

Scimitar Resources Limited

(ABN 22 102 912 783)

and Controlled Entities

Annual Financial Report

*For the Year Ended
30 June 2006*

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CORPORATE DIRECTORY

MANAGING DIRECTOR

Terence Topping

NON-EXECUTIVE DIRECTORS

Kent Hunter
Andrew McBain

COMPANY SECRETARY

Kent Hunter

PRINCIPAL & REGISTERED OFFICE

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AUDITORS

Rix Levy Fowler

SHARE REGISTRAR

Advanced Share Registry

STOCK EXCHANGE LISTING

Australian Stock Exchange
(Home Exchange: Perth, Western Australia)
Code: SIM

BANKERS

National Australia Bank
50 St Georges Terrace
PERTH WA 6000

DIRECTORS' REPORT

The directors of Scimitar Resources Limited submit herewith the financial report of the company and its controlled entities for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

1. DIRECTORS

The names and particulars of the directors of the company during or since the end of the financial year are:

Terence Topping	Managing Director
Kent Hunter	Non-Executive Director
Andrew McBain	Non-Executive Director
Matthew Gauci	Non-Executive Director (resigned 21 July 2006)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Hunter is a Chartered Accountant with over 16 years' corporate and company secretarial experience. He has been involved in the listing of ten junior gold and mineral exploration companies on ASX in the past three years with capital raisings exceeding \$70 million. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a non-executive director of Cazaly Resources Limited, Gryphon Minerals Limited, Venture Minerals and Elixir Petroleum Limited and is company secretary of three other ASX listed entities.

2. PRINCIPAL ACTIVITIES

The principal activity of the Consolidated Entity during the financial period was mineral exploration.

There were no significant changes in the nature of the Consolidated Entity's principal activities during the financial period.

3. OPERATING RESULTS

The loss of the Consolidated Entity after providing for income tax amounted to \$983,694 (2005: \$263,329).

4. DIVIDENDS PAID OR RECOMMENDED

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

5. REVIEW OF OPERATIONS

The Company has acquired an extensive portfolio of uranium projects in the Northern Territory, South Australia and Western Australia since listing in early 2005. Exploration of these projects commenced through the financial year with a review of previous exploration data and target generation. Field exploration then commenced with HOIST EM Surveys in the Lake Frome, Beadell and Yanrey Projects and also Air Core drilling at the Yanrey Project. The Company is well placed to take advantage of the recent significant rise in the uranium price and also renewed interest in the uranium sector.

Yanrey Uranium Project, WA.

The Yanrey project is situated 85 kilometres to the south of Onslow and covers sediments that are highly prospective for sandstone hosted roll front uranium mineralisation, similar to that at the adjacent Manyingee Uranium Deposit (Paladin Resources Ltd, 100%, ASX code PDN), with a published indicated and inferred resource of 12,078 tonnes at 0.08% U_3O_8 , which was successfully field trialled by Insitu Leach (ISL) mining during the 1980's.

In June 2006 the company commenced an Aircore drilling program at the Bennet Well prospect targeting sedimentary roll front uranium mineralisation amenable to Insitu Leach (ISL) mining. Encouraging results from the drill program of 2,181 metres included YNAC 019 1.2 m @ 511 ppm e U_3O_8 , YNAC 021 1.2 m @ 685 ppm e U_3O_8 , YNAC 022 3.2 m @ 600 ppm e U_3O_8 ; Including 1.0 m @ 1340 ppm e U_3O_8 . The drilling to date has confirmed the presence of a large, uranium mineralised palaeochannel system and extended the boundaries of the known mineralisation to the south and northwest. A further 2,500m drilling program commenced in September 2006 and further exploration drilling is expected in 2007.

Lake Frome Uranium Project, SA.

The company has nine granted Exploration Licences covering four project areas in the Lake Frome region of South Australia. The Frome Embayment is host to the Beverley Uranium Mine which has a resource of 21,000t U_3O_8 and the Honeymoon and Goulds Dam uranium deposits of 3,300t and 2,000t U_3O_8 respectively. High grade uranium mineralisation has also been intersected at the recently discovered Beverley Four Mile prospect held by Heathgate Resources and Alliance Resources. Exploration by the company has commenced utilising HOIST EM surveys to help identify sand sequences within the Lake Frome Project area. Exploration drilling of these targets will commence in Late 2006 or early 2007.

Eclipse Uranium Project, NT.

The Eclipse Uranium Project is comprised of four granted exploration licences and three licence applications covering 7,934 km² in the Ngalia Basin, 250 km north-west of Alice Springs. The Ngalia basin is a large 300 km long by 70 km wide east west trending intra-cratonic basin of fluvial sediments derived from the surrounding granites and metamorphic rocks of the Arunta Block. The basin was the centre of active uranium exploration during the 1970's and early 1980's, with the focus on roll front uranium mineralisation within the Mount Eclipse Sandstone and carnotite mineralisation within recent surficial and near surface calcrete horizons. A number of significant uranium occurrences and deposits are located within the basin including the Bigirlyi Uranium deposit, 3,763t U_3O_8 owned by Energy Metals Limited and the New Well deposit owned by Deep Yellow Ltd. The Project is prospective for sandstone hosted and near surface calcrete uranium mineralisation with shallow drilling expected to commence in late 2006.

Bardoc Tectonic Zone (BTZ) Project, WA. (Scimitar earning 65%)

The BTZ Project is located 70 km north of Kalgoorlie in Western Australia and is composed of three tenement groups at Goongarrie, Bardoc and Grafters. The project area, situated along the highly productive Bardoc Tectonic Zone, is easily accessed via the Kalgoorlie-Meekatharra Highway. The project is prospective for gold and nickel mineralisation.

6. FINANCIAL POSITION

The Consolidated Entity currently has \$1.45 million in cash assets which the Directors believe puts the Consolidated Entity in a sound financial position with sufficient capital to effectively explore its current landholdings.

7. BUSINESS STRATEGIES AND PROSPECTS FOR THE FORTHCOMING YEAR

The Consolidated Entity intends to continue its focus on the uranium sector, and to provide shareholders exposure to the sector through exploration, and project generation.

As exploration progresses the Consolidated Entity may decide to add projects to or divest projects from its current portfolio.

8. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the financial period:

- On 22 December 2005 the Company issued 300,000 employee options at \$0.305 exercisable on or before 22 December 2010.
- On 23 March 2006 the Company issued 3,333,333 ordinary shares at \$0.30 each to private investors.
- On 23 March 2006 the Company issued 1,111,111 40 cent options exercisable on or before 31 March 2008 to private investors.

Apart from the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

9. SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

10. FUTURE DEVELOPMENTS

The Consolidated Entity will continue its mineral exploration and development activity at and around its exploration projects with the object of commercialising its resources.

11. ENVIRONMENTAL ISSUES

The Consolidated Entity is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

12. INFORMATION ON DIRECTORS

Terence Topping	Managing Director	
Qualifications	BAppSc, B Sc (Hons), Finsia	
Experience	Mr Topping has over 12 years' experience in the management of listed public companies. Mr Topping was a founder of Taipan Resources NL which listed as a gold exploration company in 1993 and remained a director until June 2002. He was integral in the discovery of the Paulsens gold deposit (650,000 oz) which was the first significant gold deposit located in the western Ashburton Mineral Field. Mr Topping has an honours degree in Geology from the Queensland University of Technology, is a member of AusIMM and is an Associate of the Securities Institute of Australia. He is currently a non-executive director of Goldminco Corporation a Toronto Stock Exchange – VE listed gold and base metals exploration company. Mr Topping has not been a Director of any other ASX Listed company in the last 3 years.	
Interest in Shares	Fully Paid Ordinary Shares	3,020,001
Interest in Options	30 cents Options expiring 31 July 2007	1,500,000
Kent Hunter	Non-Executive Director	
Qualifications	B.Bus CA	
Experience	Mr Hunter is a Chartered Accountant with over 16 years' corporate and company secretarial experience. He has been involved in the listing of ten junior gold and mineral exploration companies on ASX in the past three years with capital raisings exceeding \$70 million. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a non-executive director of Cazaly Resources Limited (since 15 August 2003), Gryphon Minerals Limited (since 20 January 2004), Elixir Petroleum Limited (since 3 March 2004 and Venture Minerals Ltd (since 12 May 2006) and is company secretary of three other ASX listed entities. Mr Hunter has not been a Director of any other ASX Listed company in the last 3 years.	
Interest in Shares	Fully Paid Ordinary Shares	2,050,001
Interest in Options	30 cents Options expiring 31 July 2007	1,000,000
Andrew McBain	Non-Executive Director	
Experience	Mr McBain is the Managing Director of Australian Agricultural Contracts Ltd an unlisted public company involved in the development of a Managed Investments Scheme for the production of wheat and other grains. He is also a director of a number of other private companies involved in various industries. Mr McBain has not been a Director of any other ASX Listed company in the last 3 years.	
Interest in Shares	Fully Paid Ordinary Shares	750,001

13. REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Scimitar Resources Limited.

Remuneration Policy

The remuneration policy of Scimitar Resources Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The board of Scimitar Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as create goal congruence between directors and shareholders.

The board's policy for determining the nature and amount of remuneration for board members is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior staff members, was developed by the managing director and approved by the board after seeking professional advice from independent external consultants.

In determining competitive remuneration rates, the Board seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice is obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits

The Company is an exploration entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions, within the same industry. The Board however acquired and were issued shares as part of the terms of the Initial Public Offer. Board members have retained these securities which assist in aligning their objectives with overall shareholder value.

Options and performance incentives may be issued once in the event that the entity moves from exploration to producing entity, and key performance indicators such as profits and growth can be used as measurements for assessing Board performance.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9% and do not receive any other retirement benefits.

All remuneration paid to directors is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The managing director in consultation with independent advisors determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

13. REMUNERATION REPORT (CONT.)

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. This has been achieved by the issue of shares to the majority of the directors and executives to encourage the alignment of personal and shareholder interest.

Details of Remuneration for Year Ended 30 June 2006

The remuneration for each director of the Consolidated Entity during the year was as follows:

	SHORT-TERM BENEFITS			POST EMPLOYMENT		SHARE-BASED PAYMENTS		TOTAL
	Salary, Fees & Superannuation	Other	Non-Monetary	Super-annuation	Retirement Benefits	Equity	Options	\$
Directors								
Terence Topping – Managing Director (i)								
2006	142,992	-	-	-	-	-	-	142,992
2005	81,667	-	-	-	-	-	-	81,667
Kent Hunter – Non Executive Director (ii)								
2006	24,000	48,000	-	2,160	-	-	-	74,160
2005	10,000	55,009	-	900	-	-	-	65,909
Andrew McBain – Non Executive Director								
2006	15,000	-	-	1,350	-	-	-	16,350
2005	6,250	-	-	562	-	-	-	6,812
Mathew Gauci – Non Executive Director								
2006	15,000	-	-	1,350	-	-	-	16,350
2005	6,250	-	-	562	-	-	-	6,812
Total Remuneration Directors								
2006	196,992	48,000	-	4,860	-	-	-	249,852
2005	104,167	55,009	-	2,024	-	-	-	161,200

- i) An aggregate amount of \$142,992 (2005:\$81,667) was paid, or was due and payable to Kingswave Nominees Pty Ltd, a company controlled by Mr Terence Topping, for the provision of directorship and geological services to the Company.
- ii) An aggregate amount of \$48,000 (2005:\$55,009) was paid, or was due and payable to Mining Corporate Pty Ltd, a company controlled by Mr Kent Hunter, for the provision of company secretarial services and corporate compliance to the Company.

Employment Contracts of Directors and Senior Executives

The employment conditions of the Managing Director, Terence Topping is formalised in a contract of employment. Other than the Managing Director, there are no other executives to the Company. Mr Terence Topping's executive agreement with the Company is contracted at \$150,000 per annum for services provided as a managing director. The contract duration is one year commencing January 2005 with no provision for renewal. Renewal / extension of the contract is at the Board's discretion. Termination payments due are three months lieu of notice if the termination period is not worked out.

The employment contracts stipulate a range of one to three-month resignation periods. The Company may terminate an employment contract without cause by providing one to three months written notice or making payment in lieu of notice, based on the individual's annual salary component.

14. MEETINGS OF DIRECTORS

The number of directors' meetings (including committees) held during the financial year each director held office during the financial year and the number of meetings attended by each director are:

Director	Directors Meetings	
	Number Eligible to Attend	Meetings Attended
Terence Topping	9	9
Kent Hunter	9	9
Andrew McBain	9	9
Mathew Gauci	9	9

The Company does not have a formally constituted audit committee and remuneration committee as the board considers that the company's size and type of operation do not warrant such a committee.

15. INDEMNIFYING OFFICERS OR AUDITOR

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001 every Officer, auditor or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

16. OPTIONS***Options Granted to Executives and Directors***

There were no options granted to Directors or Executives during the year ending 30 June 2006.

Unissued Shares Under Option

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

Expiry Date	Exercise Price	Number of Shares
22 December 2010	\$0.305	300,000
26 April 2008	\$0.23	400,000
30 July 2007	\$0.30	3,500,000
31 March 2008	\$0.40	1,111,111

There have been no issue of ordinary shares as a result of the exercise of options during or since the end of the financial year.

17. PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or 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 any part of these proceedings.

The company was not a party to any such proceedings during the year.

18. AUDITORS INDEPENDENCE DECLARATION

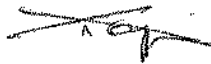
The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 12 of annual report.

19. NON AUDIT SERVICES

The board of directors is satisfied that the provision of non-audit services performed during the year by the Company's auditors is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

No other fees were paid or payable to the auditors for non-audit services performed during the year ended 30 June 2006.

Signed in accordance with a resolution of the Board of Directors.



Terence Topping
Managing Director

Perth, 27 September 2006



RIX LEVY FOWLER
CHARTERED BUSINESS ADVISORS

Partners
Phillip Rix FCA
Jon Cardich CA
Ranko Matić CA
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To The Board of Directors

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

This declaration is made in connection with our audit of the financial report of Scimitar Resources Limited and controlled entities for the financial year ended 30 June 2006 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to the audit.

Yours faithfully

RIX LEVY FOWLER
Chartered Business Advisors

RANKO MATIĆ
Partner

DATED at PERTH this 27th day of September 2006

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated	Company	
		30 June	30 June	30 June
	NOTE	2006	2006	2005
			\$	\$
Revenues	2	107,805	107,805	67,330
Administration expenses		(192,524)	(191,440)	(77,270)
Employee benefits expenses		(92,929)	(92,929)	(25,419)
Depreciation expenses		(8,054)	(8,054)	(782)
Borrowing costs		(1,829)	(1,829)	(2,909)
Consultancy expenses		(184,383)	(184,382)	(95,120)
Compliance and regulatory expenses		(34,599)	(34,599)	(14,730)
Occupancy expenses		(54,614)	(54,614)	(8,199)
Directors fees		(89,000)	(89,000)	(40,411)
Write-down of loan		-	-	(55,000)
Write off investments		(16,880)	(16,880)	
Exploration expenditure written off		(416,687)	(416,687)	
Other expenses from ordinary activities		-	-	(10,819)
		<u>-</u>	<u>-</u>	<u>-</u>
Loss before income tax expense	3	(983,694)	(982,609)	(263,329)
Income tax expense	6	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>
Net Loss		<u>(983,694)</u>	<u>(982,609)</u>	<u>(263,329)</u>
Basic earnings /(loss) per share (cents per share)	18	(3.12)	(3.11)	(1.49)
Diluted earnings /(loss) per share (cents per share)	18	(2.78)	(2.78)	(1.37)

The accompanying notes form part of these financial statements.

BALANCE SHEET
AS AT 30 JUNE 2006

	Note	Consolidated 2006 \$	Company 2006 \$	2005 \$
CURRENT ASSETS				
Cash and cash equivalents	7	1,440,752	1,440,752	1,960,285
Trade and other receivables	8	197,229	198,309	123,276
TOTAL CURRENT ASSETS		1,637,981	1,639,061	2,083,561
NON CURRENT ASSETS				
Property, plant and equipment	9	53,136	53,136	9,143
Financial assets	10	201,415	201,420	120,329
Exploration and evaluation expenditure	11	2,100,291	2,100,291	1,521,762
TOTAL NON CURRENT ASSETS		2,354,842	2,354,847	1,651,234
TOTAL ASSETS		3,992,823	3,993,908	3,734,795
CURRENT LIABILITIES				
Trade and other payables	12	318,527	318,527	140,531
Short-term borrowings	13	4,097	4,097	-
Short-term provisions	14	17,233	17,233	-
TOTAL CURRENT LIABILITIES		339,857	339,857	140,531
NON CURRENT LIABILITIES				
Long-term borrowings	13	14,620	14,620	-
TOTAL NON CURRENT LIABILITIES		14,620	14,620	-
TOTAL LIABILITIES		354,477	354,477	140,531
NET ASSETS		3,638,346	3,639,431	3,594,264
EQUITY				
Issued capital	15	4,801,600	4,801,600	3,861,601
Option reserve	16	87,777	87,777	-
Accumulated losses		(1,251,031)	(1,249,946)	(267,337)
TOTAL EQUITY		3,638,346	3,639,431	3,594,264

The accompanying notes form part of these financial statements.

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Consolidated 2006 \$	Company 2006 \$	2005 \$
Cash Flows from Operating Activities				
- Payments to suppliers and employees		(441,516)	(441,516)	(276,036)
- Interest received		86,458	86,458	57,854
- Borrowing costs		-	-	(436)
- Payments for exploration and evaluation		(894,754)	(894,754)	(394,432)
<i>Net cash used in operating activities</i>	19	<u>(1,249,812)</u>	<u>(1,249,812)</u>	<u>(613,050)</u>
Cash Flows from Investing Activities				
- Payment of loan		-	-	(110,000)
- Purchase of plant and equipment		(52,046)	(52,046)	(9,926)
- Purchase of exploration assets		(54,326)	(54,326)	(252,817)
- Purchase of equity investments		(108,125)	(108,130)	(120,329)
- Payment for subsidiary		-	5	-
<i>Net cash used in investing activities</i>		<u>(214,497)</u>	<u>(214,497)</u>	<u>(493,072)</u>
Cash Flows from Financing Activities				
- Proceeds from issue of shares		970,000	970,000	3,337,810
- Proceeds from sales of investments		34,777	34,777	-
- Payment for cost of issue of securities		(60,001)	(60,001)	(266,212)
<i>Net cash provided by financing activities</i>		<u>944,776</u>	<u>944,776</u>	<u>3,071,598</u>
Net decrease in cash held		(519,533)	(519,533)	1,965,476
Cash and cash equivalents at beginning of financial year		<u>1,960,285</u>	<u>1,960,285</u>	<u>(5,191)</u>
Cash and cash equivalents at end of financial year	7	<u>1,440,752</u>	<u>1,440,752</u>	<u>1,960,285</u>

The accompanying notes form part of these financial statements

**STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 30 JUNE 2006**

Consolidated

	Issued Capital	Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2004	3	(4,008)	-	(4,005)
Profit / (loss) attributable to members	-	(263,329)	-	(263,329)
Shares issued during the year	3,861,598	-	-	3,861,598
Transaction costs	-	-	-	-
Balance at 30 June 2005	3,861,601	(267,337)	-	3,594,264
Balance at 1 July 2005	3,861,601	(267,337)	-	3,594,264
Shares issued during the year	1,000,000	-	-	1,000,000
Options issued during the year	-	-	87,777	87,777
Transaction costs	(60,001)	-	-	(60,001)
Profit / (loss) attributable to members	-	(983,694)	-	(983,694)
Balance at 30 June 2006	4,801,600	(1,251,031)	87,777	3,638,346

Company

	Issued Capital	Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2004	3	(4,008)	-	(4,005)
Profit / (loss) attributable to members	-	(263,329)	-	(263,329)
Shares issued during the year	3,861,598	-	-	3,861,598
Transaction costs	-	-	-	-
Balance at 30 June 2005	3,861,601	(267,337)	-	3,594,264
Balance at 1 July 2005	3,861,601	(267,337)	-	3,594,264
Shares issued during the year	1,000,000	-	-	1,000,000
Options issued during the year	-	-	87,777	87,777
Transaction costs	(60,001)	-	-	(60,001)
Profit / (loss) attributable to members	-	(982,609)	-	(982,609)
Balance at 30 June 2006	4,801,600	(1,249,946)	87,777	3,639,431

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Basis of Preparation

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS').

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. The Company has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 and AASB 139 to the comparative period. The transition from previous GAAP to AIFRS has not effected the consolidated entity's financial performance, position and cash flows at the date of transition or at the latest date of reporting in the consolidated entity's most recent financial report under previous GAAP.

The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and available for-sale financial assets that have been measured at fair value.

(a) Principles of Consolidation

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

A list of controlled entities is contained in Note 26 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

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

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

(b) Income Tax

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

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

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

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

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity are not in the income statement.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(c) Exploration and evaluation expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- (i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
- (ii) exploration and evaluation activities in the area have not, at balance date, reached a stage which permit a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit in the year in which the decision to abandon the area is made.

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

(d) Plant and Equipment

Plant and equipment are measured on the cost basis.

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

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate	
	2006	2005
Plant and equipment	40.0%	40.0%
Office furniture and equipment	40.0%	40.0%

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the consolidated entity, are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a diminishing value basis over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

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

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

I. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(f) Earnings Per Share

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

(g) Revenue

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

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(h) Cash and cash equivalents

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

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

(i) Goods and Services Tax (GST)

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

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

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

(j) Recoverable amounts of Non-Current assets valued on cost basis

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

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are

largely independent of those from other assets or Companies assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(k) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

(l) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outlay of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(m) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(p) Share-based payment transactions

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

There is currently an Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

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

	Consolidated 2006 \$	Company 2006 \$	2005 \$
2. REVENUE			
Operating activities			
- interest received	83,177	83,177	67,330
- profit on sale of shares	24,628	24,628	-
Total Revenue	107,805	107,805	67,330

3. LOSS FOR THE YEAR

Expenses

Borrowing costs			
- other persons	1,829	1,829	2,909
Depreciation of non-current assets			
- plant and equipment	8,054	8,054	782
Rental expense on operating leases			
- minimum lease payments	37,131	37,131	8,199

4. KEY MANAGEMENT PERSONNEL COMPENSATION

a) Name and positions held of consolidated entity and company key management personnel in office at any time during the financial year are:

Mr Terence Topping	Managing Director	
Mr Kent Hunter	Non-Executive Director	
Mr Andrew McBain	Non-Executive Director	
Mr Matthew Gauci	Non-Executive Director	(resigned 21 July 2006)

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

4. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT)

b) Name and Details of the nature and amount of emoluments of each director are as follows:

	SHORT-TERM BENEFITS			POST EMPLOYMENT		SHARE-BASED PAYMENTS		TOTAL
	Salary, Fees & Superannuation	Other	Non-Monetary	Super-annuation	Retirement Benefits	Equity	Options	\$
Directors								
Terence Topping – Managing Director (i)								
2006	142,992	-	-	-	-	-	-	142,992
2005	81,667	-	-	-	-	-	-	81,667
Kent Hunter – Non Executive Director (ii)								
2006	24,000	48,000	-	2,160	-	-	-	74,160
2005	10,000	55,009	-	900	-	-	-	65,909
Andrew McBain – Non Executive Director								
2006	15,000	-	-	1,350	-	-	-	16,350
2005	6,250	-	-	562	-	-	-	6,812
Mathew Gauci – Non Executive Director								
2006	15,000	-	-	1,350	-	-	-	16,350
2005	6,250	-	-	562	-	-	-	6,812
Total Remuneration Directors								
2006	196,992	48,000	-	4,860	-	-	-	249,852
2005	104,167	55,009	-	2,024	-	-	-	161,200

- i) An aggregate amount of \$142,992 (2005:\$81,667) was paid, or was due and payable to Kingswave Nominees Pty Ltd, a company controlled by Mr Terence Topping, for the provision of directorship services to the Economic Entity.
- ii) An aggregate amount of \$48,000 (200:\$55,009) was paid, or was due and payable to Mining Corporate Pty Ltd, a company controlled by Mr Kent Hunter, for the provision of company secretarial services and ASX listing compliance to the Economic Entity.

b) Shareholdings

Number of Shares held by Directors and Executives

	Balance 1 July 05	Granted as remuneration	Received on exercise	Net Change - Other	Balance 30 June 06
Terence Topping	3,020,001	-	-	-	3,020,001
Kent Hunter	2,050,001	-	-	-	2,050,001
Andrew McBain	750,001	-	-	-	750,001
Mathew Gauci	750,000	-	-	-	750,000
	6,570,003	-	-	-	6,570,003

c) Option Holdings

No options have been issued as remuneration to Directors or Executives during the year.

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

Options Granted to Executives and Directors

2005			
Director	Expiry Date	Exercise Price	Number of Options
Terence Topping	30 July 2007	\$0.30	1,500,000
Kent Hunter	30 July 2007	\$0.30	1,000,000

These options were granted to Directors as free attached options to the subscription for promoter shares.

The Company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Economic Entity. The contracts for service between the Economic Entity and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified directors and executives are paid employee benefit entitlements accrued to date of retirement. The Economic Entity may terminate the contracts without cause by providing one to three months written notice or making payment in lieu of notice based on the individual's annual salary component at industry award redundancy rates.

	Consolidated 2006 \$	Company 2006 \$	2005 \$
5. AUDITORS' REMUNERATION			
Remuneration of the auditor of the parent entity for:			
- Auditing or reviewing the financial report	10,000	10,000	6,000
- Other services	-	-	3,500
	<u>10,000</u>	<u>10,000</u>	<u>9,500</u>

6. INCOME TAX EXPENSE

The components of the tax expense comprise:

Current tax	-	-	-
Deferred tax	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:

Prima facie tax (benefit) on loss from ordinary activities before income tax at 30% (2005: 30%)	<u>(295,108)</u>	<u>(294,783)</u>	<u>(78,999)</u>
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Add:

Tax effect of:

Other non-allowable items	2,682	2,682	-
Tax benefit of revenue losses not recognised	374,059	373,993	232,815

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

	Consolidated 2006 \$	Company 2006 \$	2006 \$
Effect of deferred tax assets not recognised	259	-	-
Less:			
Tax effect of:			
Tax benefit of equity raising costs not recognised	(19,573)	(19,573)	-
Tax effect of timing difference not brought to account	(62,319)	(62,319)	(153,816)
Income tax attributable to entity	-	-	-

- c The following deferred tax balances at 30% (2005: 30%) have not been recognised

Deferred Tax Assets:

Carry forward revenue losses	535,178	535,178	436,219
Capital raising costs	62,319	62,319	-
Provisions and accruals	11,316	11,316	3,292
Other	23,130	23,130	19,860
	631,943	631,943	459,371

The tax benefits of the above Deferred Tax Assets will only be obtained if:

- (a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- (b) the company continues to comply with the conditions for deductibility imposed by law; and
- (c) no changes in income tax legislation adversely affect the company in utilising the benefits.

Deferred Tax Liabilities:

Exploration expenditure	630,084	630,084	456,528
Other	1,859	1,859	2,843
	631,943	631,943	459,371

The above Deferred Tax Liabilities have not been recognised as they have given rise to the carry forward revenue losses for which the Deferred Tax Asset has not been recognised.

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

	Consolidated 2006 \$	Company 2006 \$	2005 \$
7. CASH AND CASH EQUIVALENTS			
Cash at bank	97,413	97,413	19,761
Short term deposits	1,343,339	1,343,339	1,940,524
	<u>1,440,752</u>	<u>1,440,752</u>	<u>1,960,285</u>

The bank deposits are short term deposits maturing within 30 days, and pay interest at a rate of 5.32% per annum.

8. TRADE AND OTHER RECEIVABLES

Current

Trade receivables	122,742	123,822	45,249
Amounts receivable from other parties (i)	55,000	55,000	55,000
Prepayments	19,487	19,487	23,027
	<u>197,229</u>	<u>198,309</u>	<u>123,276</u>

- (i) Murchison Copper Mines Pty Ltd ("MCM") shall hand over to Scimitar, transfer of Exploration Licence 52/1482 duly executed by MCM in favour of the Company within five (5) business days from date of the Agreement being 31 January 2005 and unreservedly allow the Company to place a caveat over EL 52/1482 for so long as the loan and any accrued interest remains outstanding.

9. PLANT AND EQUIPMENT

	Consolidated 2006 \$	Company 2006 \$	2005 \$
Plant and equipment - office			
At cost	49,734	49,734	5,187
Accumulated depreciation	(5,852)	(5,852)	(357)
	<u>43,882</u>	<u>43,882</u>	<u>4,830</u>
Office furniture and equipment			
At cost	4,738	4,738	4,738
Accumulated depreciation	(2,146)	(2,146)	(425)
	<u>2,592</u>	<u>2,592</u>	<u>4,313</u>
Plant and equipment - field			
At cost	7,500	7,500	-
Accumulated depreciation	(838)	(838)	-
	<u>6,662</u>	<u>6,662</u>	<u>-</u>
Total plant and equipment	<u>53,136</u>	<u>53,136</u>	<u>9,143</u>

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

2006	Plant & Equipment Office \$	Office Furniture & Equip \$	Plant & Equipment - Field	Total \$
Balance at beginning of the year	4,830	4,313	-	9,143
Additions	44,547	-	7,500	52,047
Depreciation expense	(5,495)	(1,721)	(838)	(8,054)
Carrying amount at 30 June 2006	43,882	2,592	6,662	53,136

2005	Plant & Equipment Office \$	Office Furniture & Equip \$	Total \$
Balance at beginning of the year	-	-	-
Additions	5,187	4,738	9,925
Depreciation expense	(357)	(425)	(782)
Carrying amount at 30 June 2006	4,830	4,313	9,143

	Consolidated 2006 \$	Company 2006 \$	2006 \$
10. FINANCIAL ASSETS			
Current			
Shares in listed corporations, at cost	201,415	201,420	120,329
11. EXPLORATION AND EVALUATION EXPENDITURE			
Non-Current			
Exploration Expenditure capitalised			
- Exploration and evaluation phases	2,100,291	2,100,291	1,521,762

The value of the Consolidated Entity's interest in exploration expenditure is dependent upon:

- the continuance of the Consolidated Entity's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

The Consolidated Entity's exploration properties may be subjected to claim(s) under native title, or contain sacred sites, or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration restrictions, mining restrictions and/or claims for compensation. At this time, it is not possible to quantify whether such claims exist, or the quantum of such claims.

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

	Consolidated	Company	
	2006	2006	2005
	\$	\$	\$
12. TRADE AND OTHER PAYABLES			
Current			
Trade payables	162,338	162,338	77,570
Other payables and accruals	156,189	156,189	62,961
	<u>318,527</u>	<u>318,527</u>	<u>140,531</u>

Trade payables are non interest bearing and are normally settled on 28 day terms. Other payables are non interest bearing and have an average term of 60 days.

The net of GST payable and GST receivable is remitted to the appropriate tax body on a quarterly basis.

13. BORROWINGS

Current			
Lease liability	4,097	4,097	-
	<u>4,097</u>	<u>4,097</u>	<u>-</u>
Non-Current			
Lease liability	14,620	14,620	-
	<u>14,620</u>	<u>14,620</u>	<u>-</u>

14. SHORT-TERM PROVISIONS

Employee benefits	17,233	17,233	-
	<u>17,233</u>	<u>17,233</u>	<u>-</u>

15. ISSUED CAPITAL

	Consolidated	Company	Consolidated	Company	
	2006	2006	2005	2006	2005
	No	No	No	\$	\$
ISSUED AND FULLY PAID UP CAPITAL					
Ordinary Shares					
Opening balance	30,670,003	30,670,003	3	3,861,601	3,861,601
Issue			8,100,000		810
Issue			3,870,000		387,000
Issue			3,700,000		740,000
Issue - IPO			15,000,000		3,000,000
Issue - Placement	3,333,333	3,333,333		1,000,000	1,000,000
Capital raising costs				(60,001)	(60,001)
Closing balance	<u>34,003,336</u>	<u>34,003,336</u>	<u>30,670,003</u>	<u>4,801,600</u>	<u>4,801,600</u>

Terms of Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held.

At shareholders meetings each ordinary share is entitled to one vote in proportion to the paid up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

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

	Consolidated 2006	Company 2006	2006
16. OPTION RESERVE			
Reserves at the beginning of the reporting year	-	-	-
Options issued during the year (i)	87,777	87,777	-
Reserves at the end of the reporting year	<u>87,777</u>	<u>87,777</u>	-

Option Reserve

The option reserve records items recognised as expenses on valuation of options issues.

(i) Details of options issued are set out in Note 4 of this report.

17. FINANCIAL INSTRUMENTS

The Consolidated Entity's principal financial instruments comprise cash and short term deposits. The main purpose of the financial instruments is to earn the maximum amount of interest at a low risk to the company. The Consolidated Entity also has other financial instruments such as trade debtors and creditors which arise directly from its operations. For the year under review, it has been the Consolidated Entity's policy not to trade in financial instruments.

The main risks arising from the Consolidated Entity's financial instruments are interest rate risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Interest Rate Risk

The Consolidated Entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities comprises:

2006	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Fixed Interest maturing over 1 to 5 years	Non- interest bearing	2006 total
	\$	\$	\$	\$	\$
Financial assets					
Cash	97,413	1,343,339	-	-	1,440,752
Receivables	-	-	-	177,742	177,742
Financial assets	-	-	-	201,415	201,415
	<u>97,413</u>	<u>1,343,339</u>	<u>-</u>	<u>379,157</u>	<u>1,819,909</u>
Weighted average Interest rate	3.20%	5.45%			
Financial Liabilities					
Payables	-	-	-	318,527	318,527
Interest bearing liabilities	-	18,717	-	-	18,717
	<u>-</u>	<u>18,717</u>	<u>-</u>	<u>318,527</u>	<u>337,244</u>
Weighted average interest rate	-	-			

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

2005	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Fixed Interest maturing over 1 to 5 years	Non- interest bearing	2005 total
	\$	\$	\$	\$	\$
Financial assets					
Cash	19,761	1,940,524	-	-	1,960,285
Receivables	-	-	-	100,249	100,249
Other financial assets	-	-	-	120,329	120,329
	<u>19,761</u>	<u>1,940,524</u>	<u>-</u>	<u>220,578</u>	<u>2,180,863</u>
Weighted average Interest rate	2.50%	5.32%	-	-	
Financial Liabilities					
Payables	-	-	-	140,531	140,531
Interest bearing liabilities	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,531</u>	<u>140,531</u>
Weighted average interest rate	-	-	-	-	

a) Net Fair Value

The carrying value and net fair values of financial assets and liabilities at balance date are:

	2006		2005	
	Carrying Amount \$	Net fair Value \$	Carrying Amount \$	Net fair Value \$
On-balance sheet financial instruments				
Financial assets				
Cash and deposits	1,440,752	1,440,752	1,960,285	1,960,285
Receivables	177,742	177,742	100,249	100,249
Other financial assets	201,415	201,415	120,329	135,186
	<u>1,819,909</u>	<u>1,819,919</u>	<u>2,180,863</u>	<u>2,195,720</u>
Financial liabilities				
Payables	318,527	318,527	140,531	140,531
Interest bearing liabilities	18,717	18,717	-	-
	<u>337,244</u>	<u>337,244</u>	<u>140,531</u>	<u>140,531</u>

(c) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

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

The Consolidated Entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Consolidated Entity maximum exposure to credit risk.

18. EARNINGS PER SHARE	2006 \$	2005 \$
(a) Earnings / (Loss) used in the calculation of basic EPS	(983,694)	(263,329)
	<i>Number of Shares</i>	<i>Number of Shares</i>
(b) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share:	<u>31,574,112</u>	<u>17,644,825</u>
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted earnings per share:	<u>35,375,482</u>	<u>19,188,661</u>

	Consolidated 2006 \$	Company 2006 \$	2005 \$
19. CASH FLOW INFORMATION			
Reconciliation of cash flows from operating activities with loss from ordinary activities after income tax			
- (Loss) from ordinary activities after income tax	(983,694)	(982,609)	(263,329)
Non-cash flows in operating loss			
- Depreciation	8,054	8,054	782
- Write down of loan	-	-	55,000
- Share option expensed	87,777	87,777	
Cash flows not in operating loss			
- Payments for exploration and evaluation	(894,754)	(894,754)	(394,432)
Changes in assets and liabilities			
- Decrease/(Increase) in operating receivables & prepayments	(73,953)	(73,953)	(177,131)
- Increase/(Decrease) in trade and other creditors, accruals and employee entitlements	606,758	605,673	166,060
Net cash inflows (outflows) from Operating Activities	<u>(1,249,812)</u>	<u>(1,249,812)</u>	<u>(613,050)</u>

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

20. COMMITMENTS

In order to maintain rights of tenure to mining tenements subject to these agreements, the Company would have the following discretionary exploration expenditure requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases, are not provided for in the financial statements and are payable:

	2006	2005
	\$	\$
Not longer than one year	2,460,720	590,380
Longer than one year, but not longer than five years	4,710,640	2,361,520
Longer than five years	161,200	-
	<u>7,332,560</u>	<u>2,951,900</u>

If the Company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

21. SEGMENT INFORMATION

The Consolidated Entity operates predominantly in one geographical segment, being Australia, and in one industry, mineral mining and exploration.

22. EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

23. RELATED PARTY INFORMATION

Transactions with related entities:

- i) Director related entities
Remuneration (excluding the reimbursement of costs) received or receivable by the directors of the Consolidated Entity and aggregate amounts paid to superannuation plans in connection with the retirement of directors are disclosed in Note 4 to the accounts.

These transactions were made on commercial terms and conditions and at market rates.

24. EMPLOYEE BENEFITS

The Employee Incentive Scheme ("EIS") was approved by shareholders at 25 September 2004.

The purpose of the Scheme is to give employees, directors, executive officers and consultants of the Company an opportunity, in the form of options, to subscribe for ordinary shares in the Company. The Directors consider the Scheme will enable the Company to retain and attract skilled and experienced employees, board members and executive officers and provide them with the motivation to make the Company more successful.

Terms of Options

There is no issue price for the options. The exercise price for the options will be:

125% of the market value of the Company's shares on the date on which the options are issued or 20 cents; or any greater price determined by the Board, whichever is the greatest.

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

Shares issued on exercise of options will rank equally with other ordinary shares of the Company.

Options may not be transferred without the approval of the Board. Quotation of options on the Australian Stock Exchange ("ASX") will not be sought. However, in the event that the Company is listed on ASX, it will apply to ASX for official quotation of shares issued on the exercise of options.

On 22 December 2005 the Company issued 300,000 employee options at \$0.305 exercisable on or before 22 December 2010.

25. CONTINGENT LIABILITIES

There are no contingent liabilities outstanding at the end of the year.

26. CONTROLLED ENTITIES

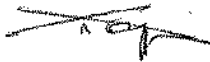
Parent Entity	Consolidated Entity Interest
Scimitar Resources Limited	2006
 Controlled Entities	
Ronin Energy Limited	100%

DIRECTOR'S DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 13 to 33, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the Company; and
2. the Chief Executive Officer and Chief Financial Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Terence Topping
Managing Director
Perth, 27 September 2006



Independent Audit Report

To the Members of Scimitar Resources Limited

Scope

The financial report and directors' responsibility

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

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.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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

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

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

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

Independence

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

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out in this financial report has not changed as at the date of providing our audit opinion.

Independent Audit Report

To the Members of Scimitar Resources Limited (*CONTINUED*)

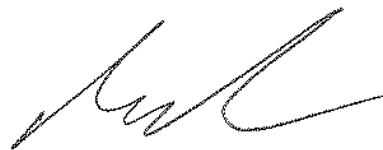
Audit Opinion

In our opinion, the financial report of Scimitar Resources Limited is in accordance with:

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



RIX LEVY FOWLER
Chartered Business Advisors



RANKO MATIĆ
Partner

DATED at PERTH this 27th day of September 2006

ADDITIONAL SHAREHOLDER INFORMATION**Shareholding**

The distribution of members and their holdings of equity securities in the holding Economic Entity as at 22 September 2006 was as follows:

Number Held as at 22 September 2006	Class of Equity Securities
	Fully Paid Ordinary Shares
1-1,000	6
1,001 - 5,000	128
5,001 – 10,000	210
10,001 – 100,000	356
100,001 and over	48
TOTALS	748

Holders of less than a marketable parcel - nil

Substantial Shareholders

The names of the substantial shareholders listed on the Economic Entity's register as at 22 September 2006:

Shareholder	Number
Terence Topping <The TKT A/C>	2,500,000
Kent Hunter <The Houndy Family Trust>	2,000,000

Voting Rights**Ordinary Shares**

In accordance with the holding company's Constitution, on a show of hands every member present in person or by proxy or attorney or duly authorised representative has one vote. On a poll every member present in person or by proxy or attorney or duly authorised representative has one vote for every fully paid ordinary share held.

ASX Listing Rule 4.10.19

In accordance with Listing Rule 4.10.19, the company states that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. The business objective is primarily mineral exploration.

Restricted Securities

The Company has issued the following restricted securities (in accordance with ASX Listing Rules)::

Class of Equity Security	Number	Date Ceasing To Be Restricted Securities
Fully Paid Ordinary	200,000	28 January 2007
Fully Paid Ordinary	300,000	28 January 2007
Fully Paid Ordinary	8,100,000	28 January 2007
30 cent Options expiring 31/7/07	3,500,000	28 January 2007

Twenty Largest Shareholders

The names of the twenty largest ordinary fully paid shareholders as at 22 September 2006 are as follows:

Shareholder	Number	% Held of Issued Ordinary Capital
Terence Topping <The TKT A/C>	2,500,000	7.352
Kent Hunter <The Houndy Family Trust>	2,000,000	5.882
Yeldep Pty Ltd	2,000,000	5.882
Mr Erwin John Clayton	883,200	2.597
GW International Pty Ltd	832,000	2.447
CPA Financial Services Pty Ltd <The Rule 303 A/C>	750,000	2.206
Matthew Gauci	750,000	2.206
Donald George Maloney	500,000	1.470
Bitutti Pty Ltd	418,400	1.230
Kingswave Nominees Pty Ltd	400,000	1.176
Weng Chew Lim & Ngoc Nhan Ha	400,000	1.176
Public Covenant Custodians	330,000	0.970
Padsys Pty Ltd	306,450	0.901
Dorothy Elizabeth Gauci	300,000	0.882
Wellington Industries Pty Ltd	300,000	0.882
Graham Geoffrey Walker & Thelma Jean Walker <Walker Super Fund A/C>	300,000	0.882
MKM Securities Pty Ltd	280,000	0.823
Investwise Enterprises Pty Ltd	270,000	0.794
Citicorp Nominees Pty Limited	247,000	0.726
Goldstone Holdings Pty Ltd	240,000	0.706
	14,007,050	41.193

CORPORATE GOVERNANCE

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. The Company is pleased to advise that the Company's practices are largely consistent with those ASX guidelines. As consistency with the guidelines has been a gradual process, where the Company did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place during the reporting period, we have identified such policies or committees.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company is working towards compliance however it does not consider that all the practices are appropriate for the Company due to the size and scale of Company operations.

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered. Details of all of the recommendations can be found on the ASX Corporate Governance Council's website at <http://www.asx.com.au/supervision/governance/index.htm>

Recommendation	Section
Recommendation 1.1 Functions of the Board and Management	1.1
Recommendation 2.1 Independent Directors	1.2
Recommendation 2.2 Independent Chairman	1.2
Recommendation 2.3 Role of the Chairman and CEO	1.2
Recommendation 2.4 Establishment of Nomination Committee	2.3
Recommendation 2.5 Reporting on Principle 2	1.2, 1.4.6, 2.3.2 and the Directors' Report
Recommendation 3.1 Directors' and Key Executives' Code of Conduct	1.1
Recommendation 3.2 Company Security Trading Policy	1.4.9
Recommendation 3.3 Reporting on Principle 3	1.1 and 1.4.9
Recommendation 4.1 Attestations by CEO and CFO	1.4.11
Recommendation 4.2 Establishment of Audit Committee	2.1
Recommendation 4.3 Structure of Audit Committee	2.1.2
Recommendation 4.4 Audit Committee Charter	2.1
Recommendation 4.5 Reporting on Principle 4	2.1
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2 Reporting on Principle 5	1.4.4
Recommendation 6.1 Communications Strategy	1.4.8
Recommendation 6.2 Attendance of Auditor at General Meetings	1.4.8
Recommendation 7.1 Policies on Risk Oversight and Management	2.1.3
Recommendation 7.2 Attestations by CEO and CFO	1.4.11
Recommendation 7.3 Reporting on Principle 7	2.1.3
Recommendation 8.1 Evaluation of Board, Directors and Key Executives	1.4.10
Recommendation 9.1 Remuneration Policies	2.2.4
Recommendation 9.2 Establishment of Remuneration Committee	2.2
Recommendation 9.3 Executive and Non-Executive Director Remuneration	2.2.4.1 and 2.2.4.2
Recommendation 9.4 Equity-Based Executive Remuneration	2.2.4.1
Recommendation 9.5 Reporting on Principle 9	2.2.2 and 2.2.4
Recommendation 10.1 Company Code of Conduct	3

1. Board of Directors

1.1 Role of the Board

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

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

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors, the Chief Executive Officer, the Chief Financial Officer and other key executives in the performance of their roles.

1.2 Composition of the Board

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. The names of the Directors and their qualifications and experience are stated in the Directors' Report along with the term of office held by each of the Directors. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment skills.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer.

An Independent Director is a Non-Executive Director and:

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

Mr A McBain is a Non-Executive Director of the Company and meet the Company's criteria for independence. His experience and knowledge of the Company makes their contribution to the Board such that it is appropriate for them to remain on the Board.

Mr T Topping is an Executive Director of the Company and does not meet the Company's criteria for independence. However, his experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board.

Mr K Hunter is an Non-Executive Director of the Company and does not meet the Company's criteria for independence. However, his experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board.

1.3 Responsibilities of the Board

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

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

- Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.
- Strategy Formulation: to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- Overseeing Planning Activities: the development of the Company's strategic plan.
- Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- Monitoring, Compliance and Risk Management: the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- Human Resources: appointing, and, where appropriate, removing the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as well as reviewing the performance of the CEO and monitoring the performance of senior management in their implementation of the Company's strategy.
- Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- Delegation of Authority: delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Company's registered office.

1.4 Board Policies

1.4.1 Conflicts of Interest

Directors must:

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

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

1.4.2 Commitments

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

1.4.3 Confidentiality

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

1.4.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the *ASX Listing Rules* the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

1.4.5 Education and Induction

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- access to a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of the Company;
- a synopsis of the current strategic direction of the Company; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

1.4.6 Independent Professional Advice

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

1.4.7 Related Party Transactions

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

1.4.8 Shareholder Communication

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

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

1.4.9 Trading in Company Shares

Due to the size of the Company, the Board does not consider it appropriate to implement a Share Trading Policy. Rather, it reminds directors, officers and employees of the prohibition in the *Corporations Act 2001* concerning trading in the Company's securities when in possession of "inside information".

1.4.10 Performance Review/Evaluation

It is the policy of the Board to conduct evaluation of its performance. The evaluation process was introduced via the Board Charter adopted on 30 June 2004 and will be implemented for the financial year ended 30 June 2005. The objective of this evaluation will be to provide best practice corporate governance to the Company.

1.4.11 Attestations by CEO and CFO

It is the Board's policy, that the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report. However, as at the date of this report the Company does not have a designated CEO or CFO. Due to the size and scale of operations of the Company these roles are performed by the Board as a whole.

2. Board Committees

2.1 *Audit Committee*

Due to the size and scale of operations of the Company the full Board undertakes the role of the Audit Committee. Below is a summary of the role and responsibilities of an Audit Committee.

2.1.1 *Role*

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

As the whole Board only consists of three (3) members, the Company does not have an audit committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues and an audit committee cannot be justified based on a cost-benefit analysis. However, in accordance with the ASX Listing Rules, the Company is moving towards establishing an audit committee consisting primarily of Independent Directors.

In the absence of an audit committee, the Board sets aside time to deal with issues and responsibilities usually delegated to the audit committee to ensure the integrity of the financial statements of the Company and the independence of the external auditor.

2.1.2 *Responsibilities*

The Audit Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the members.

The Audit Committee each year reviews the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

The Audit Committee or is also responsible for establishing policies on risk oversight and management.

2.1.3 *Risk Management Policies*

The Board's Charter clearly establishes that it is responsible for ensuring there is a good sound system for overseeing and managing risk. Due to the size and scale of operations, risk management issues are considered by the Board as a whole. On 27 September 2006 Mr Terence Topping (Managing Director) and Mr Kent Hunter (Company Secretary) provided the Board with written assurance that the financial statements are founded on a sound system of risk management and internal compliance. Their statement assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

2.2 *Remuneration Committee*

2.2.1 *Role*

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

As the whole Board only consists of three (3) members, the Company does not have a remuneration committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

2.2.2 *Responsibilities*

The responsibilities of a Remuneration Committee, or the full Board include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the Chief Executive Officer, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors and making recommendations on any proposed changes and undertaking reviews of the Chief Executive Officer's performance, including, setting with the Chief Executive Officer goals and reviewing progress in achieving those goals.

2.2.3 *Remuneration Policy*

Directors' Remuneration was approved by resolution of the Board on 25 September 2004.

2.2.3.1 Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executive may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any share/option scheme with thresholds approved by shareholders;

- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance. During the year there were no Non-Director Executives.

The value of shares and options were they to be granted to senior executives would be calculated using the Black and Scholes method.

The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

2.2.3.2 Non-Executive Director Remuneration Policy

Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Company.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

2.2.4 Current Director Remuneration

Full details regarding the remuneration of Directors, is included in the Directors' Report.

2.3 Nomination Committee

2.3.1 Role

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

As the whole Board only consists of three (3) members, the Company does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

2.3.2 Responsibilities

The responsibilities of a Nomination Committee would include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee would also oversee management succession plans including the CEO and his/her direct reports and evaluate the Board's performance and make recommendations for the appointment and removal of Directors. Currently the Board as a whole performs this role.

2.3.3 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience appropriate to the Company's target market. In addition, Directors should have the relevant blend of personal experience in accounting and financial management and Director-level business experience.

3. Company Code Of Conduct

The Board has decided against the implementation of a code of conduct as it does not believe that it is in the best interests of its employees or other stakeholders to have what purports to be an exhaustive code of conduct. The Board feels that such a code may be too prescriptive and not allow the employees the discretion they need to best serve the Company's stakeholders.

**SCHEDULE OF MINERAL TENEMENTS
AS AT 17 SEPTEMBER 2006**

PROJECT	TENEMENT	INTEREST %
Yanrey WA	EL08/1489	100
	EL08/1490	100
	EL08/1493	100
	EL08/1501	100
	EL08/1588	100
	EL08/1589	100
	EL08/1590	100
West Lake Frome SA	EL3388	100
	EL3392	100
	EL3410	100
Marree SA	EL3389	100
	EL3390	100
	EL3510	100
	EL3557	100
Mawson SA	EL3502	100
Glencoe SA	EL3391	100
Eclipse NT	EL24645	100
	EL24636	100
	EL24637	100
	EL24808	100
	EL24704	100
Amadeus NT	EL24876	100
	EL24880	100
Adelaide River NT	EL24880	100
Bungalbin	EL77/946	100
	EL77/1076	100
	EL77/1077	100
	EL77/1106	90
	EL77/1130	10
	PL77/3298	80
	PL77/3299	80
Grafters	PL24/3054	100
Mt Elvire	EL29/580	100
Beadell	EL45/2405	80
	EL45/2406	80

Notes: EL = Granted Exploration Licence MLA = Mining Lease Application M = Granted Mining Lease
 ELA = Exploration Licence Application P = Granted Prospecting Licence PLA = Prospecting Licence Application
 L = Miscellaneous Licence