financial Statements
For the year ended 30 June 2006

Note 22. Key management personnel disclosures (continued)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, during the financial year:

Name	Position	Employer
K M Seymour	Exploration Manager	Glengarry Resources Limited
D J Kelly	Joint Company Secretary/Chief Financial Officer	Mosman Management Pty Ltd
J P Burns	Joint Company Secretary/Company Accountant	Mosman Management Pty Ltd

Mr Seymour was also a key management person during the year ended 30 June 2005. Mr Kelly and Ms Burns were appointed on 10 March 2006.

(c) Key management personnel compensation

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short term employee benefits	463,883	457,365	463,883	457,365
Post-employment benefits	36,789	33,285	36,789	33,285
Share-based payments	42,020	8,885	42,020	8,885
	542,692	499,535	542,692	499,535

The Company has taken advantage of the relief provided by the *Corporations Regulations* and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found on pages 8 to 14.

(d) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report on pages 12 to 14.

Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Glengarry Resources Limited and other key management personnel of the consolidated entity, including their personally-related parties, are set out below.

2006	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Name						
Directors of Glengarry Resources Limited						
K G McKay	-	-	-	-	-	-
D R Richards	1,500,000	2,000,000	-	(1,000,000)	2,500,000	1,000,000
D P Gordon	-	-	-	-	-	-
W F Manning	-	-	-	-	-	-
A T Harris	-	-	-	-	-	-
I J Gordon	-	-	-	-	-	-
Other key management personnel of the group						
K M Seymour	1,500,000	1,000,000	-	(500,000)	2,000,000	1,250,000
D J Kelly	-	800,000	-	-	800,000	200,000
J P Burns	-	600,000	-	-	600,000	150,000

No options were vested and unexercisable at the end of the financial year.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 22. Key management personnel disclosures (continued)

2005						
Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<i>Directors of Glengarry Resources Limited</i>						
K G McKay	-	-	-	-	-	-
D R Richards	1,000,000	1,000,000	-	(500,000)	1,500,000	1,500,000
A T Harris	10,000,000	-	-	(10,000,000)	-	-
I J Gordon	-	-	-	-	-	-
A J Alston	1,345,000	-	-	(1,345,000)	-	-
<i>Other key management personnel of the group</i>						
K M Seymour	-	1,500,000	-	-	1,500,000	1,500,000

Share holdings

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

2006				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<i>Directors of Glengarry Resources Limited</i>				
K G McKay	-	-	-	-
D R Richards	300,000	-	141,007	441,007
D P Gordon	-	-	-	-
W F Manning	-	-	-	-
A T Harris *	15,709,434	-	(15,709,434)	-
I J Gordon **	125,000	-	(125,000)	-
<i>Other key management personnel of the group</i>				
K M Seymour	500,000	-	-	500,000
D J Kelly	-	-	-	-
J P Burns	-	-	-	-

* A T Harris retired as a director on 10 March 2006.

** I J Gordon resigned as director on 28 November 2005.

2005				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<i>Directors of Glengarry Resources Limited</i>				
K G McKay	-	-	-	-
D R Richards	200,000	-	100,000	300,000
A T Harris	12,567,548	-	3,141,886	15,709,434
I J Gordon	-	-	125,000	125,000
A J Alston *	3,340,934	-	(3,340,934)	-
<i>Other key management personnel of the group</i>				
K M Seymour	-	-	500,000	500,000

* A J Alston resigned as a director on 17 September 2004.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 22. Key management personnel disclosures (continued)

(e) Loans to key management personnel

There are no loans made to directors or other key management personnel of Glengarry Resources Limited or the consolidated entity.

(f) Other transactions with key management personnel

Directors of Glengarry Resources Limited

A former director, Mr A T Harris and his wife are directors and shareholders of Havelock Corporate Services Proprietary which has provided corporate and secretarial services on normal commercial terms and conditions.

A former director, Mr I J Gordon and his wife are directors and shareholders of Resources Access Pty Ltd which has provided consulting services to Glengarry Resources Limited on normal commercial terms and conditions.

Other key management personnel

The Joint Company Secretary, Mr D J Kelly is a director and shareholder of Mosman Management Pty Ltd which has provided corporate and secretarial services on normal commercial terms and conditions.

Aggregate amounts of each of the above types of other transactions with directors of Glengarry Resources Limited:

	Parent entity	
	2006	2005
	\$	\$
Amounts recognised as expense		
Corporate and secretarial fees	71,791	71,584
Amounts recognised as non-current assets - exploration and evaluation expenditure		
Administration services	-	6,120
	Consolidated	
	2006	2005
	\$	\$
	Parent entity	
	2006	2005
	\$	\$

Note 23. Remuneration of auditors

During the year the following services were paid to the auditor of the parent entity:

Assurance services

Audit services

Fees paid to PricewaterhouseCoopers Australian firm:

Audit and review of financial reports and other audit work under the *Corporations Act 2001*

28,490	20,700	28,490	20,700
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Note 24. Contingent liabilities

The parent entity and consolidated entity had contingent liabilities at 30 June 2006 in respect of:

Guarantees

Guarantees given in respect of bank security bonds amounting to \$30,000 (2005 - \$74,000), secured by floating charge over the assets of the consolidated entities.

Cross guarantees given by Glengarry Resources Limited, Glengarry Mining NL, Lymcloud Pty Ltd, Diamantina Resources Pty Ltd and Plural.com Pty Ltd as described in Note 29. No deficiencies of assets exist in any of these companies except for amounts owed to Glengarry Resources Limited and these have been provided against.

No material losses are anticipated in respect of any of the above contingent liabilities.

Notes to the Financial Statements
For the year ended 30 June 2006

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Note 25. Commitments for expenditure				
Capital commitments				
Commitments for minimum expenditure on mining tenements contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	1,063,586	1,013,608	1,063,586	1,013,608
Later than one year but not later than 5 years	5,085,284	7,299,432	5,085,284	7,299,432
	6,148,870	8,313,040	6,148,870	8,313,040

The above commitments may be reduced by tenement withdrawals, concessions, exemptions, reductions and joint venture arrangements with third parties.

Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable, representing non-cancellable operating leases:

Within one year	17,948	35,020	17,948	35,020
Later than one year but not later than 5 years	-	17,948	-	17,948
	17,948	52,968	17,948	52,968

Note 26. Employee benefits

Employee benefit and related on-costs liabilities

Included in current liabilities - payables (Note 17)	25,004	33,919	25,004	33,919
Aggregate employee benefit and related on-costs liabilities	25,004	33,919	25,004	33,919

Employee numbers

Average number of employees during the financial year	8	8	8	8
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There are currently no liabilities for termination benefits that are expected to be settled more than 12 months from the reporting date.

Employee Incentive Scheme

The Employee Incentive Scheme ("the scheme") was approved by shareholders at the 2004 annual general meeting. All staff (including executive directors) are eligible to participate in the scheme.

Shares and options are issued on the following terms:

- Eligible participants shall not, unless the directors in their absolute discretion determine otherwise, participate in the scheme until they have qualified as an Eligible Participant for a period of at least six months.
- The entitlement from time to time of each Eligible Participant shall be determined by the directors in their absolute discretion based on the directors' assessment of length of service, remuneration level and the contribution the Eligible Participant will make to the long term performance of the Company, together with such other criteria as the directors consider appropriate in the circumstances.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 26. Employee benefits (continued)

- The maximum number of securities which may be issued pursuant to the scheme shall not be greater than 5% of the issued shares of the Company, from time to time.
- Options are granted under the plan for no consideration.
- Options granted under the plan carry no dividend or voting rights.
- When exercisable, each option is convertible into one ordinary share.

The exercise price of options is determined by the directors which is not less than 80% of market price on the date upon which the directors first resolved to grant the options. Amounts receivable on the exercise of options are recognised as share capital.

Set out below are summaries of options granted under the scheme.

Grant date	Expiry date	Exercise price	Balance at start of the year	Issued during the year	Exercised during the year	Lapsed during the year	Balance at end of the year
		\$	Number	Number	Number	Number	Number
Consolidated and parent entity - 2006							
8 March 2004	18 February 2006	0.10	500,000	-	-	(500,000)	-
8 March 2004	8 March 2006	0.05	600,000	-	(400,000)	(200,000)	-
6 October 2004	1 September 2005	0.05	500,000	-	-	(500,000)	-
11 February 2005	30 June 2006	0.10	500,000	-	-	(500,000)	-
6 October 2004	1 September 2006	0.10	500,000	-	-	-	500,000
6 October 2004	1 September 2007	0.15	500,000	-	-	-	500,000
11 February 2005	30 June 2007	0.15	500,000	-	-	-	500,000
10 April 2006	10 April 2011	0.11	-	1,450,000	-	-	1,450,000
10 April 2006	10 April 2011	0.13	-	1,100,000	-	-	1,100,000
10 April 2006	10 April 2011	0.15	-	2,200,000	-	-	2,200,000
			3,600,000	4,750,000	(400,000)	(1,700,000)	6,250,000
Consolidated and parent entity - 2005							
8 March 2004	8 March 2006	0.05	600,000	-	-	-	600,000
8 March 2004	18 February 2005	0.05	500,000	-	-	(500,000)	-
8 March 2004	18 February 2006	0.10	500,000	-	-	-	500,000
6 October 2004	1 September 2005	0.05	-	500,000	-	-	500,000
6 October 2004	1 September 2006	0.10	-	500,000	-	-	500,000
6 October 2004	1 September 2007	0.15	-	500,000	-	-	500,000
11 February 2005	30 June 2006	0.10	-	500,000	-	-	500,000
11 February 2005	30 June 2007	0.15	-	500,000	-	-	500,000
			1,600,000	2,500,000	-	(500,000)	3,600,000

Options exercised during the financial year and number of shares issued to employees on the exercise of options.

Exercise date	Fair value of shares at issue date	Consolidated		Parent entity	
		2006	2005	2006	2005
		No.	No.	No.	No.
7 March 2006	\$0.068	400,000	-	400,000	-

The fair value of shares issued on the exercise of options is the weighted average price at which the Company's shares were traded on the Australian Stock Exchange on the day prior to the exercise of the options.

Options vested at the reporting date	2,950,000	3,600,000	2,950,000	3,600,000
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Notes to the Financial Statements
For the year ended 30 June 2006

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$

Note 26. Employee benefits (continued)

Aggregate proceeds received from employees on the exercise of options and recognised as issued capital	20,000	-	20,000	-
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Fair value of shares issued to employees on the exercise of options as at their issue date	25,400	-	25,400	-
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Note 27. Related parties

Directors and specified executives

Disclosures relating to directors and other key management personnel are set out in Note 22.

Wholly-owned group

The wholly-owned group consists of Glengarry Resources Limited and its wholly-owned controlled entities: Glengarry Mining NL, Plural.com Pty Ltd, Diamantina Resources Pty Ltd and Lymcloud Pty Ltd. Ownership interests in these controlled entities are set out in Note 28.

There were no transactions between Glengarry Resources Limited and other entities in the wholly-owned group during the years ended 30 June 2006 and 2005.

Aggregate amounts receivable from entities in the wholly-owned group at balance date:

	Parent entity	
	2006	2005
	\$	\$
Non-current receivables (loans)	4,935,255	4,935,255
Less: Provision for non-recovery	(4,935,255)	(4,935,255)
	-	-

Ownership interests in related parties

Interests held in the following classes of related parties are set out in the following Notes:

- (a) Controlled entities – Note 28.
- (b) Joint ventures – Note 30.

Note 28. Investments in controlled entities

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2006	2005
			%	%
Lymcloud Pty Ltd	Australia	Ordinary	100	100
Plural.com Pty Ltd	Australia	Ordinary	100	100
Diamantina Resources Pty Ltd	Australia	Ordinary	100	100
Glengarry Mining NL	Australia	Ordinary	100	100

These controlled entities have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information see Note 29.

Notes to the Financial Statements

For the year ended 30 June 2006

Note 29. Deed of cross guarantee

Glengarry Resources Limited, Lymcloud Pty Ltd, Plural.com Pty Ltd, Diamantina Resources Pty Ltd and Glengarry Mining NL are parties to a deed of cross guarantee under which each Company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321, 01/1087, 02/0248 and 02/1017) issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Glengarry Resources Limited, they also represent the 'Extended Closed Group'.

A condensed consolidated income statement and a summary of movements in consolidated accumulated losses for the year ended 30 June 2006 of the Closed Group consisting of Glengarry Resources Limited, Lymcloud Pty Ltd, Plural.com Pty Ltd, Diamantina Resources Pty Ltd and Glengarry Mining NL has not been included because the position is the same as the consolidated income statements and the consolidated balance sheets.

Note 30. Interests in joint ventures

The consolidated entity has entered into joint ventures for gold and mineral exploration and has participating interests in those joint ventures as follows:

Joint venture name:	Parent entity	
	2006 %	2005 %
* Inningarra Joint Venture	100	100
** Snake Creek Joint Venture	100	100
*** Mt Guide Joint Venture	100	100

The consolidated entity is entitled to its percentage interest in the output of the joint ventures.

- * Newmont Tanami Pty Ltd earning 70%.
- ** Mount Isa Mines Limited earning 75%.
- *** Summit Resources (Aust) Pty Ltd earning 80%.

Note 31. Events occurring after reporting date

On 13 September 2006 the Company announced that it had completed a placement of 24,000,000 ordinary shares at 4.2 cents per share to sophisticated and institutional investors. The placement raised a total of \$1,008,000.

The Company also announced an offer to shareholders to participate in a Share Purchase Plan ("SPP"). Under the SPP, up to \$5,000 worth of shares was offered to each registered holder at the record date. The SPP is underwritten to the maximum amount allowable under the ASX Listing Rules. At the date of this report the SPP was not yet complete.

Other than set out above, No matter or circumstance has arisen since 30 June 2006 that has significantly affected, or may significantly affect:

- (a) the consolidated entity's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the consolidated entity's state of affairs in future financial years.

Notes to the Financial Statements
For the year ended 30 June 2006

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Note 32. Reconciliation of loss from ordinary activities after income tax to net cash outflow used in operating activities				
Operating loss after income tax	(1,927,436)	(1,102,206)	(1,927,436)	(1,093,321)
Depreciation and amortisation	7,972	12,480	7,972	12,480
Write down of investments	-	22,859	-	22,859
Carrying value of non-current assets written off	179	-	179	-
Exploration and evaluation expenditure written off	1,272,882	582,628	1,272,882	582,628
Non-cash employee benefits expense – share based payments	61,205	8,885	61,205	8,885
Profit on sale of available-for-sale financial assets	(41,658)	(50,004)	(41,658)	(50,004)
Change in operating assets and liabilities				
(Increase)/decrease in other receivables	(18,374)	50	(18,374)	50
Decrease(increase) in other operating assets	13,785	51	13,785	51
(Decrease)/increase in trade creditors and provisions	(24,162)	(3,753)	(24,162)	(3,753)
Net cash used in operating activities	(655,607)	(529,010)	(655,607)	(529,010)

Note 33. Loss per share

	Consolidated	
	2006	2005
	Cents	Cents
Basic and diluted loss per share	(1.04)	(0.75)

	Consolidated	
	2006	2004
	Number	Number

Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share.	185,312,750	146,290,895
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There were a further 6,250,000 (2005: 3,600,000) potential ordinary shares (options) not considered to be dilutive.

Losses used in calculating losses per share

Net loss	(1,927,436)	(1,102,206)
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Notes to the Financial Statements
For the year ended 30 June 2006

Note 34. Explanation of transition to Australian equivalent of IFRSs

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

	Notes	Previous AGAAP \$	Consolidated Effect of transition to AIFRS \$	AIFRS \$	Previous AGAAP \$	Parent entity Effect of transition to AIFRS \$	AIFRS \$
ASSETS							
Current assets							
Cash and cash equivalents	4(e)	227,197	996,869	1,224,066	227,197	996,869	1,224,066
Receivables	4(e)	1,042,135	(977,048)	65,087	1,042,135	(977,048)	65,087
Other	4(f)(i)	19,821	(19,821)	-	19,821	(19,821)	-
Total current assets		1,289,153	-	1,289,153	1,289,153	-	1,289,153
Non-current assets							
Other financial assets		159,259	-	159,259	159,259	-	159,259
Plant and equipment		55,932	-	55,932	55,932	-	55,932
Exploration and evaluation		2,515,995	-	2,515,995	2,515,995	-	2,515,995
Total non-current assets		2,731,186	-	2,731,186	2,731,186	-	2,731,186
Total assets		4,020,339	-	4,020,339	4,020,339	-	4,020,339
LIABILITIES							
Current liabilities							
Payables		154,047	-	154,047	154,047	-	154,047
Total current liabilities		154,047	-	154,047	154,047	-	154,047
Total liabilities		154,047	-	154,047	154,047	-	154,047
Net assets		3,866,292	-	3,866,292	3,866,292	-	3,866,292
EQUITY							
Contributed equity		5,988,527	-	5,988,527	5,988,527	-	5,988,527
Reserves		-	-	-	-	-	-
Accumulated losses		(2,122,235)	-	(2,122,235)	(2,122,235)	-	(2,122,235)
Total equity		3,866,292	-	3,866,292	3,866,292	-	3,866,292

Notes to the Financial Statements
For the year ended 30 June 2006

Note 34. Explanation of transition to Australian equivalent of IFRSs (continued)

(b) At the end of the reporting period under previous AGAAP: 30 June 2005

		Previous AGAAP \$	Consolidated Effect of transition to AIFRS \$	AIFRS \$	Previous AGAAP \$	Parent entity Effect of transition to AIFRS \$	AIFRS \$
Notes							
ASSETS							
Current assets							
Cash and cash equivalents	4(e)	89,697	1,096,591	1,186,288	89,697	1,096,591	1,186,288
Receivables	4(e)	1,164,307	(1,076,821)	87,486	1,164,307	(1,076,821)	87,486
Other	4(f)(ii)	19,770	(19,770)	-	19,770	(19,770)	-
Total current assets		1,273,774	-	1,273,774	1,273,774	-	1,273,774
Non-current assets							
Other financial assets		21,571	-	21,571	21,571	-	21,571
Plant and equipment		18,112	-	18,112	18,112	-	18,112
Exploration and evaluation		2,619,488	-	2,619,488	2,619,488	-	2,619,488
Total non-current assets		2,659,171	-	2,659,171	2,659,171	-	2,659,171
Total assets		3,932,945	-	3,932,945	3,932,945	-	3,932,945
LIABILITIES							
Current liabilities							
Payables		77,355	-	77,355	77,355	-	77,355
Total current liabilities		77,355	-	77,355	77,355	-	77,355
Total liabilities		77,355	-	77,355	77,355	-	77,355
Net assets		3,855,590	-	3,855,590	3,855,590	-	3,855,590
EQUITY							
Contributed equity		7,071,146	-	7,071,146	7,071,146	-	7,071,146
Reserves	4(a)(ii)	-	8,885	8,885	-	8,885	8,885
Accumulated losses	4(a)(ii)	(3,215,556)	(8,885)	(3,224,441)	(3,215,556)	(8,885)	(3,224,441)
Total equity		3,855,590	-	3,855,590	3,855,590	-	3,855,590

Notes to the Financial Statements
For the year ended 30 June 2006

Note 34. Explanation of transition to Australian equivalent of IFRSs (continued)

(2) Reconciliation of loss under previous AGAAP to loss under Australian Equivalents to IFRSs (AIFRS)

Reconciliation of loss for the year ended 30 June 2005

	Notes	Previous AGAAP \$	Consolidated Effect of transition to AIFRS \$	AIFRS \$	Previous AGAAP \$	Parent Entity Effect of transition to AIFRS \$	AIFRS \$
Revenue	4(c)(iii)	492,166	(414,530)	77,636	492,166	(414,530)	77,636
Other income	4(c)(iii)	-	50,004	50,004	-	50,004	50,004
Employee benefits expense	4(a)(iii)	(262,514)	(8,885)	(271,399)	(262,514)	(8,885)	(271,399)
Depreciation and amortisation expense		(12,480)	-	(12,480)	(12,480)	-	(12,480)
Write down of exploration and evaluation		(582,628)	-	(582,628)	(582,628)	-	(582,628)
Write down of investments		(22,859)	-	(22,859)	(22,859)	-	(22,859)
Carrying amount of non-current assets	4(c)(iii)	(364,526)	364,526	-	(364,526)	364,526	-
Consultancy costs		(74,712)	-	(74,712)	(74,712)	-	(74,712)
Insurance costs		(40,238)	-	(40,238)	(40,238)	-	(40,238)
Rent of premises		(37,388)	-	(37,388)	(37,388)	-	(37,388)
Shareholder expenses		(18,372)	-	(18,372)	(18,372)	-	(18,372)
Professional fees		(37,700)	-	(37,700)	(37,700)	-	(37,700)
Other expenses		(132,070)	-	(132,070)	(132,070)	-	(132,070)
Loss before income tax		(1,093,321)	(8,885)	(1,102,206)	(1,093,321)	(8,885)	(1,102,206)
Income tax expense		-	-	-	-	-	-
Loss for the year		(1,093,321)	(8,885)	(1,102,206)	(1,093,321)	(8,885)	(1,102,206)
Loss attributable to members of Glengarry Resources Limited		(1,093,321)	(8,885)	(1,102,206)	(1,093,321)	(8,885)	(1,102,206)

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Share-based payments

Under AASB 2 *Share-based Payment* from 1 July 2004 the Group is required to recognise an expense for those options that were issued to employees under the Employee Incentive Scheme after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

(i) At 1 July 2004

There is no effect on the Group.

(ii) At 30 June 2005

For the Group there has been an increase in accumulated losses of \$8,885 and a corresponding increase in reserves.

(iii) For the year ended 30 June 2005

For the Group there has been an increase in employee benefits expense of \$8,885.

Notes to the Financial Statements
For the year ended 30 June 2006

Note 34. Explanation of transition to Australian equivalent of IFRSs (continued)

(b) Accumulated losses

The effect on accumulated losses of the changes set out above are as follows:

	Notes	Consolidated		Parent entity	
		1 July 2004 \$	30 June 2005 \$	1 July 2004 \$	30 June 2005 \$
Share-based payments	4(a)(iii)	-	(8,885)	-	(8,885)
Total adjustment		-	(8,885)	-	(8,885)
Attributable to:					
Equity holders of the parent		-	(8,885)	-	(8,885)

(c) Revenue disclosures in relation to the sale of non-current assets

Under AASB 118 *Revenue*, the net gain or loss on the sale of non-current assets is included in other income or other expense as appropriate. Under previous AGAAP, the gross proceeds from the sale of non-current assets were recognised as revenue and the carrying amount of the assets sold as an expense.

(i) At 1 July 2004

There is no effect on the group.

(ii) At 30 June 2005

There is no effect on the group.

(iii) For the year ended 30 June 2005

Revenue is reduced by \$414,350, the written down value of non-current assets sold expense is reduced by \$364,526 and other income is increased by \$50,004.

(d) Adjustments on transition to AASB132 *Financial Instruments: Disclosure and presentation* and AASB 139 *Financial Instruments: Recognition and Measurement: 1 July 2005*

Refer to Notes 1(k) and 1(l) for further information on the transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement on 1 July 2005*.

(e) Adjustments on transition to cash and cash equivalents

Cash equivalents are deemed to include bank endorsed bills of exchange which are readily convertible to cash on hand, have an insignificant risk of change of value and mature within three months of their maturity within a specified redemption date. Under this definition Bills of Exchange previously classified as receivables have been reclassified as cash and cash equivalents. Refer to Note 1(l).

(f) Adjustments on transactions to AASB 101 *Presentation of Financial Statements*

Receivables:

Under AGAAP, prepayments were classified as other current assets. Under AIFRS they have been reclassified into current receivables. The effect of this is:

(i) At 1 July 2004

An increase in receivables and decrease in other current assets of \$19,821.

(ii) At 30 June 2005

An increase in receivables and decrease in other current assets of \$19,770.

Directors' Declaration

In the directors' opinion:

- (a) The financial statements and notes set out on pages 28 to 65 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 8 to 13 of the Directors' Report comply with Accounting Standards AASB 124 *Related Party Disclosures and the Corporations Regulations 2001*; and
- (d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 28 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 29.

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

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



D R Richards
Managing Director

Perth
29 September 2006

Independent audit report to the members of Glengarry Resources Limited

Audit opinion

In our opinion:

1. the financial report of Glengarry Resources Limited:
 - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Glengarry Resources Limited and the Glengarry Resources Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
 - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001* and
2. the remuneration disclosures that are contained on pages 8 to 13 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remunerations disclosures and directors' responsibility

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

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 8 to 13 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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.

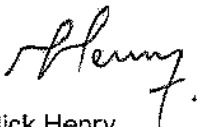
Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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



PricewaterhouseCoopers



Nick Henry
Partner

Perth
29 September 2006