CHALICE
GOLD MINES LIMITED
ACN 116 648 956

CHALICE GOLD MINES LIMITED
Level 2, 1292 Hay Street,
West Perth, WA 6005

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29 September 2006

Company Announcements Office
Australian Stock Exchange Ltd
10th Floor 20 Bond Street
SYDNEY NSW 2000

Dear Sirs

2006 Annual Financial Report

Please refer to the attached copy of the 2006 Annual Financial Report.

Yours faithfully

RICHARD HACKER
Company Secretary

Att.

CHALICE GOLD MINES LIMITED

ABN 47 116 648 956

Annual Financial Report
30 June 2006

Chalice Gold Mines Limited
Corporate Directory

Directors
A R Bantock – Executive Chairman
J R McIntyre – Executive Director
T R B Goyder - Non-executive Director
B W Alexander - Non-executive Director

Company Secretary
R K Hacker

Principal Place of Business & Registered Office
Level 2 1292 Hay Street
WEST PERTH WA 6005
Tel: (08) 9322 3960
Fax: (08) 9322 5800
Web: www.chalicegold.com
Email: info@chalicegold.com

Auditors
HLB Mann Judd
15 Rheola Street
WEST PERTH WA 6005

Solicitors
Pullinger Readhead Lucas
Level 2 Fortescue House
50 Kings Park Road
WEST PERTH WA 6005

Share Registry
Computershare Investor Services Pty Limited
Level 2 Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000
Tel: 1300 557 010

Home Exchange
Australian Stock Exchange Limited
Exchange Plaza 2 The Esplanade
PERTH WA 6000

ASX Code
Share Code: CHN

Contents

The directors present their report together with the financial report of Chalice Gold Mines Limited ('Chalice Gold Mines' or 'the Company') for the period ended 30 June 2006 and the independent audit report thereon. The Company was incorporated on 13 October 2006.

1. Directors

The directors of the Company at any time during or since the end of the period are:

A R Bantock B.Com, ACA Executive Chairman (appointed 13 October 2005)	Andrew has extensive professional, corporate and commercial experience in the resources, resource contracting and infrastructure sectors. He is currently Executive Director of Uranium Equities Limited, Managing Director of Base Resources Limited and is a Director of Water Corporation, Western Australia's water utility. Andrew was previously with GRD Ltd, where he served six years as Finance Director.
J R McIntyre BSc (Hons), MAIG Executive Director (appointed 28 October 2005)	John has over 19 years experience in mineral exploration throughout Australia, for gold, nickel, platinum group metals, copper-gold and zinc-lead mineralisation. John graduated from the University of Western Australia in 1985 with First Class Honours in Geology, and has spent the last ten years in either senior management roles with exploration companies, or consulting to both exploration and production companies. John is a member of the Australian Institute of Geoscientists, the Geological Society of Australia, and the Society of Economic Geologists.
T R B Goyder Non-executive Director (appointed 13 October 2005)	Tim has over twenty five years experience in the resource industry. He is currently Managing Director and Proprietor of Grimwood Davies Pty Ltd, a contract drilling company, based in Western Australia. Tim has been involved in the formation and management of a number of publicly-listed companies and is currently a Director of Uranium Equities Limited and Chairman of Base Resources Limited.
B W Alexander BSc, MAusIMM Non-executive Director (appointed 28 October 2005)	Bryan is a qualified geologist with over 15 years experience in the exploration and mining industry. Bryan is the principal of a geological contracting and consulting services practice, Archaean Exploration Services Pty Ltd ('Archaean'). Most recently Archaean has been responsible for directing the exploration, underground mine geology and acquisition activities for a private exploration and mining syndicate. Prior to this Bryan has been responsible for the management of regional offices and the implementation of substantial exploration and resource definition programs for several mining companies.
A W Kiernan (appointed 13 October 2005) (resigned 28 October 2005)	

2. Company secretary

R K Hacker
B.Com, ACA, ACIS
(appointed 28 October 2005)

Richard has 13 years professional and corporate experience in the resources sector in both Australia and the United Kingdom. For the last six years he has worked in senior finance roles with global energy companies including Woodside Petroleum Limited and Centrica Plc. Prior to this, Richard worked for seven years with leading accounting practices. Richard is both a Chartered Accountant and Chartered Secretary. Richard is also the Company Secretary of Uranium Equities Limited and Base Resources Limited.

3. Directors' meetings

During the financial period, eight directors' meetings were held. The number of meetings attended by each of the directors of the Company during the period are:

Director	Number of board meetings attended	Number of meetings held during the time the director held office during the year
A R Bantock	8	8
J R McIntyre	8	8
T R B Goyder	8	8
B W Alexander	8	8
A W Kiernan	-	-

4. Principal activities

The principal activities of the Company during the course of the period were mineral exploration and evaluation.

5. Review of Operations

Following an initial public offering ('IPO'), raising $7.5 million, the Company has undertaken a substantial drilling and exploration programme at its Higginsville, Chalice Gold Mine and Yandeearra exploration projects.

A scoping study at the Chalice Gold Mine, incorporating post IPO drilling results, was completed in July 2006, with a re-evaluation of the existing resource estimate of 162,700 ounces at 3.22 g/t gold, and consequent reduction of the resource estimate to 77,000 ounces at 5.28 g/t gold.

The Company incurred a loss of $1,687,726 for the period predominantly as a result of an accounting write down of exploration and evaluation assets of $1,317,618 relating to the Chalice Gold Mine project as a result of the above. Of the accounting write down, $650,664 relates to post IPO exploration expenditure and $666,954 relates to carry forward costs of acquisition of the project.

6. Significant changes in the state of affairs

The Company was admitted to the Official List of the Australian Stock Exchange ('ASX') on 24 March 2006 following the successful completion of an IPO by way of a prospectus, raising $7.5 million by the allotment and issue of 37.5 million shares. Official quotation of 72.8 million securities commenced on 24 March 2006.

Other than as referred to in the Financial Report, there has not been any matter or circumstance that has arisen since the end of the period that has 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 years.

7. Remuneration report

This report outlines remuneration arrangements in place for directors and executives of Chalice Gold Mines.

7.1 Principles of compensation

The broad remuneration policy of the Company is to ensure that remuneration levels for executive directors, secretaries and senior managers are set at competitive levels to attract and retain appropriately qualified and experienced personnel. Remuneration packages include a combination of fixed remuneration and long term incentives.

Fixed compensation

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits, including motor vehicles), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually through a process that considers the person's responsibilities, expertise, duties and personal performance.

Long-term incentives

Options may be issued under the Employee Share Option Plan to directors, employees and consultants of the Company and must be exercised within 3 months of termination. The ability to exercise the options is usually based on the option holder remaining with the Company for at least one year. Other than the vesting period, there is no performance hurdle required to be achieved by the Company to enable the options to be exercised.

The Company believes that the issue of share options in the Company aligns the interests of directors, employees and shareholders alike.

Employment contracts
The following table sets out the contractual provisions of executive directors and senior managers.

Name and Job Title	Employment Contract Duration	Notice Period	Termination Provision
Executive Directors			
A R Bantock Executive Chairman	Unlimited	3 months by the Company and the employee	Other than for misconduct, the Company must pay Mr Bantock $125,000 to terminate his contract.
J R McIntyre Executive Director	Unlimited	1 month by the Company and the employee	No termination provisions
Senior Management			
R K Hacker Company Secretary	Unlimited	1 month by the Company and the employee	No termination provisions

Non-executive directors
The Board recognises the importance of attracting and retaining talented non executive directors and aims to remunerate these directors in line with fees paid to directors of companies in the mining and exploration industry of a similar size and complexity.

Total compensation for all non-executive directors is not to exceed $150,000 per annum.

7.2 Directors' and executive officers' remuneration (audited)

Key Management Personnel		Short-term			Post-employment	Share-based payments		Value of options as proportion of remuneration %
		Salary & fees $	Non-monetary benefits $	Total $	Super-annuation benefits $	Options (A) $	Total $	
Directors								
A R Bantock	2006	31,163	3,378	34,541	2,805	43,762	81,108	54%
J R McIntyre	2006	44,426	6,775	51,201	4,487	21,881	77,569	28%
T R B Goyder	2006	12,465	3,378	15,843	1,122	43,762	60,727	72%
B W Alexander	2006	7,479	3,183	10,662	673	10,941	22,276	49%
Executives								
R K Hacker (Company Secretary)	2006	35,326	3,183	38,509	3,179	5,470	47,158	12%
Total Compensation	**2006**	**130,859**	**19,897**	**150,756**	**12,266**	**125,816**	**288,838**	

No key management personnel incurred any salaries or fees until the Company listed on the ASX on 24 March 2006.

Notes in relation to the table of directors' and executive officers' remuneration

A. The fair value of the options are calculated at the date of grant using a binomial option-pricing model and allocated to each reporting period evenly 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. The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of ordinary shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
21 March 2006	21 March 2011	$0.08	$0.25	$0.20	80%	5.3%	Nil

Details of performance related remuneration

Details of the Company's policy in relation to the proportion of remuneration that is performance related is discussed on page 5.

7.3 Equity instruments

7.3.1 Options and rights over equity instruments granted as compensation

Details of options over ordinary shares in the Company that were granted as compensation to each key management personnel during the reporting period and details of options that vested during the reporting period are as follows:

	Number of options granted during 2006	Grant date	Number of options vested during 2006	Fair value per option at grant date $	Exercise Price $	Expiry date
Directors						
A R Bantock	2,000,000	21 March 2006	-	0.08	0.25	21 March 2011
J R McIntyre	1,000,000	21 March 2006	-	0.08	0.25	21 March 2011
T R B Goyder	2,000,000	21 March 2006	-	0.08	0.25	21 March 2011
B W Alexander	500,000	21 March 2006	-	0.08	0.25	21 March 2011
Executives						
R K Hacker	250,000	21 March 2006	-	0.08	0.25	21 March 2011

No options have been granted to key management personnel since the end of the period. The options were provided at no cost to the recipients.

7.3.2 Exercise of options granted as compensation

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

Analysis of options and rights over equity instruments granted as compensation
Details of the vesting profile of the options granted as remuneration to each director of the Company and each of the named Company executives are outlined below.

	Number granted	Date granted	% vested in year	Forfeited in year	Period in which grant vests
Directors					
A R Bantock	2,000,000	21 March 2006	-	-	2007
J R McIntyre	1,000,000	21 March 2006	-	-	2007
T R B Goyder	2,000,000	21 March 2006	-	-	2007
B W Alexander	500,000	21 March 2006	-	-	2007
Executives					
R K Hacker	250,000	21 March 2006	-	-	2007

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the named Company executives is detailed below.

	Granted in year $ (A)	Value of options exercised in year $ (B)	Total option value in year $
Directors			
A R Bantock	158,150	-	158,150
J R McIntyre	79,075	-	79,075
T R B Goyder	158,150	-	158,150
B W Alexander	39,538	-	39,538
Executives			
R K Hacker	19,769	-	19,769

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a binomial option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

(B) The value of options exercised during the year is calculated as the market price of shares of the Company on ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

8. Dividends

No dividends were declared or paid during the period and the directors recommend that no dividend be paid.

9. Events subsequent to reporting date

There are no events subsequent to reporting date which require disclosure.

10. Likely developments

The Company will continue activities in the exploration and evaluation of minerals tenements with the objective of developing a significant minerals business.

11. Directors' interests

The relevant interest of each director in the shares, rights or options over such instruments issued by the Company and other related bodies corporate, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares	Options over ordinary shares
A R Bantock	2,431,772	2,000,000
J R McIntyre	193,336	1,000,000
T R B Goyder	9,386,816	2,000,000
B W Alexander	445,336	500,000

12. Share options

Options granted to directors and officers of the Company
During or since the end of the period, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors and to the most highly remunerated officers of the Company as part of their remuneration:

	Number of options granted	Exercise price	Expiry date
Directors			
A R Bantock	2,000,000	$0.25	21 March 2011
J R McIntyre	1,000,000	$0.25	21 March 2011
T R B Goyder	2,000,000	$0.25	21 March 2011
B W Alexander	500,000	$0.25	21 March 2011
Officers			
R K Hacker	250,000	$0.25	21 March 2011

All options were granted during the period. No options have been granted since the end of the period.

Unissued shares under options
At the date of this report 6,575,000 unissued ordinary shares of the Company are under option on the following terms and conditions:

Expiry date	Exercise price	Number of shares
21 March 2011	$0.25	6,075,000
1 May 2011	$0.25	500,000

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Shares issued on exercise of options
During or since the end of the period, the Company has not issued any ordinary shares as a result of the exercise of options.

13. Indemnification and insurance of directors and officers

The Company has agreed to indemnify all the directors who have held office of the Company during this period, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

During the period the Company has paid insurance premiums of $16,305 in respect of directors and officers liability and legal expenses insurance contracts, for current and former directors and officers. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The amount of insurance paid is included in directors and executives remuneration on page 7.

14. Non-audit services

During the year HLB Mann Judd, the Company's auditors, performed no other services in addition to their statutory duties other than the preparation of an Independent Accountants Report in relation to the Company's prospectus.

15. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 12 and forms part of the directors' report for period ended 30 June 2006.

This report is made with a resolution of the directors:

ANDREW R BANTOCK
Executive Chairman

Dated at Perth this 29th day of September 2006.

HLB Mann Judd
Chartered Accountants

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Chalice Gold Mines Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Chalice Gold Mines Limited.

Perth, Western Australia	**L Di Giallonardo**
29 September 2006	**Partner, HLB Mann Judd**

HLB Mann Judd (WA Partnership)
15 Rheola Street West Perth 6005. PO Box 263 West Perth 6872 Western Australia. DX 238 (Perth) Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.
Email: hlb@mjwa.com.au. Website: http://www.hlb.com.au
Partners: Ian H Barsden, Terry M Blenkinsop, Litsa Christodulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of HLB International and the HLB Mann Judd National Association of independent accounting firms

Chalice Gold Mines Limited

Income Statement

For the period of incorporation until 30 June 2006

	Note	2006 $
Revenue	3	154,176
Impairment losses on exploration and evaluation expenditure		(1,339,651)
Corporate administrative expenses	4	(501,956)
Finance costs	7	(295)
Loss before tax		**(1,687,726)**
Income tax expense/benefit	8	-
Loss for the period		**(1,687,726)**
Basic earnings per share attributable to ordinary equity holders	9	(0.06)
Diluted earnings per share attributable to ordinary equity holders	9	(0.06)

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 17 to 33.

Chalice Gold Mines Limited

Balance Sheet

As at 30 June 2006

	Note	2006 $
Current Assets		
Cash and cash equivalents	10	5,427,250
Trade and other receivables	11	328,325
Total current assets		**5,755,575**
Non-current assets		
Financial assets	12	43,000
Exploration and evaluation assets	13	7,175,824
Property, plant and equipment	14	199,207
Total non-current assets		**7,418,031**
Total assets		**13,173,606**
Current Liabilities		
Trade and other payables	15	697,826
Interest-bearing loans and borrowings	16	11,197
Employee benefits	17	38,931
Total current liabilities		**747,954**
Non-current Liabilities		
Interest-bearing loans and borrowings	16	5,771
Total non-current liabilities		**5,771**
Total liabilities		**753,725**
Net assets		**12,419,881**
Equity		
Issued capital	18	13,974,454
Accumulated losses	18	(1,687,726)
Reserves	18	133,153
Total Equity		**12,419,881**

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 17 to 33.

Chalice Gold Mines Limited

Statement of Changes in Equity

As at 30 June 2006

	Note	Share capital $	Accumulated losses $	Share based payments reserve $	Total equity $
Balance at date of incorporation		-	-	-	-
Issue of fully paid ordinary shares – tenement acquisition		7,000,000	-	-	7,000,000
Issue of fully paid ordinary shares – initial public offering		7,500,000	-	-	7,500,000
Issue of fully paid ordinary shares – other		60,002	-	-	60,002
Transaction costs		(585,548)	-	-	(585,548)
Employee share options vested		-	-	133,153	133,153
Loss for the period		-	(1,687,726)	-	(1,687,726)
Balance at 30 June 2006	18	13,974,454	(1,687,726)	133,153	12,419,881

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 17 to 33.

Chalice Gold Mines Limited

Cash Flow Statement

For the period of incorporation until 30 June 2006

	Note	2006 $
Cash flows from operating activities		
Cash receipts from operations		33,871
Cash paid to suppliers and employees		(354,557)
Interest paid		(179)
Interest received		53,309
Net cash used in operating activities	21	(267,556)
Cash flows from investing activities		
Payments for mining exploration and evaluation		(1,044,271)
Acquisition of property, plant and equipment		(191,007)
Net cash from investing activities		(1,235,278)
Cash flows from financing activities		
Net proceeds from issue of shares		6,974,454
Lodgement of guarantee		(43,000)
Proceeds from borrowings		100,200
Repayment of borrowings		(101,570)
Net cash from financing activities		6,930,084
Net increase in cash and cash equivalents		5,427,250
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at 30 June 2006	10	5,427,250

The cash flow statement is to be read in conjunction with the notes to the financial statements set out on pages 17 to 33.

1. Significant accounting policies

Chalice Gold Mines is a company domiciled in Australia. The financial report of the Company is for the period ended 30 June 2006.

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

(a) Statement of compliance

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

(b) Basis of Preparation

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

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1010 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*
- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004)
- UIG 4 *Determining whether an Arrangement contains a Lease*
- UIG 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*
- UIG 8 *Scope of AASB 2*.

Issued standards not early adopted

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

- AASB 7 Financial Instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.

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

Other standards issued and available for early adoption but not applied by the Company have not been included above as they are not expected to have a significant impact on the financial report of the Company.

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

The financial report is prepared on the historical cost basis.

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

Critical accounting judgements, estimates and assumptions

(i) Recoverability of exploration expenditure

The carrying amount of Exploration and Evaluation expenditure is dependent on the future successful outcome from exploration activity or alternatively the sale of the respective areas of interest.

(ii) Shared-based payment transactions

The Company measures the cost of equity-settled share-based payments at fair value at the grant data using a binomial formula taking into account the terms and conditions upon which the instruments were granted.

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Joint ventures

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

Jointly controlled operations and assets

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

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(d) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (i)). The cost of assets includes the cost of materials, direct labour, and where appropriate, an appropriate proportion of overheads.

(ii) Leased assets

Leases in terms of which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy (i))

(iii) Subsequent costs

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

(e) Depreciation

Depreciation is charged to the income statement on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- plant and equipment 7%-40%
- fixtures and fittings 11%-22%
- motor vehicles 22.5%

The residual value, if not insignificant, is reassessed annually.

(f) Exploration, Evaluation, Development and Tenement Acquisition Costs

Exploration, evaluation, development and tenement acquisition costs in relation to separate areas of interest for which rights of tenure are current, are capitalised in the period in which they are incurred and are carried at cost less accumulated impairment losses. The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest is carried forward as an asset in the balance sheet so long as the following conditions are satisfied:

1) the rights to tenure of the area of interest are current; and

2) at least one of the following conditions is also met:

(i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or

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

Exploration and evaluation expenditure is assessed for impairment when facts and circumstances suggest that their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is recognised. Should a project or an area of interest be abandoned, the expenditure will be written off in the period in which the decision is made. Where a decision is made to proceed with development, accumulated expenditure will be amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

(g) Trade and other receivables

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

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of six months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(i) Impairment

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

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cashflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Receivables with a short duration are not discounted.

(j) Share capital

(i) Ordinary share capital

Ordinary shares and partly paid shares are classified as equity.

(ii) Transaction costs

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

(k) Leases

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments.

(l) Employee benefits

(i) Superannuation

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

(ii) Share-based payment transactions

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

The Company currently provides benefits under an Employee Share Option Plan.

The cost of these equity-settled transactions with employees and directors is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

(i) the extent to which the vesting period has expired; and

(ii) the number of awards that, in the opinion of the directors, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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

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

(m) Provisions

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

(n) Trade and other payables

Trade and other payables are stated at cost.

(o) Services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably.

(p) Expenses

(i) Operating lease payments

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

(ii) **Finance lease payments**
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) **Net financing costs**
Net financing costs comprise interest payable on borrowings calculated using the effective interest method and interest receivable on funds invested.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(q) Income tax
Income tax in the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

(r) Segment reporting
A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(s) Non-current assets held for sale and discontinued operations
Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable AIFRS. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned also may qualify.

(t) Goods and Services Tax

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

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

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

2. Segment reporting

The Company currently only operates in one business segment and one geographical segment being the mining and exploration industry in Australia.

3. Revenue

	Note	2006 $
Interest received		105,305
Other income		48,871
		154,176

4. Corporate administrative expenses

	Note	2006 $
Accounting fees		14,655
ASX fees		32,438
Audit fees	6	10,000
Consulting fees		20,560
Depreciation and amortisation	14	12,198
Insurance		19,726
Legal fees		6,094
Marketing		9,411
Rent and outgoings		30,761
Personnel expenses	5	295,476
Printing and stationery		4,670
Share registry		7,096
Travel and accommodation		4,776
Recruitment		7,077
Other		27,018
		501,956

5. Personnel expenses

	Note	2006 $
Wages and salaries		105,625
Directors' fees		19,944
Other associated personnel expenses		3,217
Defined contribution superannuation fund contributions		25,531
Increase in liability for annual leave		8,006
Equity-settled transactions	18	133,153
		295,476

6. Auditors' remuneration

Audit services

Auditors of the Company	
HLB Mann Judd:	
Audit and review of financial reports	10,000

7. Finance costs

Interest expense	295

8. Income tax

Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense	(1,687,726)
Tax at the Australian rate of 30%	(506,318)
Tax effect of amounts which are not tax deductible (taxable) in calculating taxable income:	
Non-deductible expenses	40,282
Origination and reversal of temporary differences	(40,748)
	(506,784)
Current year tax benefits not recognised	506,784
Income tax expense reported in the income statement	-

Tax Losses

Unused tax losses for which no deferred tax asset has been recognised	1,806,389
Potential tax benefit at 30% tax rate	541,917

9. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the period ended 30 June 2006 was based on the loss attributable to ordinary shareholders of $1,687,726 and a weighted average number of ordinary shares outstanding during the period ended 30 June 2006 of 28,280,001.

Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 June 2006 was based on the loss attributable to ordinary shareholders of $1,687,726 and a weighted average number of ordinary shares outstanding during the period ended 30 June 2006 of 28,280,001 calculated as follows:

		2006 $
	Loss attributable to ordinary shareholders (diluted)	
	Loss attributable to ordinary shareholders	1,687,726
	Loss attributable to ordinary shareholders (diluted)	1,687,726
	Weighted average number of ordinary shares (diluted)	
	Weighted average number of ordinary shares at 30 June	28,280,001
	Effect of share options on issue	-
	Weighted average number of ordinary shares (diluted) at 30 June	28,280,001
10.	**Cash and cash equivalents**	
	Bank accounts	1,521,833
	Bank bills	3,905,417
	Cash and cash equivalents in the cash flow statement	5,427,250
11.	**Trade and other receivables**	
	Current	
	Other trade receivables	301,540
	Prepayments	26,785
		328,325
12.	**Financial assets**	
	Non-current	
	Bond in relation to office premises	43,000
		43,000
13.	**Exploration and evaluation expenditure**	
	Cost brought forward	-
	Acquisition of tenements	7,034,545
	Expenditure incurred during the year	1,480,930
	Impairment of exploration and evaluation expenditure	(1,339,651)
		7,175,824

	2006 $
14. Property, plant and equipment	
At cost	211,405
Less: accumulated depreciation	(12,198)
	199,207
Plant and equipment	
Carrying amount at date of incorporation	-
Additions	193,183
Depreciation	(11,845)
Carrying amount at end of period	181,338
Plant and equipment under hire purchase	
Carrying amount at date of incorporation	-
Additions	18,222
Amortisation	(353)
Carrying amount at end of period	17,869

15. Trade and other payables

Trade payables	568,271
Accrued expenses	129,555
	697,826

16. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 19.

Current liabilities	
Hire purchase liabilities	11,197
	11,197
Non-current liabilities	
Hire purchase liabilities	5,771
	5,771

Hire purchase facility

The Company's hire purchase liabilities are secured by the assets under hire purchase of $17,869. In the event of default, these assets revert to the financier.

Hire purchase liabilities of the Company are payable as follows:

	2006		
	Minimum hire purchase payments	Interest	Principal
	$	$	$
Less than one year	12,111	914	11,197
Between one and five years	5,858	87	5,771
More than five years	-	-	-
	17,969	1,001	16,968

17. Employee benefits

	2006 $
Liability for annual leave	38,931
Total employee benefits	38,931

Share based payments

(a) Employee and Consultant Share Option Plan

The Company has an Employee and Consultant Share Option Plan ('ESOP') in place. Under the terms of the ESOP, the Board may offer free options to full-time or part-time employees (including persons engaged under a consultancy agreement) and executive and non-executive directors.

Each option entitles the holder, on exercise, to one ordinary fully paid share in the Company. There is no issue price for the options. The exercise price for the options is such price as determined by the Board.

An option may only be exercised after that option has vested and any other conditions imposed by the Board on exercise satisfied. The Board may determine the vesting period, if any.

There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

Share options were granted to employees on the following terms and conditions during the year:

Grant date	Number of instruments	Vesting conditions	Contractual life of options
21 March 2006	6,075,000	1 year continual service	5 years
28 June 2006	250,000	1 year continual service	5 years
28 June 2006	250,000	2 years continual service	5 years

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price $ 2006	Number of options 2006
Outstanding at the beginning of the period	-	-
Forfeited during the period	-	-
Exercised during the period	-	-
Granted during the period	0.25	6,575,000
Outstanding at the end of the period	0.25	6,575,000
Exercisable at the end of the period	-	-

The options outstanding at 30 June 2006 have an exercise price of $0.25 and a weighted average contractual life of 5 years.

During the period, no share options were exercised.

The fair value of the options is estimated at the date of grant using the binomial valuation model.

The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2006.

Fair value of share options and assumptions	2006
Share price at grant date	$0.20
Exercise price	$0.25
Expected volatility (expressed as weighted average volatility used in the modelling under binominal option-pricing model)	80%
Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)	5 years
Expected dividends	-
Risk-free interest rate	5.3%

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

	2006 $
Share options granted in 2006 - equity settled	133,153
Total expense recognised as employee costs	133,153

18. Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

	Share capital (a) $	Accumulated losses $	Share based payments reserve $	Total equity $
Balance at date of incorporation	-	-	-	-
Issue of fully paid ordinary shares – tenement acquisition	7,000,000	-	-	7,000,000
Issue of fully paid ordinary shares – initial public offering	7,500,000	-	-	7,500,000
Issue of fully paid ordinary shares – other	60,002	-	-	60,002
Transaction costs	(585,548)	-	-	(585,548)
Employee share options vested	-	-	133,153	133,153
Loss for the period	-	(1,687,726)	-	(1,687,726)
Balance at 30 June 2006	13,974,454	(1,687,726)	133,153	12,419,881

(a) Share capital

	2006 No.
On issue at 1 July	-
Exercise of share options	-
Issue of fully paid ordinary shares – tenement acquisition	34,999,998
Issue of fully paid ordinary shares – initial public offering	37,500,000
Issue of fully paid ordinary shares – other	300,002
On issue at 30 June	72,800,000

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, the ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

(b) Share Options

	2006 No.
On issue at date of incorporation	-
Options issued during the year	6,575,000
On issue at 30 June 2006	6,575,000

At 30 June 2006, the Company had 6,575,000 unlisted options on issue under the following terms and conditions:

Number	Expiry Date	Exercise Price
6,075,000	21 March 2011	$0.25
500,000	1 May 2011	$0.25

19. Financial instruments

(a) Interest rate risk exposures

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

		Fixed interest maturing in:					
30 June 2006	Note	1 year or less $	Over 1 to 5 years $	Floating interest $	Non-interest bearing $	Total $	Weighted average int. rate
Financial assets							
Bank balances		-	-	1,521,633	-	1,521,633	0.25%
Bank bills		3,905,417	-	-	-	3,905,417	5.58%
Term deposits		43,000	-	-	-	43,000	5.10%
Petty Cash		-	-	-	200	200	-
Trade and other receivables		-	-	-	301,540	301,540	-
Financial liabilities							
Trade payables and accrued expenses		-	-	-	697,826	697,826	-
Employee benefits		-	-	-	38,931	38,931	-
Financial liabilities		11,197	5,771	-	-	16,968	4.45%

(b) Credit risk exposure

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in relation to each class of recognised financial assets is the carrying amount, net of any allowance for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

(c) Net fair values of financial assets and liabilities

The carrying amounts of all financial assets and liabilities approximate the net fair values.

20. Capital and other commitments

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. The amounts stated are based on the maximum commitments. The Company may in certain situations apply for exemptions under relevant mining legislation. These obligations are not provided for in the financial report and are payable:

	2006 $
Within one year	863,840
One year or later and no later than five years	1,619,700
Later than five years	-
	2,483,540

Remuneration Commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at balance date but not recognised as liabilities, payable:

within 1 year	125,000
within 2-5 years	-
	125,000

21. Reconciliation of cash flows from operating activities

Cash flows from operating activities	
Loss for the period	(1,687,726)
Adjustments for:	
Depreciation and amortisation	12,198
Impairment losses on exploration and evaluation expenditure	1,339,651
Interest on finance leases	116
Equity-settled share-based payment expenses	133,153
Operating loss before changes in working capital and provisions	(202,608)
(Increase) in trade and other receivables	(246,728)
Increase in trade creditors and accruals	142,849
Increase in provisions	38,931
Net cash used in operating activities	(267,556)

22. Key management personnel

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Executive directors
A R Bantock (Executive Chairman)
J R McIntyre
Non-executive directors
T R B Goyder
B W Alexander
Executives
R K Hacker (Company Secretary)

The key management personnel compensation included in 'personnel expenses' (see note 5) are as follows:

	2006 $
Short-term employee benefits	162,575
Post-employment benefits	12,266
Equity compensation benefits	125,816
	300,657

Individual directors' and executives' compensation disclosures
The Company has transferred the detailed remuneration disclosures to the Directors' Report in accordance with Corporations Amendment Regulations 2006 (No. 4). These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report under Details of Remuneration and are designated as audited.

Loans to key management personnel and their related parties
No loans were made to key management personnel and their related parties.

Other key management personnel transactions with the Company
A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Key management persons	Transaction	Note	2006 $
A R Bantock	Corporate Services)		
T R B Goyder	Corporate Services)	(i)	48,871
R K Hacker	Corporate Services)		
J R McIntyre	Lithos-X Mineral Exploration Consultants	(ii)	15,000
B W Alexander	Archaean Exploration Services Pty Ltd	(iii)	11,705

(i) The Company supplies corporate services including accounting and company secretarial services under a Corporate Services agreement with Uranium Equities Limited. Mr Bantock and Mr Goyder are directors of Uranium Equities Limited and Mr Hacker is the Company Secretary. Amounts were billed based on arm's length terms and conditions for such services and were due and payable under normal payment terms.

(ii) The Company engaged Mr McIntyre to assist with preparation of the Company's business plan, IPO marketing, prospectus and due diligence activities between January 2006 and 24 March 2006.

(iii) The Company used Archaean, a company of which Mr Alexander is a director, to undertake preparation of the Company's business plan and pre-IPO information set. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

Amounts payable to key management personnel at reporting date arising from these transactions were as follows:

Assets and liabilities arising from the above transactions

Current payables	(15,000)
Trade debtors	16,500
	1,500

Options and rights over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in Chalice Gold Mines held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at date of incorporation	Granted as compensation	Exercised	Other changes	Held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Directors							
A R Bantock	-	2,000,000	-	-	2,000,000	-	-
J R McIntyre	-	1,000,000	-	-	1,000,000	-	-
T R B Goyder	-	2,000,000	-	-	2,000,000	-	-
B W Alexander	-	500,000	-	-	500,000	-	-
Executives							
R K Hacker	-	250,000	-	-	250,000	-	-

Movements in ordinary shares

The movement during the reporting period in the number of ordinary shares in Chalice Gold Mines held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2005	Additions	Received on exercise of options	Sales	Held at 30 June 2006
Directors					
A R Bantock	-	1,675,886	-	-	1,675,886
J R McIntyre	-	146,687	-	-	146,687
T R B Goyder	-	5,228,408	-	-	5,228,408
B W Alexander	-	342,668	-	-	342,668
Executives					
R K Hacker	-	43,334	-	-	43,334

No shares were granted to key management personnel during the reporting period as compensation.

23. Subsequent events

There are no subsequent events that require disclosure.

Directors' declaration

1 In the opinion of the directors of Chalice Gold Mines Limited ('the Company'):

(a) the financial statements and notes including the remuneration disclosures that are contained in sections 7.1, 7.2 and 7.3 of the Remuneration report in the Directors' report, set out on pages 5 to 9, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 30 June 2006 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and

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

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

2 The directors have been given the declarations by the Chief Executive Officer (or equivalent) and Chief Financial Officer (or equivalent) for the period ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Perth the 29th day of September 2006.

Signed in accordance with a resolution of the directors:

ANDREW R BANTOCK
Executive Chairman

HLB Mann Judd
Chartered Accountants

INDEPENDENT AUDIT REPORT

To the members of
Chalice Gold Mines Limited

Scope

The Financial Report and Directors' Responsibility
The financial report comprises the balance sheet as at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements and the directors' declaration for the year then ended for Chalice Gold Mines Limited ('the company').

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

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

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

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

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Partners: Ian H Barsden, Terry M Blenkinsop, Litsa Christodulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

Independence

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

The Directors' Report attached to the financial statements includes a copy of the Independence Declaration given to the Directors by the lead auditor for the audit. That Declaration would be on the same terms if it had been given to the Directors at the time this audit report was made.

Audit Opinion

In our opinion, the financial report of Chalice Gold Mines Limited is in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's financial position at 30 June 2006 and of its performance for the year then ended; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Perth, Western Australia
29 September 2006

L DI GIALLONARDO
Partner

Corporate Governance is a matter of high importance in the Company and is undertaken with due regard to all of the Company's stakeholders and its role in the community. The key corporate governance practices of the Company are summarised below.

1. Board of Directors

1.1 Role of the Board and Management

The Board represents shareholders' interests in continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. The Board believes that this focus will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Company is managed in such a way to best achieve this desired result. Given the current size and operations of the business, the Board currently undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals. The Executive Chairman is responsible to the Board for the day-to-day management of the Company.

The Board has sole responsibility for the following:

- Appointing and removing the Executive Chairman and approving senior executive remuneration;
- Determining the strategic direction of the Company and measuring performance of management against approved strategies;
- Review of the adequacy of resources for management to properly carry out approved strategies and business plans;
- Adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress against them;
- Monitoring capital and cash flow requirements;
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Company's financial affairs; and
- Ensuring that policies and compliance systems consistent with the Company's objectives, external best practice and the Company's size and scope of operations are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Group's corporate governance practices are being continually reviewed and improved as required.

1.2 Composition of the Board and New Appointments

The Company's Constitution provides that the number of directors shall not be less than three and not more than ten. There is no requirement for any share holding qualification.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the appointment and further expense of an independent Non-executive Chairman and additional independent Non-executive Directors. The Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

The composition of the Board is reviewed periodically in view of the underlying scale, scope and complexity of the Company's operations. Changes are made where appropriate.

The membership of the Board and its activities are subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board's duties and physical ability to undertake Board's duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next annual general meeting. Under the Company's Constitution the tenure of directors (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his last appointment. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

1.3 Committees of the Board

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Company's activities increase in size, scope and nature, the appointment of separate or special committee's will be reviewed by the Board and implemented if appropriate.

1.4 Conflicts of Interest

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

1.5 Independent Professional Advice

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

2. Ethical Standards

The Board acknowledges the need for continued maintenance of a professional standard of corporate governance practice and ethical conduct by all Directors and employees of the Company.

2.1 Code of Conduct for Directors

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- A director must act honestly, in good faith and in the best interests of the company as a whole.
- A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
- A director must use the powers of office for a proper purpose, in the best interests of the company as a whole.
- A director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the company.
- A director must not make improper use of information acquired as a director.
- A director must not take improper advantage of the position of director.
- A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the company.
- A director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board.
- Confidential information received by a director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law.
- A director should not engage in conduct likely to bring discredit upon the company.
- A director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Ethics and Conduct, as outlined below.

2.2 Code of Ethics and Conduct

The Company has implemented a Code of Ethics and Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

All employees and directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;

- by their actions contribute to the company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;

- perform their duties in ways that minimise environmental impacts and maximise workplace safety;

- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and

- act with honesty, integrity decency and responsibility at all times.

An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must notify that breach to management. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

2.3 Dealings in Company Securities

The Company's share trading policy imposes basic trading restrictions on all employees of the Company with 'inside information', and additional trading restrictions on the directors of the Company.

'Inside information' is information that:

- is not generally available; and

- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

If an employee possesses inside information, the person must not:

- trade in the Company's securities;

- advise others or procure others to trade in the Company's securities; or

- pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information.

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company. Employees must also give notice to the Chairman prior to trading in the Company's securities.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

2.4 Interests of Other Stakeholders

The Company's objective is to maximise returns to shareholders through the continued exploration and development of current projects and the identification and acquisition of quality mining and/or exploration projects.

To assist in meeting its objective, the Company conducts its business within the Code of Ethics and Conduct, as outlined in 2.2 above.

3. Disclosure of Information

3.1 Continuous Disclosure to ASX

The continuous disclosure policy requires all executives and Directors to inform the Executive Chairman or in his absence the Company Secretary of any potentially material information as soon as practicable after they become aware of that information.

Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities.

Information is not material and need not be disclosed if:

a) a reasonable person would not expect the information to be disclosed or is material but due to a specific valid commercial reason is not to be disclosed; and

b) the information is confidential; or

c) one of the following applies:

- It would breach a law or regulation to disclose the information;
- The information concerns an incomplete proposal or negotiation;
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;
- The information is generated for internal management purposes;
- The information is a trade secret;
- It would breach a material term of an agreement, to which the company is a party, to disclose the information;
- It would harm the company's potential application or possible patent application; or
- The information is scientific data that release of which may benefit the company's potential competitors.

The Executive Chairman is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

3.2 Communication with Shareholders

The Company places considerable importance on effective communications with shareholders.

The Company's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company. The strategy provides for the use of systems that ensure a regular and timely release of information about the Company is provided to shareholders.

Mechanisms employed include:

- announcements lodged with ASX;
- ASX Quarterly Cash Flow Reports;

- Half Yearly Report;
- presentations at the Annual General Meeting/General Meetings; and
- Annual Report.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Company's strategy and goals.

The Company also posts all reports, ASX and media releases and copies of significant business presentations on the Company's website.

4. Risk Management

4.1 Identification of Risk

The Board is responsible for overseeing the Company's risk management and control framework.

Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Executive Chairman having ultimate responsibility to the Board for the risk management and control framework.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of operations and the financial position of the Company.

4.2 Integrity of Financial Reporting

From the date the Company listed on the ASX, the Company's Managing Director and Chief Financial Officer (or equivalent) will report in writing to the Board that:

- the financial statements of the Company for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

4.3 Role of Auditor

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

5. Performance Review

The Board has adopted a self-evaluation process to measure its own performance during each financial year. Also, an annual review is undertaken in relation to the composition and skills mix of the directors of the Company.

Arrangements put in place by the Board to monitor the performance of the Company's executives include annual performance appraisal meetings with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company.

6. Remuneration Arrangements

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive

Directors and executives with a remuneration package consisting of fixed components that reflect the person's responsibilities, duties and personal performance.

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

The aggregate amount payable to the Company's Non-executive Directors must not exceed the maximum annual amount approved by the Company's shareholders.

ASX Corporate Governance Council: Principles of Good Corporate Governance and Best Practice Recommendations

Council Principle 1:
Lay solid foundations for management and oversight

Council Recommendation 1.1:
Formalise and disclose the functions reserved to the board and those delegated to management.

The Company complies with this recommendation. Refer Section 1.1 of Corporate Governance Statement.

Council Principle 2
Structure the board to add value

Council Recommendation 2.1:
A majority of the board should be independent directors.

The Board considers that Bryan Alexander is an independent director in accordance with Recommendation 2.1. Whilst the remainder of the Board are not independent, the Board believes that all the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board Meeting before commencement of discussion on the topic.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.2:
The chairperson should be an independent director.

The Company's Chairman, Andrew Bantock, is considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of independent director. However the Board believes that the Chairman is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of an independent Non-executive Chairman.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.3:
The roles of the Chairperson and Chief Executive Officer should not be exercised by the same individual.

The Company complies with this recommendation.

Council Recommendation 2.4:
The board should establish a nomination committee.

The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing directors to enable identification or attributes required in new directors. Where appropriate, independent consultants are engaged to identify possible new candidates for the Board.

The Board acknowledges this does not comply with recommendation 2.4 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a nomination committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Council Principle 3:
Promote ethical and responsible decision-making

Council Recommendation 3.1:
Establish a code of conduct to guide the directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to:

3.1.1 the practices necessary to maintain confidence in the company's integrity;

3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The Company complies with this recommendation. Refer Sections 2.1 and 2.2 of Corporate Governance Statement.

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

The Company complies with this recommendation. Refer Section 2.3 of Corporate Governance Statement.

Council Principle 4:
Safeguard integrity in financial reporting

Council Recommendation 4.1:
Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Company complies with this recommendation.

Council Recommendation 4.2:
The board should establish an audit committee.

The Board complies with this recommendation.

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

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

Refer Recommendation 4.2.

Council Recommendation 4.4
The audit committee should have a formal operating charter. Refer Recommendation 4.2.

Council Principle 5:
Make a timely and balanced disclosure

Council Recommendation 5.1:
Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company complies with this recommendation. Refer Section 3.1 of Corporate Governance Statement.

Council Principle 6:
Respect the rights of shareholders

Council Recommendation 6.1:
Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

The Company complies with this recommendation. Refer Section 3.2 of Corporate Governance Statement.

Council Recommendation 6.2:
Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company complies with this recommendation. Refer Section 4.3 of Corporate Governance Statement.

Council Principle 7:
Recognise and manage risk

Council Recommendation 7.1:
The Board or appropriate board committee should establish policies on risk oversight and management.

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Recommendation 7.2
The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state in writing that:

7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board;

7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Principle 8:
Encourage enhanced performance

Council Recommendation 8.1:
Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

The Company complies with this recommendation. Refer Section 5 of Corporate Governance Statement.

Council Principle 9:
Remunerate fairly and responsibly

Council Recommendation 9.1:
Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.2
The board should establish a remuneration committee.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for directors and executives of the Company.

The Board acknowledges that this does not comply with recommendation 9.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a remuneration committee will be reviewed by the Board and implemented if appropriate. Refer Section 1.3 of Corporate Governance Statement.

Council Recommendation 9.3
Clearly distinguish the structure of Non-executive directors' remuneration from that of executives.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.4
Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The Company complies with this recommendation. The Company currently has in place an Employee and Consultant option plan. Any issue of options made to eligible participants is made in accordance with that plan.

Council Principle 10:
Recognise the legitimate interests of stakeholders

Council Recommendation 10.1:
Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company complies with this recommendation. Refer Section 2.4 of Corporate Governance Statement.