Lefroy Resources Limited

ACN 107 118 678

ANNUAL FINANCIAL REPORT
30 JUNE 2006

Lefroy Resources Limited
ACN 107 118 678

CORPORATE DIRECTORY

DIRECTORS	Malcolm James (Non-Executive Chairman) Craig Bromley (Non-Executive Director) Tom Kelly (Non-Executive Director)
CHIEF EXECUTIVE OFFICER	John Canaris
COMPANY SECRETARIES	Jade Styants Jonathan Whyte
REGISTERED AND PRINCIPAL OFFICE	278 Barker Road Subiaco WA 6008 Telephone: (08) 9382 8711 Facsimile: (08) 9382 8722 Website: www.lefroyresources.com.au Email: admin@lefroyresources.com.au
AUDITORS	Somes & Cooke 1304 Hay Street West Perth WA 6005 Telephone: (08) 9426 4500
SHARE REGISTRY	Computershare Investor Services Pty Limited Level 2, Reserve Bank Building 45 St Georges Terrace Perth WA 6000 Telephone: (08) 9323 2000 Facsimile: (08) 9323 2033 Website: www.computershare.com.au

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Chairman's Report

Dear Shareholder,

The 2006 financial year has been one of exciting progress for your Company and has set the tone for an equally exciting 2007.

On the exploration front the team at Lefroy has determined a JORC Inferred Resource at the Pinafore Reef of 304,000 tonnes at a grade of 22.9 g/t (over a 2 meter zone) for 225,000 ounces of gold. This Inferred Resource relates only to the Pinafore Reef. There are over 30 additional reefs known at Lefroy Goldfields, with other exceptional targets identified such as the Volunteer Reef and the Native Youth Reef. The exploration potential across the Lefroy Goldfields, applying the same modelling, has been calculated at 1.3 million ounces of gold to a depth of 1,000 metres.

The Company is set to implement an accelerated exploration strategy for the 2007 year. The primary purpose is to realise the full potential of the Lefroy Goldfield (the largest exploration programme in Tasmania), by reclassifying the 1.3 million ounce of gold exploration potential into a JORC compliant resource.

Details of the exploration programme and results are reported in more detail in the Review of Operations contained within the Director's Report.

In addition to the success of the exploration programme the Company has been able to consolidate its financial position through a placement and the exercise of all listed options. At the end of the financial year the Company had in excess of $7.96 million in cash and is well placed not only to achieve its goals in Tasmania but also to review and assess new opportunities as they arise.

Of course these achievements could not be reported without the leadership of Chief Executive John Canaris and the work of the dedicated and efficient management team in Perth and Tasmania and we take this opportunity to thank them for their efforts.

Yours sincerely

Malcolm James
Chairman

Corporate Governance Statement

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2006.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

The names of independent directors of the company are:

- Malcolm James (Non-Executive Chairman)
- Tom Kelly (Non-Executive Director)
- Craig Bromley (Non-Executive Director)

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- less than 10% of company shares are held by the director and any entity or individual directly or indirectly associated with the director;

- no sales are made to or purchases made from any entity directly or indirectly associated with the director; and

- none of the directors income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the chairman prior to incurring any expense on the behalf of the company.

The Board has formally adopted a Nomination Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Nomination Committee Charter. When the Company is of sufficient size, a separate Nomination Committee will be formed

Trading Policy

The Board has formally adopted a Trading Policy Charter which restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

Audit Committee

The names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee are included in the directors' report.

Remuneration Policies

The remuneration policy, which sets the terms and conditions for the chief executive officer and other senior executives, was developed by the remuneration committee. The remuneration committee reviews executive packages annually by reference to company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice.

The Company's remuneration policy is to ensure remuneration packages properly reflect each person's duties and responsibilities and support the Company's business objectives by remunerating people in a manner that is competitive and can attract, retain and motivate people of the highest calibre.

Executives are also entitled to participate in the employee share and option arrangements.

The amount of remuneration for all directors and executives, including all monetary and non-monetary components, are detailed in Note 17 to the Financial Report. Shares given to executives are valued as the difference between the market price of those shares and the amount paid by the executive. Options are valued using the Black-Scholes methodology.

The board expects that the remuneration structure implemented will result in the company being able to attract and retain the best executives to run the economic entity. It will also provide executives with the necessary incentives to work to grow long-term shareholder value. The policy complies with the four key principles of IFSA Guidance Note 02-16.

The payment of bonuses, options and other incentive payments are reviewed by the remuneration committee annually as part of the review of executive remuneration and a recommendation is put to the board for approval. All bonuses, options and incentives must be linked to predetermined performance criteria. The board can exercise its discretion in relation to approving incentives, bonuses and options and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

Remuneration Committee

The names of all the members of the remuneration committee and their attendance at meetings of the committee are detailed in the Directors' Report.

There are no schemes for retirement benefits other than the statutory superannuation for non-executive directors.

Director's Report

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2006.

DIRECTORS

The names of the directors in office at any time during or since the end of the year are:

- Malcolm James (Non-Executive Chairman)
- Craig Bromley (Non-Executive Director)
- Tom Kelly (Non-Executive Director)

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

Mr Malcolm James (Non-Executive Chairman)
B.Bus, CPA, FAICD, MAusIMM

Mr James has completed a Bachelor of Business at RMIT University and has over 28 years experience in the accounting profession, merchant banking, engineering, manufacturing, financing and resources. Mr James is currently a non-executive Chairman of Australian Stock Exchange (ASX) listed Peninsula Minerals Ltd. He is also a non-executive director of the London Stock Exchange Alternative Investment Market (AIM) listed Cordillera Resources Plc, Empyrean Energy Plc, Eureka Mining Plc, Summit Resources Plc and Cue Energy Plc.

Mr James is Chairman of the Company's Remuneration Committee and a member of the Company's Audit Committee.

Mr Craig Bromley (Non-Executive Director)
B.Com

Mr Bromley has worked in the finance industry for more than 20 years. He holds a Bachelor of Commerce at the University of Western Australia. In 1983 Mr Bromley began a career in stockbroking with a local firm and later gained extensive experience in all facets of the industry working for a major international investment house. For the last ten years Mr Bromley has focused primarily on corporate finance and capital raisings and was a director of Montagu Stockbrokers Pty Ltd from 1998 to February 2003.

Mr Bromley is a member of the Company's Remuneration Committee.

Mr Thomas Kelly (Non-Executive Director)
B.Bus, SA Fin

Mr Kelly has more than 13 years corporate experience over a wide range of industries and projects. Mr Kelly holds a Bachelor Degree in Business and is a Senior Associate of the Financial Services Institute of Australasia. Mr Kelly was previously an Executive Officer of Corporate Services for a prominent West Australian stockbroking firm. More recently Mr Kelly has been involved with a number of publicly listed company restructures and venture capital style project start-ups. Mr Kelly is also a director of Royal Harry Gold Mines NL and an executive director of AIM listed Empyrean Energy Plc.

Mr Kelly is Chairman of the Company's Audit Committee.

CHIEF EXECUTIVE OFFICER

Mr John Canaris
B.Sc (Hons)

Mr Canaris is a geologist with more than 12 years experience in the resource exploration industry. Mr Canaris holds a Bachelor of Science Degree in Geology with Honours in Geomorphology from the University of Adelaide. Mr Canaris' wide-ranging experience encompasses both minerals and hydrocarbon exploration in Australia. Mr Canaris has worked extensively in Australia as an exploration geologist and internationally in a business development role for World Geoscience Corporation and Fugro Airborne surveys, bringing him in contact with all aspects and techniques in airborne survey and remote mapping.

COMPANY SECRETARIES' PARTCULARS

Ms Jade Styants
B.Com, CA

Ms Styants is a Chartered Accountant with experience in corporate accounting for both the resource and manufacturing industries, having worked for Anaconda Nickel Limited and Gillette International SARL. To date she has been involved in the listing of Empyrean Energy Plc, Cordillera Resources plc, Caspian Holdings plc, Summit Resources plc and Cue Energy plc on AIM. Ms Styants is the CEO of Resource and Capital Management and is also a director of AIM listed Summit Resources plc and Cue Energy Plc as well as the company secretary of Empyrean Energy plc and Australian Stock Exchange listed Peninsula Minerals Limited.

Jonathan Whyte
B.Com, CA

Mr Whyte is a Chartered Accountant with experience in corporate accounting and investment banking sectors, having worked for Credit Suisse First Boston and Barclays Capital Plc in London over a period of 6 years. Mr Whyte is an Associate Director of Resource and Capital Management and is also Company Secretary of ASX listed Peninsula Minerals Limited.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year comprised exploration of tenements in Tasmania. There have been no significant changes in the nature of activities during the year.

OPERATING RESULTS

The loss of the company after providing for income tax for the year ended 30 June 2006 amounted to $86,727 (Profit 2005: $8,698)

DIVIDENDS PAID OR RECOMMENDED

The Directors of the Company do not recommend the payment of a dividend in respect of the current financial year ended 30 June 2006.

REVIEW OF OPERATIONS

During the year under review the Company successfully completed its second exploration field season, returning spectacular drill-grades and significantly extending zones of mineralisation along strike and at depth. In addition an initial JORC Inferred Resource of 225,000 ounce was established, on one of the many gold-bearing reefs that are known from the Lefroy Project Area. This initial resource represents the first significant new gold resource in Tasmania for 20 years.

These results highlight the undiscovered potential that exists at Lefroy and the Company is confident that this resource base will be quickly built on through targeted drilling. In addition an exploration potential figure of 1.3 million ounces of gold was established for the Lefroy Goldfield, which the Company views as a realistic and highly achievable exploration target for the near future.

The Company completed a predictive geological model for mineralisation, and developed an aggressive risk-based exploration strategy for the 2007 exploration year. The primary goal of the Exploration Strategy is to realise the full potential of the Lefroy Goldfield, by reclassifying as much of the 1.3 million ounce exploration potential into JORC compliant resource categories as possible.

Drilling will be aimed at extensions to the Pinafore Inferred Resource and the Native Youth Reef and follow up on spectacular grades encountered from shallow depths at the Pinafore Reef. Drilling will also aim to bring the Volunteer Reef and other high-priority targets to a stage where resource drilling can commence.

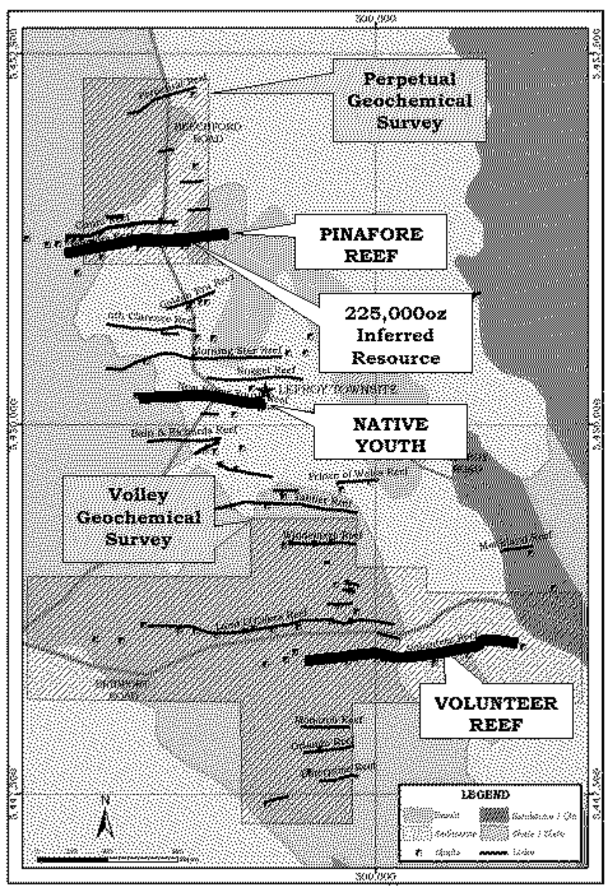
Lefroy Goldfield Target Area

The Company was established in 2004 to explore its extensive exploration land package in the north eastern Goldfields of Tasmania.

The Company continues to focus its exploration efforts on the discovery and development of high grade lode-style gold reefs that make up the Lefroy Goldfield. The goldfield has a recorded historical production of approximately 200,000ounce of gold from some 30 known reefs (right).

Records indicate that gold grades were spectacular, frequently ranging around 30-60g/t on the larger reefs, with some crushing's yielding in excess of 2,000g/t.

Located approximately 20km to the southwest of the Lefroy Goldfield is the 1.8 million ounce Tasmania Reef at Beaconsfield, which is the largest single gold producing reef in south-eastern Australia. Beaconsfield has a very similar geological setting to the Company, with highly comparable historic gold grades.



OPERATIONS OVERVIEW

The 2006 drill program targeted three selected high-grade lode-style gold-bearing reef targets within the four kilometre mineralised corridor that makes up the Lefroy Goldfield (results below). Since the start of the Company's second field season in November 2005, approximately 5,600 metres of RC and 1,500 metres of Diamond drilling have been completed at the Pinafore, Native Youth and Volunteer Reefs. Preparations were completed to allow drilling to continue during the wet winter months and a second drill rig was mobilised in late June 2006 to support the deep diamond drilling planned for the Pinafore Reef.

Much of the drilling completed in the 2006 field season targeted near surface remnant mineralisation proximal to the historical mine workings at Pinafore Reef. In addition RC drilling designed to produce a bulk sample ore material suitable for metallurgical test work was completed at the Pinafore Project Area. Orientation drilling was also conducted at both the Native Youth and Chum Reef and drilling commenced for the first time at the highly prospective Volunteer Reef.

Auger-drill soil geochemical sampling completed during the year at two prospect areas successfully identified east–west trending gold-in-soil anomalies with multi-element characteristics reflecting that of known reef targets. One of the anomalous zones corresponds to the postulated down-dip projection of known mineralisation detailing "traces of gold", providing evidence that the surface expression of this potential new reef continues to depth.

Initial Resource Estimation Completed

During 2006 the Company completed independent geological work to define the principal controls on mineralisation at the Goldfield. This allowed for extrapolation of mineralised gold-lodes down-dip from the historically mined areas and was an important step forward in the delineation of a potential resource at the Lefroy Goldfield.

The Company completed stope reconstruction of the Pinafore and other selected historic mines within the Goldfield which assisted defining ore shoot dimensions. A total of approximately 10,000 metres of shafts and drives were digitized into 3D space to assist determining parameters used to calculate the volume of a potential resource. A detailed analysis of historic production statistics was also completed enabling the Company to allocate tons and grade, in combination with modern drill data, to a wire-frame and block model used to calculate an initial JORC Inferred Resource for the Pinafore Reef of 225,000 ounces and exploration potential of 1.3 million ounces for the Lefroy Goldfield.

JORC Inferred Resource - Pinafore Reef

Prospect Area	Ore	Grade/Ore Zone	Resource
Pinafore	304,000 t	22.9g/t over 2m	225,000oz Au

Exploration Potential – Lefroy Goldfield

Prospect Area	Confidence	Range (to 1,000m Depth)
Lefroy Goldfield	90-50%	1,100,000 to 2,200,000oz Au

Preliminary mining scoping study work has been reviewed, which conceptually evaluates the benefits of refurbishing the historic shafts, open-cut and decline development. The scoping work and initial resource estimation clearly demonstrates the great potential for the Lefroy Goldfield to host multiple economic resources that could potentially be exploited in a single mining campaign.

2005 EXPLORATION SEASON

Drilling during the 2005 exploration season successfully established that high-grade mineralisation continues below old workings at the Lefroy Goldfield, with drilling intersecting high-grade gold bearing zones reconfirming that ore "shoots" are open at depth, with gold mineralisation carrying promising grades and ore-zone thicknesses. Best results from 2005 drilling include:

Pinafore Reef

LFC018	6 metres @ 5.38g/t Au (including 1 metre @ 20.58g/t Au)
LFC018	7 metres @ 2.66g/t Au (including 1 metre @ 8.39g/t Au)
LFC023A	4 metres @ 12.0g/t Au (including 1 metre @ 42.36g/t Au)
LFC025	10 metres @ 1.72g/t Au (including 1 metre @ 2.83g/t Au)
LFC045	10 metres @ 2.41g/t Au (including 1 metre @ 8.39g/t Au)
LFC045	3 metres @ 3.45g/t Au (including 1 metre @ 7.94g/t Au)

Native Youth Reef

LFC021	10 metres @ 3.03g/t Au (including 3 metres @ 4.99g/t Au)
LFC022	14 metres @ 3.38g/t Au (including 3 metres @ 8.13g/t Au)
LFC044	17 metres @ 4.49g/t Au (including 1 & 2 metres @ 19.00g/t & 9.28 Au)

2006 EXPLORATION SEASON

Much of the drilling in 2006 targeted the shallow, up-dip potential of known mineralisation not previously tested. Drilling also tested several mineralisation styles within the Lefroy Goldfield mineralised corridor. As anticipated the drilling returned positive and encouraging results. Best results from 2006 drilling include:

Pinafore Reef

LFC050	22 metres @ 6.60g/t Au (including 1 metre @ 82.13g/t Au)
LFC050	18 metres @ 6.74g/t Au (including 1 metre @ 20.63g/t Au)
LFD064	7.3 metres @ 2.3g/t Au
LFC065	1 metre @ 7.92g/t Au
LFD067	3 metres @ 3.09g/t Au
LFD068	3 metres @ 2.63g/t Au and 1 metre at 3.42g/t Au
LFD069	4 metres @ 2.02g/t Au
LFD070	0.6 metres @ 4.91g/t Au
LFD083	8.2 metres @ 1.53g/t Au
LFC086	3 metres @ 3.32g/t Au
LFC087	27 metres @ 4.27g/t Au (including 2 metres @ 28.21g/t Au)

Native Youth Reef

LFC055	4 metres @ 4.22g/t Au (including 1 metres @ 6.59g/t Au)
LFC056	1 metre @ 7.48g/t Au
LFC058	4 metres @ 1.83g/t Au
LFD095	2 metres @ 13.27g/t Au

Volunteer Reef

The Volunteer Reef, located at the southern end of the Lefroy Goldfield, is the single largest historically mined reef in the Goldfield, having produced approximately 50,000 ounces of gold at an astounding 100g/t from stopes consistently much wider than elsewhere in the Goldfield. Despite this the Volunteer Reef has remained largely untested and was drilled for the first time during the year.

The Volunteer Reef has been tested using five RC and Diamond drill holes, with only the first hole falling in the 2006 exploration season. Despite none of the drilling encountering high-grade material the mineralised low-grade "shear structure" hosting the Volunteer Reef was located at depth. The Volunteer Reef remains a priority drill target for the 2007 exploration year.

Interpretation of Drill Results

The Pinafore Reef is one the largest historically mined reefs in the Lefroy Goldfield. It was mined prior to 1900 for approximately 60,000 ounce of gold at grades averaging approximately 25g/t. Resource estimation work completed by the Company reported a JORC Inferred Resource of 225,000 ounces of gold at the Reef during the year. Drilling in 2006 targeted near-surface gold mineralisation, near to historic activity at the Reef.

Drilling successfully intersected near-surface high-grade remnant mineralisation and visible gold, proximal to the historical mine workings at Pinafore Reef. In addition two new and previously unrecognised styles of mineralisation, occurring in addition to the lode-style material, were encountered. The importance of this disseminated and narrow vein array gold will be determined through further drilling. These new zones are outside the Company's 225,000 ounce Inferred Resource for the Prospect, demonstrating the potential for the resource to be increased through limited drilling.

Disseminated sulphide and narrow vein array styles of mineralisation are now recognised by the Company as being almost ubiquitous, as a mineralised "halo" around the known quartz-sulphide lodes at Lefroy. Promising grades and ore zone thicknesses encountered are highly encouraging and represents a promising new target for future drilling at the Lefroy Goldfield. As follow up drilling failed to intersect all of the zones initially encountered, it is apparent that there are significant stratigraphic and structural controls on mineralisation and work has commenced to obtain a better understanding of these controls and their relationship to the styles of gold mineralisation.

The Native Youth Reef, located near the centre of the Lefroy township, was historically mined for approximately 25,000 from 2.4 metre wide "lode-splay", striking over 400 metres with grades ranging around 30g/t. The Native Youth is located approximately one kilometre south of the Pinafore Reef and has returned spectacular grades from approximately 100 metres vertical depth.

Drilling at the Native Youth Reef in 2006 was stepped out eastward of the identified high-grade quartz-sulphide gold mineralisation, along the Native Youth Reef line of workings. Drilling unexpectedly intersected extensive mine workings approximately 100 metres along strike, effectively doubling the strike-length of the highly prospective Native Youth line of workings and spatially locating the historic City of Launceston workings. Further interpretation of these results has shown that high-grade quartz-sulphide gold mineralisation encountered is an extension of the Native Youth Mine and not the City of Launceston as previously reported.

This result effectively doubles the strike-length of the prospective Native Youth area, previously restricted to the zones of recorded production around the Native Youth Reef main shaft. This highlights the potential for limited drilling at the Lefroy Prospect to increase the Company's resource base. The Native Youth and City of Launceston Reefs remain inadequately tested and will be further drilled in the 2007 exploration year.

Assay Evaluation and Bulk Sample Drilling Continues

Preliminary metallurgical testing completed in 2005 indicates that easily recoverable gravity gold may account for 85% of total gold at the Pinafore Reef. At the Beaconsfield Mine located 20 kilometres away, gravity gold accounts for around 53%, with bac-ox and leach gold forming the remainder.

Following on from this a review of assay techniques being applied was completed, due to concerns that "nuggetty" gold could be contributing to an underestimation of grade. Samples were analysed leading to refinements to the Screen Fire analytical techniques applied. Further to this work ore evaluation drilling, designed to allow bulk metallurgical test work, is underway. Holes are drilled "down-dip" of the "lode" to collect long intercepts into mineralised rock. This information will be used to gain a better understanding of the gold deportment at Lefroy and to quantify the "nugget" effect that may be contributing to an underestimation of grade.

Geological Model and Exploration Strategy Completed

A predictive geological model for mineralisation and exploration strategy was developed, in a collaborative effort with the Company's technical team and consulting geologist, John Baxter. The work involved detailed core logging, structural and stratigraphic work and field observations. The outcomes of this work will be applied in an aggressive risk-based Exploration Strategy for the Company in 2007. The primary goal of the current exploration strategy is to realise the full potential of the Lefroy Goldfield, by reclassifying as much of the 1.3 million ounce exploration potential into JORC compliant resource categories as possible.

Perpetual & Volley Soil Geochemistry Completed

Soil geochemical sampling was conducted at the Perpetual and Volunteer Extension Survey Areas by auger-drilling material on a nominal 20 x 100 metre grid. An east–west trending gold-in-soil anomaly was defined within the Perpetual Geochemical prospect. Four RC holes were completed during the year which failed to intersect significant mineralisation. No further testing is planned.

Soil geochemical sampling during the year tested the potential long-strike extension of the Volunteer Reef, located at the southern end of the Lefroy Goldfield. An east–west trending gold-in-soil anomaly was identified, striking for approximately 400 metres to the west of the Volunteer Reef. The anomaly was further tested by costean sampling which failed to discover the source of the anomaly. No further testing is planned.

New Government Initiative over NE Tasmania

During the March Quarter the Tasmanian Government announced its decision to spend more than $5 million over four years, to encourage mining activity in an area of the State encompassing much of the Company's tenement holdings. The $5 million will be provided to the Mineral Resources Tasmania (MRT) to acquire and promote new geological data. Data will be comprised of airborne geophysical and gravity data and expected to provide an invaluable new source of exploration information (Jul-06 MRT TasExplore and Mar-06 Government Media Statement).

Dennison Goldfield Acquired

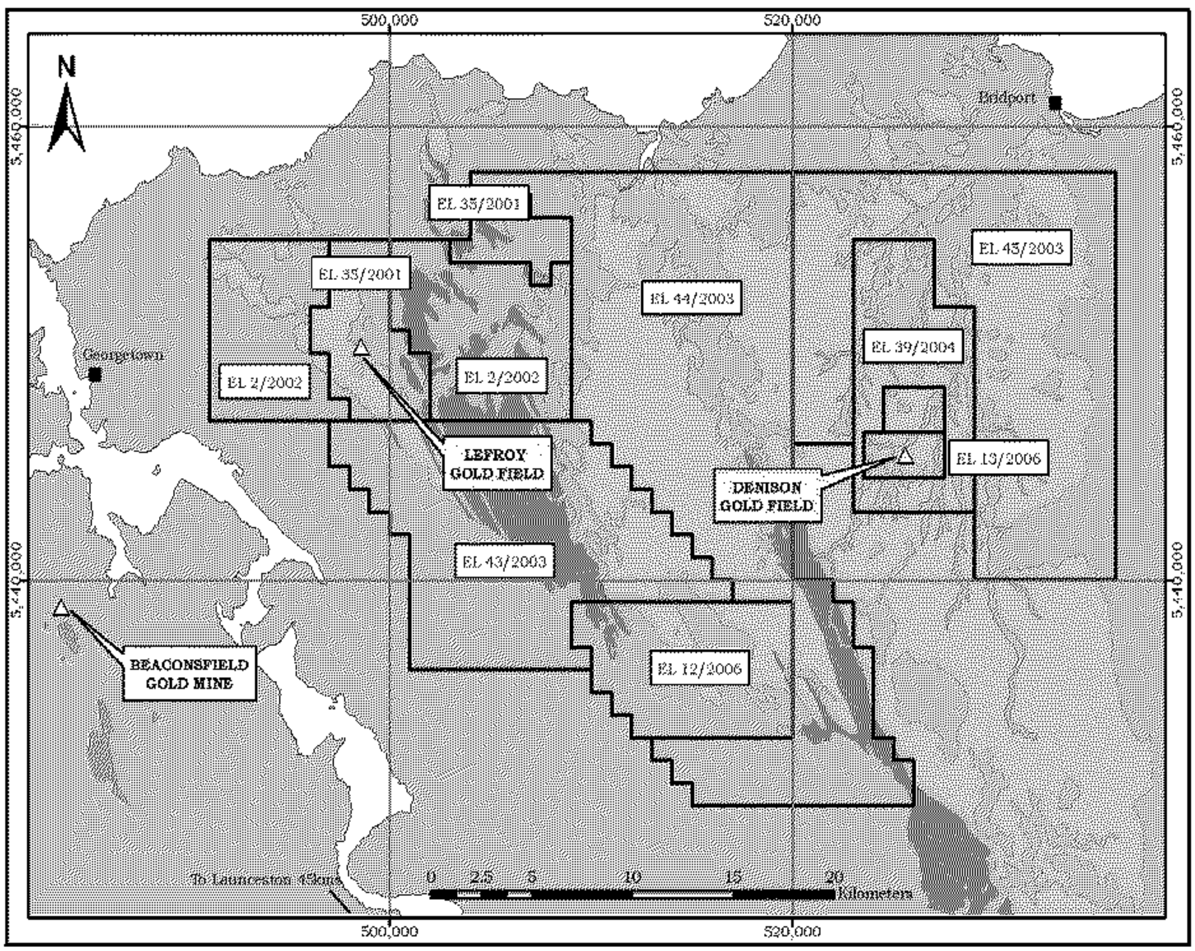
The Company's extensive landholding in the northeast of Tasmania takes in several mineralised structures including the newly acquired Denison Goldfield. Modern RC drilling (by Anglo Australian Resources NL) returned significant near surface mineralisation, interpreted as a disseminated gold hosted in sandstone deposit. Disseminated sandstone hosted gold also occurs at the +1,000,000 ounce Fosterville Mine in Victoria in a geologically similar environment.

Work completed at the Dennison Goldfield includes data collection and desktop GIS (Geographic Information System) compilation of the Project Area. Information has been incorporated into a 3D environment for further on-ground investigation and exploration planning for the 2007 field season. Unfortunately the Company's application for ERA 661 (Lone Star Creek) was unsuccessful.

Tenement Acquisition and Consolidation

During the year the Company further expanded its land holding to the east, with the granting of EL12/2005 covering the historic Denison Goldfield. The Company's exploration licences have been consolidated into a single Project Area for the purposes of reporting and expenditure.

Lefroy Resources Ltd – Tenement Map



FINANCIAL POSITION

The net assets of the Company have increased by $5,572,926 from 30 June 2005 to $11,226,794 in 2006. This increase has largely resulted from an increase in cash balances through a share placement of 5,300,000 shares to raise $1,325,000 and the conversion of 17,937,500 listed options to raise $4,484,375.

The directors believe the Company is in a strong and stable financial position to expand and grow its current operations.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- In February 2006 the Company announced the allotment and issue of 5,300,000 new fully paid ordinary shares at 25 cents per share to raise $1,325,000.
- In March 2006 13,936,021 options were exercised by option holders. Pursuant to the underwriting agreement the shortfall of 4,001,479 options from the original issue of 17,937,500 options was allotted to Cygnet Capital Pty Ltd. The total capital raised from the exercise of the options was $4,484,375.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to the Notes to the Financial Statements.

AFTER BALANCE DATE EVENTS

No matters or circumstances have arisen since the period ended 30 June 2006 which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Company continues to focus on exploiting its mineral exploration interests in Tasmania. Other than as referred to in this report, further information as to likely developments in the operations of the Company and expected results of those operations would, in the opinion of the Directors, be speculative and prejudicial to the interests of the Company and its shareholders.

ENVIRONMENTAL ISSUES

The Board believe that the Company has adequate systems in place for the management of environmental requirements and is not aware of any breach of environmental requirements as they apply to the Company.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Lefroy Resources Limited and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of Lefroy Resources Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The Board of Lefroy Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

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

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants where necessary.

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

- The board reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors

The performance of executives is measured against criteria agreed with each executive and is based predominantly on the forecast growth of the economic entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in employee share and option arrangements.

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.

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 time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. 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. On 23 November 2005 at the Company's Annual General Meeting it was resolved to limit the amount of non-executive director's remuneration to an aggregate maximum of $150,000 per annum. 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 and are able to participate in the employee option plan.

Company performance, shareholder wealth and director and executive remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The Board have issued options to the majority of directors to encourage the alignment of personal and shareholder interests.

Details of remuneration for year ended 30 June 2006

The remuneration for each director and the senior executive officers of the entity receiving the highest remuneration during the year was as follows:

Directors	Salary & Fees $	Super Contribution $	Cash Bonus $	Non-cash Benefits $	Options (a) $	Total $	Performance Related %
Non Executive							
Malcolm James	24,000	2,160	-	-	-	26,160	-
Craig Bromley	24,000	2,160	-	-	-	26,160	-
Tom Kelly	24,000	2,160	-	-	-	26,160	-
	72,000	**6,480**	**-**	**-**	**-**	**78,480**	**-**
Specified Executives							-
John Canaris	160,000	-	-	-	39,005	199,005	-
Colwyn Lloyd	103,920	-	-	-	2,515	106,435	
Jade Styants	21,950	-	-	-	-	21,950	
Jonathan Whyte	4,000	-	-	-	-	4,000	
	289,870	**-**	**-**	**-**	**41,520**	**331,390**	**-**

(a) The fair value of the options are calculated at the date of grant using the Black-Scholes model and allocated to each reporting period over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

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

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Lefroy Resources Limited to increase goal congruence between executives, directors and shareholders.

Directors	Granted No	Options Granted forming - Remuneration $	Total Remuneration - represented by Options $	Exercised $	Lapsed $
Non Executive					
Malcolm James	-	-	-	-	-
Craig Bromley	-	-	-	-	-
Tom Kelly	-	-	-	-	-
	-	-	-	-	-
Specified Executives					
John Canaris*	1,500,000	39,005	39,005	-	-
Colwyn Lloyd	246,000	2,515	2,515	-	-
Jade Styants	-	-	-	-	-
Jonathan Whyte	-	-	-	-	-
	1,746,000	**41,520**	**41,520**		

* Mr Canaris was granted 500,000 options over unissued shares on 31/12/04 and 1,500,000 options over unissued shares on 30/06/05 as part of his remuneration package. The value disclosed is the portion of the fair value of the options attached to this reporting period

Employment contracts of directors and senior executives

The employment conditions of the Chief Executive Officer, Mr John Canaris, is formalised in a contract of employment. Mr Canaris is employed under a fixed 12 month contract. At this time the Company has recommenced negotiations with Mr Canaris to enter a new service contract that will span a further 12 months.

Under the terms of the current contract Mr Canaris may terminate the agreement by providing three months written notice. The Company may terminate the agreement by providing three months written notice or provide payment in lieu of notice, based on the fixed component of Mr Canaris' remuneration. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time.

The employment conditions of Mr Colwyn Lloyd as Senior Geologist, is formalised in a contract of employment. Under the terms of the current contract Mr Lloyd may terminate the agreement at any time by providing four weeks written notice. The Company may terminate the agreement by providing four weeks written notice or provide payment in lieu of notice. The Company may terminate the contract at any time without notice if serious misconduct has occurred. In this case remuneration would only be payable up to the day of termination.

Meetings of Directors

During the financial year, 9 meetings (including committees of directors) were held. Attendances by each director during the year were as follows:

	Committee Meetings					
	Directors Meetings		Audit Committee		Remuneration Committee	
	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Non Executive						
Malcolm James**	6	6	2	2	1	1
Craig Bromley	6	6	-	-	1	1
Thomas Kelly*	6	6	2	2	-	-

* Mr Kelly is the chairman of the Audit Committee with Mr James being a member
** Mr James is the chairman of the Remuneration Committee with Mr Bromley being a member

Indemnifying Director's and Officers

The Company has made an agreement to indemnify all the Directors and Officers of the Company against all losses or liabilities incurred by each Director and Officer in their capacities as Directors and Officers of the Company. During the period ended 30 June 2006, the Company paid insurance premiums in respect of Directors' and Officers Liability Insurance for Directors and Officers of the Company. The liabilities insured are damages and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the Directors and Officers in their capacity as Directors and Officers of the entity and related joint venture companies. The total amount of insurance premiums paid has not been disclosed due to confidentiality reasons.

Options

At the date of this report, the unissued ordinary shares of Lefroy Resources Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
31/12/04	31/12/07	$0.25	500,000
30/06/05	30/06/08	Various	1,500,000
24/01/06	30/06/08	Various	246,000

Proceedings on Behalf of the 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 those proceedings. The Company was not a party to any such proceedings during the year.

Non-audit services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid to the external auditors during the year ended 30 June 2006:

Service	$
Taxation Services	2,400
Total	**2,400**

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 22 of the director's report.

Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and director's report have been rounded to the nearest dollar.

1304 Hay Street
West Perth WA 6005
PO Box 709 West Perth WA 6872
Tel: (08) 9426 4500
Fax: (08) 9481 5645
admin@somesandcooke.com.au
www.somesandcooke.com.au

SomesandCooke

27 September 2006

The Board of Directors
Lefroy Resources Ltd
278 Barker Road
SUBIACO WA 6008

Dear Directors

Lefroy Resources Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Lefroy Resources Ltd

As lead audit partner for the audit of the financial statements of Lefroy Resources Ltd for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Somes Cooke

SOMES and COOKE

K Somes

Partner
Chartered Accountants

Partners
Kevin Somes FCA
John Cooke FCA ACIS

Associates
Julie Burns CA
Michelle Rose CA CFP

Chartered Accountants Business Consultants and Financial Advisers

Income Statement for Year Ended 30 June 2006

FOR YEAR ENDED 30 JUNE 2006

	Notes	2006 $	2005 $
REVENUE FROM ORDINARY ACTIVITIES	3	244,778	240,722
Employee benefits expense	4	(136,169)	(84,758)
Depreciation and amortisation expenses	4	(17,914)	(6,393)
Other expenses from ordinary activities	4	(177,422)	(140,873)
PROFIT / (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(86,727)	8,698
Income tax expense relating to Ordinary Activities	5	-	-
NET PROFIT / (LOSS) ATTRIBUTABLE TO MEMBERS OF LEFROY RESOURCES LIMITED		**(86,727)**	**8,698**
Basic earnings /(loss) per share (cents per share)	15	(0.21)	0.036
Diluted earnings /(loss) per share (cents per share)	15	(0.21)	0.027

Balance Sheet as at 30 June 2006

AS AT 30 JUNE 2006

	Notes	2006 $	2005 $
CURRENT ASSETS			
Cash and cash equivalents	6	7,960,171	3,917,744
Trade and other receivables	7	71,142	53,092
TOTAL CURRENT ASSETS		8,031,313	3,970,836
NON CURRENT ASSETS			
Trade and other receivables	7	69,851	52,288
Property, plant and equipment	8	28,197	35,956
Exploration and evaluation expenditure	9	3,338,669	1,839,878
TOTAL NON CURRENT ASSETS		3,436,717	1,928,122
TOTAL ASSETS		11,468,030	5,898,958
CURRENT LIABILITIES			
Trade and other payables	10	241,236	245,090
TOTAL CURRENT LIABILITIES		241,236	245,090
TOTAL LIABILITIES		241,236	245,090
NET ASSETS		**11,226,794**	**5,653,868**
EQUITY			
Issued Capital	11	11,261,881	5,643,748
Reserves	12	45,701	4,181
Retained Earnings/(Losses)		(80,788)	5,939
TOTAL EQUITY		**11,226,794**	**5,653,868**

Statement of Changes in Equity for the Year Ended 30 June 2006

AS AT 30 JUNE 2006

	Share Capital Ordinary $	Accumulated Profit/(Losses) $	Option Reserve $	Total $
BALANCE AT 1 JULY 2004	5,483,837	(2,759)	-	5,481,078
Shares Issued during the year	-	-	-	-
Exercise of Options	179,375	-	-	179,375
Transaction Costs	(19,464)	-	-	(19,464)
Cost of Share Based Payment	-	-	4,181	4,181
Profit for period	-	8,698	-	8,698
BALANCE AT 30 JUNE 2005	**5,643,748**	**5,939**	**4,181**	**5,653,868**
Shares Issued during the year	1,325,000	-	-	1,325,000
Exercise of Options	4,484,375	-	-	4,484,375
Transaction Costs	(191,242)	-	-	(191,242)
Cost of Share Based Payment	-	-	41,520	41,520
Loss for period	-	(86,727)	-	(86,727)
BALANCE AT 30 JUNE 2006	**11,261,881**	**(80,788)**	**45,701**	**11,226,794**

Cash Flow Statement for Year Ended 30 June 2006

FOR THE PERIOD ENDED 30 JUNE 2006

	Notes	2006 $	2005 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(288,741)	(200,209)
Interest received		239,578	240,722
Other Payments		5,200	-
NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES	13 (a)	**(43,963)**	**40,513**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(9,203)	(20,656)
Payments for exploration and evaluation		(1,522,540)	(1,070,658)
NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES		**(1,531,743)**	**(1,091,314)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		5,809,375	179,375
Proceeds from conversion of options		(191,242)	(19,464)
NET CASH FLOWS PROVIDED BY/(USED IN) FINANCING ACTIVITIES		**5,618,133**	**159,911**
NET INCREASE/(DECREASE) IN CASH HELD		**4,042,427**	**(890,890)**
Add opening cash brought forward		**3,917,744**	**4,808,634**
CLOSING CASH CARRIED FORWARD	6	**7,960,171**	**3,917,744**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general-purpose financial report, which 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 Lefroy Resources Limited as an individual entity. Lefroy Resources Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Lefroy Resources Limited complies 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 entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

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

Lefroy Resources Limited has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

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

The accounting policies set out below have been consistently applied to all years presented. The entity has however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Refer to Note 25 of the Notes to the Financial Statements for further details on changes in accounting policy.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 of the Notes to the Financial Statements.

Reporting Basis and Conventions

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

Accounting Policies

a) Income Tax

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

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

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

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

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

b) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. Refer to Note 25 for further details on changes in accounting policy.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

c) Property, Plant and Equipment

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

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis.

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

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

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

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

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the entity commencing from the time the asset is held ready for use as follows:

Plant and equipment	3-5 years
Plant and equipment under lease	8 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

d) Exploration and Development Expenditure

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

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

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

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

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

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

e) Investment Property

Investment property, comprising freehold office complexes, is held to generate long-term rental yields. All tenant leases are on an arm's length basis. Investment property is carried at fair value, determined annually by independent valuers. Changes to fair value are recorded in the income statement as other income.

f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to the entity, are classified as finance leases.

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

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

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

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

g) Financial Instruments

Recognition

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Financial Liabilities

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

Derivative Instruments

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

Lefroy Resources Limited designates certain derivatives as either;

i) hedges of the fair value of recognised assets or liabilities or a firm commitment; or

ii) hedges of highly probably forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions is documented. Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented

(i) Fair value hedge

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

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

Fair Value

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

Impairment

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

h) Impairment of Assets

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

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

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

i) Intangibles

Goodwill

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

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

j) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

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

k) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within 12 months have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits

Defined superannuation schemes

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.

Equity-settled compensation

The entity operates a number of share-based compensation plans. These include both a share option arrangement and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

l) Provisions

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

m) Provision for Warranties

Provision is made in respect of the entity's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the economic entity's history of warranty claims.

n) Debt Defeasance

Where assets are given up to extinguish the principal repayments and all future interest payments of a debt any differences in the carrying values of assets foregone and the liability extinguished are brought to account in the profit from ordinary activities. Costs incurred in establishing the defeasance are expensed in the period that the defeasance occurs.

Where only part of a debt is extinguished the interest payments and principal repayments are deceased proportionately and a liability recognised for the net present value of the remaining future interest and principal repayments. The discount factor applied is the implicit rate in the original debt.

In all cases where defeasance occurs, it is highly unlikely that the company will again be required to pay any part of the debt or meet any guarantees or indemnities associated with the debt.

o) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

p) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets

Revenue from investment properties is recognised on an accruals basis or straight-line basis in accordance with leases agreements.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

q) Borrowing Costs

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

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

r) 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. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

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

s) Comparative Figures

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

t) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest dollar.

Critical Accounting Estimates and Judgements

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

Key Estimates — Impairment

The entity assesses impairment at each reporting date by evaluating conditions specific to the entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

The entity assesses impairment at each reporting date by evaluating conditions specific to the entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

		Previous GAAP at 1 July 2004	Effect of Transition to AIFRS	AIFRS at 1 July 2004
		$	$	$
Reconciliation of Equity at 1 July 2004				
CURRENT ASSETS				
Cash and cash equivalents	2(c)	4,808,634	-	4,808,634
Trade and other receivables	2(c)	34,923	-	34,923
Other financial assets		1,953	-	1,953
TOTAL CURRENT ASSETS		4,845,510	-	4,845,510
NON-CURRENT ASSETS				
Trade and other receivables		-	-	-
Property, plant and equipment		21,692	-	21,692
Mineral exploration expenditure		652,338	-	652,338
TOTAL NON-CURRENT ASSETS		674,030	-	674,030
TOTAL ASSETS		5,519,540	-	5,519,540
CURRENT LIABILITIES				
Trade and other payables		38,462	-	38,462
TOTAL CURRENT LIABILITIES		38,462	-	38,462
TOTAL LIABILITIES		38,462	-	38,462
NET ASSETS		**5,481,078**	-	**5,481,078**
EQUITY				
Issued Capital		5,483,837	-	5,483,837
Reserves		-	-	-
Retained Earnings/(Loss)	2(b)	(2,759)	-	(2,759)
TOTAL EQUITY		**5,481,078**	-	**5,481,078**

		Previous GAAP at 30 June 2005	Effect of Transition to AIFRS	AIFRS at 30 June 2005
		$	$	$
Reconciliation of Equity at 30 June 2005				
CURRENT ASSETS				
Cash and cash equivalents	2(c)	3,917,744	-	3,917,744
Trade and other receivables	2(c)	53,092	-	53,092
Other financial assets		-	-	-
TOTAL CURRENT ASSETS		3,970,836	-	3,970,836
NON-CURRENT ASSETS				
Trade and other receivables		52,288	-	52,288
Property, plant and equipment		35,956	-	35,956
Mineral exploration expenditure		1,839,878	-	1,839,878
TOTAL NON-CURRENT ASSETS		1,928,122	-	1,928,122
TOTAL ASSETS		5,898,958	-	5,898,958
CURRENT LIABILITIES				
Trade and other payables		245,090	-	245,090
TOTAL CURRENT LIABILITIES		245,090	-	245,090
TOTAL LIABILITIES		245,090	-	245,090
NET ASSETS		**5,653,868**	-	**5,653,868**
EQUITY				
Issued Capital		5,643,748	-	5,643,748
Reserves		-	4,181	4,181
Retained Earnings/(Loss)	2(b)	10,120	(4,181)	5,939
TOTAL EQUITY		**5,653,868**	-	**5,653,868**

		Previous GAAP 2005	Effect of Transition to AIFRS 2005	AIFRS 2005
		$	$	$
Reconciliation of Profit or Loss 2005				
Revenue		240,722	-	240,722
Employee benefits expense	2(a)	(80,577)	(4,181)	(84,758)
Depreciation and amortisation expense		(6,393)	-	(6,393)
Other expenses		(140,873)	-	(140,873)
Profit/(Loss) before income tax expense		12,879	(4,181)	8,698
Income tax expense relating to ordinary activities		-	-	-
Net Profit/(Loss) after tax from continuing operations		12,879	(4,181)	8,698
Profit/(Loss) for the Year		12,879	(4,181)	8,698

		30 June 2005	1 July 2004
		$	$
Notes to the reconciliations of equity and profit and loss at 1 July 2004 and 30 June 2005			
2 (a) The adjustment to employee benefits expense is made up as follows:			
Expensing of employee share options	2(a)i)	4,181	-
		4,181	**-**
(i) An expense was recognised under Australian equivalents to IFRS relating to the bonus elements of options issued to directors and employees of the economic entity amounting to $1,464 for the year ended 30 June 2005			
2(b) Adjustments to retained earnings comprise :			
Expensing of employee share options		(4,181)	-
		(4,181)	**-**

2(c) Under Australian equivalents to IFRS, short term deposits are classified as cash as opposed to receivables. All short term deposits have therefore been reclassified to cash or cash equivalents.

	2006 $	2005 $
3. REVENUE		
Operating Activities		
Interest Received	239,578	240,722
Total Revenue	**239,578**	**240,722**
Non-operating Activities		
Other Income	5,200	-
Total Other Income	**5,200**	**-**
Total Revenue	**244,778**	**240,722**
4. LOSS FOR THE YEAR		
Employee benefits expense	136,169	84,758
Depreciation of plant & equipment	17,914	6,393
Rental Expense on Operating Lease	20,823	9.927
Other expenses	156,599	130,946
Total expenses from ordinary activities	**331,505**	**232,024**

5. INCOME TAX

a) Income Tax Expense

The prima face tax on operating profit/(loss) from ordinary activities before income tax is reconciled to the income tax as follows:

	2006 $	2005 $
Loss from ordinary activites	(86,727)	8,698
Prima facie tax on profit/(loss) from ordinary activities	(26,018)	2,609
Tax effect of permanent differences	-	-
Benefit of tax losses not brought to account as an asset	26,018	(2,609)
Income tax expense attributable to entity	-	-

b) Tax Losses

The Directors estimate that the tax losses available to the Company at 30 June 2006 which may be available to offset against taxable income in future years is $2,934,494 (2005: $1,348,976). The benefit of these losses has not been brought to account as realisation is not virtually certain. The availability of these losses is subject to satisfying Australian taxation legislation requirements and will only be available if:

i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised

ii) provisions relating to the deduction of losses from prior years imposed by tax legislation continues to be complied with

iii) no changes in tax legislation adversely affect the Company in realising the benefit

c) Deferred Tax Liability

With regard to Exploration and Evaluation expenditure the tax liability in respect to the book value has not been brought to account as it is offset by the tax losses per (5b) above

		2006 $	2005 $
6. CASH AND CASH EQUIVALENTS			
Cash at bank and on hand		488,100	261,380
Short-term bank deposits		7,472,071	3,656,364
		7,960,171	**3,917,744**
Reconciliation of Cash			
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:			
Cash and cash equivalents		**7,960,171**	**3,917,744**
7. TRADE AND OTHER RECEIVABLES			
CURRENT			
Goods and services taxation receivable	(i)	71,142	53,092
		71,142	**53,092**
NON-CURRENT			
Bonds (Security over Exploration Licences)		69,851	52,288
		69,851	**52,288**

Terms and conditions:

(i) Goods and services taxation is non-interest bearing and generally on 14 day terms at the end of each quarter.

8. PROPERTY, PLANT AND EQUIPMENT

	2006 $	2005 $
Plant and equipment		
At cost	52,133	42,929
Accumulated depreciation	(23,936)	(6,973)
	28,197	**35,956**

a) Movements in Carrying Amounts:

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Plant/Equip $	Total $
Balance at the beginning of the year	35,956	35,956
Additions	11,703	11,703
Disposals	(1,548)	(1,548)

Depreciation expense	(17,914)	(17,914)
Revaluation increments/(decrements)	-	-
Carrying amount at the end of the year	**28,197**	**28,197**

	2006 $	2005 $

9. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation expenditure carried forward in respect of mining areas of interest::

	2006 $	2005 $
Carrying amount at beginning of the period	1,839,878	652,338
Exploration expenditure capitalised	1,498,791	1,187,540
Exploration expenditure written off	-	-
	3,338,669	**1,839,878**

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

10. TRADE AND OTHER PAYABLES

		2006 $	2005 $
Trade payables	(i)	232,714	238,272
Sundry payable and accrued expenses		8,522	6,818
Total trade and other payables		**241,236**	**245,090**

(i) Terms and conditions: Trade creditors are non-interest bearing and are normally settled on 30 day terms.

11. ISSUED CAPITAL

A reconciliation of the movement in capital and reserves for the economic entity and parent entity can be found in the statement of Changes in Equity

	2006 $	2005 $
59,112,501 (2005: 35,875,001) fully paid ordinary shares	11,261,881	5,643,748

(a) Ordinary Shares

	2006	2005
At the beginning of the reporting period	35,875,001	35,875,001
Shares Issued during the year		
- Placement February 2006 (a)	5,300,000	-
- Exercise of Options March 2006 (b)	17,937,500	-
At reporting date	**59,112,501**	**35,875,001**

a) On 23 February 2006 the company issued 5,300,000 fully paid ordinary shares at 25 cents per share to raise $1,325,000, pursuant to the announcement on 21 February 2006.

b) In the fourth quarter of 2004 the company issued 17,937,500 options to ordinary shareholders which entitled the holder to subscribe for one ordinary share in the company at a price of 25 cents each on or before 31 March 2006. During March 2006 13,936,021 options were exercised by option holders prior to expiry. The shortfall of 4,001,479 options were allotted to Cygnet Capital Pty Ltd pursuant to the underwriting agreement.

c) Ordinary shares have the right to receive dividends as declared and in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(b) Options

(i) For information relating to the Lefroy Resources Limited share option incentive plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 22 Share-based payments in the Notes to the Financial Statements.

(ii) For information relating to share options issued to key management personnel during the financial year, refer to Note 22 Share-based payments and also Note 17 Key Management Personnel Compensation in the Notes to the Financial Statements.

12. RESERVES

a) Option Reserve

The option reserve includes items recognised as expenses on valuation of employee share options

	2006 $	2005 $
13. CASH FLOW INFORMATION		
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Loss after tax	(86,727)	8,698
Non cash flows in profit/(loss):		
Depreciation	17,914	6,393
Share Options Expensed	41,520	4,181
Loss on disposal and property, plant and equipment	(951)	-
Changes in assets and liabilities:		
Decrease in trade and term receivables	(19,544)	(3,070)
Increase in trade payables and accruals	3,825	24,311
Cashflow from Operations	**(43,963)**	**40,513**

	2006 $	2005 $

14. EXPENDITURE COMMITMENTS

(a) Mineral Tenement Leases

In order to maintain current rights of tenure to exploration tenements, the Company is required to outlay rentals and to meet minimum expenditure requirements of $1,136,596 over the next two financial years per an agreement with Mineral Resources Tasmania (MRT). (2005 expenditure commitments not later than one year $779,310).

Financial commitments for subsequent periods are contingent upon future exploration results and can not be estimated.

(b) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised inthe financial statements

	2006 $	2005 $
Lease with respect to office premises - within 1 year	27,000	27,000

The property lease is a non-cancellable lease with a one year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments to be reviewed annually

15. LOSS PER SHARE

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

	2006 $	2005 $
a) Reconciliation pf earnings to profit or loss	(86,727)	8,698
Net Profit / (loss)	-	-
Redeemable and preference share dividends	(86,727)	8,698
Earnings used to calculate basic EPS	-	-
Dividends on converting preference shares	(86,727)	8,698
Earnings used in the calculation of dilutive EPS		

b) Weighted average number of ordinary shares outstanding during the year

	2006	2005
Weighted average number of ordinary shares used in calculating basic earnings per share	41,936,829	35,875,001
Weighted average number of ordinary shares used in calculating diluted earnings per share	41,936,829	35,875,001

16. AUDITOR'S REMUNERATION

	2006 $	2005 $
Remuneration of the auditor for :		
- auditing or reviewing the financial report	10,750	6,793
- taxation services	2,400	3,784
Balance at the end of period	**13,150**	**10,577**

17. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Names and positions held of key management personnel in office at anytime during the financial year are :

(i) Key Management Person	*Position*
Malcolm James	Chairman (Non-Executive)
Craig Bromley	Director (Non-Executive)
Tom Kelly	Director (Non-Executive)
John Canaris	Chief Executive Officer
Colwyn Lloyd	Senior Geologist
Jade Styants	Company Secretary (Joint)
Jonathan Whyte	Company Secretary (Joint)

(b) Compensation Practices

The board's policy for determining the nature and amount of compensation of key management is as follows :

The compensation structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. There is no scheme to provide retirement benefits, other than statutory superannuation.

The employment conditions of key management personnel are formalised in contracts of employment. The company may terminate an employment contract without cause by providing 3 months written notice or making payment in lieu of notice, based on the individual's annual salary. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the case of serious misconduct the company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

The remuneration committee determines the proportion of fixed and variable compensation for each key management personnel. Refer Note17 (c) of the Notes to the Financial Statements.

c) Key Management Personnel Compensation

2006 FINANCIAL YEAR

	Short Term Benefits	***Post - Emp Benefits***	***Share Based Payments***			
Key Persons	*Salary & commissions*	*Super-annuation*	*Equity*	*Options*	*Total*	*Performance Related*
	$	*$*	*$*	*$*	*$*	*%*
Non Executive						
Malcolm James	24,000	2,160	-	-	26,160	-
Craig Bromley	24,000	2,160	-	-	26,160	-
Tom Kelly	24,000	2,160	-	-	26,160	-
Specified Executives						
John Canaris	160,000	-	-	39,005	199,005	-
Colwyn Lloyd	103,920	-	-	2,515	106,435	-
Jade Styants	21,950	-	-	-	21,950	-
Jonathan Whyte	4,000	-	-	-	4,000	-
	361,870	**6,480**	**-**	**41,520**	**409,870**	-

2005 FINANCIAL YEAR

	Short Term Benefits	***Post - Emp Benefits***	***Share Based Payments***			
Key Persons	*Salary & commissions*	*Super-annuation*	*Equity*	*Options*	*Total*	*Performance Related*
	$	*$*	*$*	*$*	*$*	*%*
Non Executive						
Malcolm James	24,000	2,160	-	-	26,160	-
Craig Bromley	24,000	2,160	-	-	26,160	-
Tom Kelly	24,000	2,160	-	-	26,160	-
Specified Executives						
John Canaris	116,665	-	-	4,181	120,846	-
Colwyn Lloyd	71,031	-	-	-	71,031	-
Jade Styants	19,000	-	-	-	19,000	-
	278,696	**6,480**	**-**	**4,181**	**289,357**	-

Remuneration of specified directors and senior executives does not include insurance premiums to be paid by the company in respect of Directors and Officers liabilities.

(d) Compensation Options

Options Granted as Compensation

	Vested Number	*Granted Number*	*Grant Date*	*Value per Option at Grant Date*	*Exercise Price*	*First Exercise Date*	*Last Exercise Date*
Non Executive							
Malcolm James	-	-	-	-	-	-	-
Craig Bromley	-	-	-	-	-	-	-
Tom Kelly	-	-	-	-	-	-	-
Specified Executives							
John Canaris	1,500,000	1,500,000	30/06/05	0.061	various	-	30/06/08
Colwyn Lloyd	246,000	246,000	24/01/06	0.059	various	-	30/06/08
Jade Styants	-	-	-	-	-	-	-
Jonathan Whyte	-	-	-	-	-	-	-
Total	1,746,000	1,746,000					

All options are exercisable on or before 3 years from the date of issue (expiry date). All options are granted for nil consideration

(e) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance at 1 July 2005	*Granted as Compensation*	*Options Exercised*	*Net Change Other **	*Balance at 30 June 2006*
Non Executive					
Malcolm James	-	-	-	-	-
Craig Bromley	-	-	-	-	-
Tom Kelly	-	-	-	-	-
	-	-	-	-	-
Specified Executives					
John Canaris	500,000	1,500,000	-	-	2,000,000
Colwyn Lloyd	-	246,000	-	-	246,000
Jade Styants	-	-	-	-	-
Jonathan Whyte	-	-	-	-	-
Total	500,000	1,746,000	-	-	2,246,000

* Net Change Other per above includes those options that have been forfeited by holders as well as options issued during the year under review

(f) Shareholdings

Number of Shares held by Key Management Personnel

	Balance at 1 July 2005	***Received as Compensation***	***Options Exercised***	***Net Change Other****	***Balance at 30 June 2006***
Non Executive					
Malcolm James	241,500	-	167,780		409,280
Craig Bromley	3,000,000	-	1,000,000	-	4,000,000
Tom Kelly	3,062,501	-	-	-	3,062,501
Specified Executives					
John Canaris	500,000	-	-	-	500,000
Colwyn Lloyd	-	-	-	-	-
Jade Styants	-	-	-	-	-
Jonathan Whyte	-	-	-	-	-
				-	
Total	6,804,001	-	1,167,780	-	7,971,781

* Net Change Other refers to shares purchased or sold during the financial year

All equity transactions with specified directors and specified executives have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

18. RELATED PARTY DISCLOSURES

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties :

(a) Key Management Personnel

Tracker Geoservices Pty Ltd (Tracker), an entity associated with Mr Canaris was paid an amount of $160,000 in respect to the provision of executive management activities of Mr Canaris, with this amount being included in specified executives' remuneration.

Hopetoun Nominees Pty Ltd (Hopetoun), an entity associated with Mr Bromley was paid an amount of $2,730 for rent at commercial rates in respect to the Company's principal place of business, in which Hopetoun has an ownership interest. The amount disclosed above constitutes rental for July-September 2005 before the Company changed its principal place of business.

Montagu Stockbrokers Pty Ltd, of which Mr Bromley is a principal, was paid a capital raising fee of $66,250 (5% of total funds raised) on the allotment and issue of 5,300,000 fully paid ordinary shares at 25 cents per share to raise $1,325,000.

19. SEGMENT INFORMATION

The Company operates in one business and one geographic segment, being mineral exploration in Australia.

20. FINANCIAL INSTRUMENTS

(a) Financial Risk Management

The company's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments and accounts receivable and payable. The main purpose of non-derivative instruments is to raise finance for company operations

(i) Financial Risks

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements

(ii) Financial Instruments

Interest Rate Risk

The economic 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 the market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as per table on page 48 :

(iii) Net Fair Values

The aggregate net fair values of recognised financial assets and financial liabilities are consistent with the carrying amounts in the Statement of Financial Position, except for listed investments, which are carried at cost. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities :

- Cash, and short-term investments: the carrying amount approximates to fair value because of their short term to maturity
- Trade receivables and trade creditors: the carrying amount approximates fair value
- Listed investments: for financial instruments traded in organised financial markets fair value is the current quoted market bid price for an asset adjusted for transaction costs necessary to realised the asset

Notes to the Financial Statements for the Year ended 30 June 2006

Financial Instruments – Interest Rate Risk

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within 1 year		1-5 years		> 5 years		Non Interest Bearing		Total	
	2006 $	**2005 $**	**2006 $**	**2005 $**	**2006 $**	**2005 $**	**2006 $**	**2005 $**	**2006 $**	**2005 $**	**2006 $**	**2005 $**	**2006 $**	**2005 $**
Financial Assets														
Cash Assets & cash equivalents	5.5	5.17	488,100	261,380	7,472,071	3,656,365	-	-	-	-	-	-	7,960,171	3,917,744
Receivables	n/a	n/a	-	-	69,851	52,288	-	-	-	-			69,851	52,288
Bonds											71,142	53,092	71,142	53,092
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Financial Assets			488,100	261,380	7,541,922	3,708,653	-	-	-	-	71,142	53,092	8,101,164	4,023,124
Financial Liabilities					-	-	-	-	-	-				
Payables	n/a	-	-	-	-	-	-	-	-		241,036	245,090	241,036	245,090
Total Financial Liabilities	-	-	-	-	-	-	-	-	-	-	**241,036**	**245,090**	**241,036**	**245,090**

21. CONTINGENT LIABILITIES

The Board is not aware of any circumstances or information which leads them to believe there are any material contingent liabilities outstanding as at 30 June 2006.

22. SHARE BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2006:

The company has an incentive option scheme. Persons eligible to participate in the scheme include Directors, employees and consultants. The number of options to be granted to eligible persons is at the discretion of the directors. Each option entitles the holder to subscribe for one ordinary fully paid share.

On 30 June 2005 1,500,000 share options were granted to John Canaris at exercise prices ranging from 15 cents to 25 cents. On 24 January 2006 246,000 share options were granted to Colwyn Lloyd at exercise prices ranging from 15 cents to 25 cents. The options are exercisable on or before 30 June 2008. In determining the number of options issued and their terms, consideration was given to the relevant experience and role of each of the Senior Executives their respective overall remuneration terms, the current market price of the shares and the terms of option packages granted to directors of other companies within the resources industry. The options shall lapse upon the earlier of the expiry date or two years from the date of grant of the options, or such other date as the Board determines in its discretion at the time of the grant of the options.

All options granted to key management personnel are ordinary shares in Lefroy Resources Limited, which confer a right of one ordinary share for every option held.

	Economic Entity			
	2006		***2005***	
	Number of Options	***Weighted Average Exercise Price***	***Number of Options***	***Weighted Average Exercise Price***
Outstanding at the beginning of the year	500,000	$0.25	-	-
Granted	1,746,000	$0.203	500,000	$0.25
Forfeited	-	-	-	-
Exercised	-	-	-	-
Outstanding at year-end	2,246,000	$0.214	500,000	$0.25
Exercisable at year-end	2,246,000	$0.214	500,000	$0.25

The options outstanding at 30 June 2006 had a weighted average exercise price of $0.214 and a weighted average remaining contractual life of 1.88 years.

The fair value of the options granted during the year was calculated using the Black Scholes option pricing model applying the following inputs :

1,500,000 options granted 30/06/05

Weighted average exercise price	$0.20
Weighted average life of option	3 years
Underlying share price	$0.15
Expected share price volatility	50%
Risk free interest rate	5.75%

246,000 options granted 24/01/06

Weighted average exercise price	$0.225
Weighted average life of option	2.4 years
Underlying share price	$0.285
Expected share price volatility	50%
Risk free interest rate	5.75%

The historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the income statement is $41,520 (2005: $4,181), and relates, in full, to equity-settled share based payment transactions.

23. EVENTS AFTER BALANCE SHEET DATE

No matters or circumstances have arisen since the period ended 30 June 2006 which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

24. RETIREMENT BENEFIT OBLIGATIONS

a) Superannuation

The company contributes to a non-company sponsored or controlled superannuation fund. Contributions are made to an accumulation fund and are at least the minimum required by the law. There is no reason to believe that funds would not be sufficient to pay benefits as vested in the event of termination of the fund on termination of employment of each employee

25. CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and economic entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard Affected	Nature of Change / Impact	Standard Application Date	Application Date (Group)
2004–3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2006	1 July 2006
	AASB 124: Related Party Disclosures	No change, no impact	1 January 2006	1 July 2006
2005–1	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005–5	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005–6	AASB 3: Business Combinations	No change, no impact	1 January 2006	1 July 2006

AASB Amendment	AASB Standard Affected	Nature of Change / Impact	Standard Application Date	Application Date (Group)
2005–9	AASB 132: Financial Instruments: Recognition and Measurement	The Company is in the process of evaluating the effect of these changes of which the impact is not reasonably estimable at the date of this financial report.	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Disclosure and Presentation	The Company is in the process of evaluating the effect of these changes of which the impact is not reasonably estimable at the date of this financial report.	1 January 2006	1 July 2006
2005–10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 July 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 July 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 July 2007
	AASB 117: Leases	No change, no impact	1 January 2007	1 July 2007
	AASB 133: Earnings per share	No change, no impact	1 January 2007	1 July 2007
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2007	1 July 2007
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2007	1 July 2007
	AASB 4: Insurance Contracts	No change, no impact	1 January 2007	1 July 2007

AASB Amendment	AASB Standard Affected	Nature of Change / Impact	Standard Application Date	Application Date (Group)
	AASB 1023: General Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1038: Life Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
2006–1	AASB 121: The Effects of Changes in Foreign Exchange Rates	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 119: Employee Benefits: December 2004	No change, no impact	1 January 2007	1 July 2007

All other pending Standards issued between the previous financial report and the current reporting dates have no application to either the parent or economic entity.

AASB Amendment	AASB Standard Affected
2005–2	AASB 1023: General Insurance Contracts
2005–4	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation
2005–9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation

Directors Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 23 to 52 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 economic entity;

2. the Chief Executive Officer and Chief Finance 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 director's 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.

On behalf of the Board

Thomas Kelly
Director

Perth, 27 September 2006

Independent Audit Report

Somes Cooke

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF LEFROY RESOURCES LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Lefroy Resources Limited ("the company"), for the year ended 30 June 2006 as set out on pages 22 to 51.

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

Audit approach

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

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Australian International Financial Reporting 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.

Partners

Associates

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

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

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

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

(i) giving a true and fair view of the financial position of Lefroy Resources Limited 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.

Somes & Cooke

Somes & Cooke

KEVIN C SOMES
Partner
Perth
Date: 29th September 2006

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 26 September 2006.

(a) Distribution of equity securities as at 26 September 2006:

Listed Fully Paid Ordinary Shares	Number of Holders	Number of Shares
1 - 1,000	4	393
1,001 - 5,000	44	157,090
5,001 - 10,000	84	765,471
10,001 - 100,000	329	12,079,529
100,001 - and over	90	46,110,018
	551	59,112,501

(b) The number of shareholders holding less than a marketable parcel of ordinary shares is 15, totalling 20,483ordinary shares.

(c) Top twenty equity holders at 26 September 2006:

	Listed Fully Paid Ordinary Shares	Number of Shares	Percentage of Shares
1	ANZ Nominees Limited <Cash Income A/C>	5,760,798	9.75%
2	Harman Nominees Pty Ltd	2,794,061	4.73%
3	Mr Nicholas Theodore Paspaley	2,744,060	4.64%
4	Apnea Holdings Pty Ltd <The Kelly Family A/C>	2,503,975	4.24%
5	Mr Daniel Paul Wise	2,157,500	3.65%
6	Mr James Bremner Skinner & Mrs Janice Ivy Skinner <Topspeed Pty Ltd No 2 A/C>	2,107,096	3.56%
7	Topspeed Pty Ltd <Skinner No 1 Super A/C>	2,087,863	3.53%
8	Ms Susan Jacqueline Bromley	2,000,000	3.38%
9	Blackmort Nominees Pty Ltd <41031 Account>	1,460,000	2.47%
10	Sapphire Trading Ltd	1,350,000	2.28%
11	Dr Hendrik Napp	1,200,000	2.03%

	Listed Fully Paid Ordinary Shares	Number of Shares	Percentage of Shares
12	Flue Holdings Pty Ltd <Bromley Superannuation A/C>	1,000,000	1.69%
13	Flue Holdings Pty Ltd	1,000,000	1.69%
14	Mr Neil Conrad Carter	682,598	1.15%
15	Mr Neil Conrad Carter	555,561	0.94%
16	Banksmeadow Pty Ltd	500,000	0.85%
17	Mr John Pano Canaris	500,000	0.85%
18	Toltec Holdings Pty Ltd	500,000	0.85%
19	Mr Daniel Paul Wise <Superannuation Fund A/C>	500,000	0.85%
20	Sassey Pty Ltd <Avago Superannuation A/C>	483,600	0.82%
		31,887,112	53.95%

(d) Substantial shareholders

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

	Number of Shares	Percentage of Ordinary Shares
James & Janice Skinner	4,254,959	7.19%
Craig Bromley	4,000,000	6.76%
Thomas Kelly	3,066,475	5.18%

(e) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(f) Unlisted Options

There are 500,000 unlisted options over unissued shares on issue, in the class exercisable at 25 cents per share on or before 31 December 2007. There is 1 holder of this class of option. There are 1,746,000 unlisted options over unissued shares on issue, in the class exercisable at various prices per share on or before 30 June 2008. There are 2 holders of this class of option.

(g) Cash Usage

Since the time of listing on the ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of the ASX in a manner which is consistent with its business objectives.

(h) Schedule of Mining Tenements

All tenements are situated in north eastern region of Tasmania, Australia:

Tenement ID	Area (Km2)	Prospect Area Name	Status
ML16M/91	0.31	Lefroy Mining Lease	Granted (to Nov 2010)
EL35/2001	42	Lefroy Project Area	Granted (to Oct 2008)
EL2/2002	55	Pipers River Project Area	Granted (to Oct 2008)
EL43/2003	139	Den Ranges Project Area	Granted (to Oct 2009)
EL44/2003	239	Lebrina Project Area	Granted (to Oct 2009)
EL45/2003	186	Nabowla Project Area	Granted (to Oct 2009)
EL13/2006	8	Lone Star Creek Project Area	Granted (to Jul 2011)
EL39/2004	52	Ferny Hill Project Area	Granted (to Sep 2009)
EL12/2006	58	Bangor Project Area	Granted (to Jul 2011)

Key: ML = Mining Lease
EL = Exploration Licence