ADMIRALTY RESOURCES

06

annual report 2006

Admiralty Resources NL

## COMPANY DETAILS

Admiralty Resources NL
ABN: 74 010 195 972

## DIRECTORS

Professor J Ross Harper
Phillip Thomas
John Anderson

## SECRETARY

Stephen Charles Prior

## REGISTERED OFFICE

C/- Prior & Co. Pty. Ltd.
Level 14, 200 Queen Street
Melbourne VIC 3000 Australia
Telephone + 61 3 9670 1838
Facsimile + 61 3 9670 1898

## PRINCIPAL PLACE OF BUSINESS

Level 14, 200 Queen Street
Melbourne VIC 3000 Australia
Telephone + 61 3 9670 1838
Facsimile + 61 3 9670 1898

## AUDITORS

Deloitte Touche Tohmatsu
180 Lonsdale Street
Melbourne VIC 3000 Australia

## LAWYERS

Norton Gledhill
Level 23, 459 Collins Street
Melbourne VIC 3000 Australi

## BANKERS

Westpac Banking Corporation
447 Bourke Street
Melbourne VIC 3000 Australia

## SHARE REGISTRY

Computershare Investor Services Pty Ltd
Central Plaza
Level 27, 345 Queen Street
Brisbane QLD 4000 Australia

## SECURITIES QUOTED

Australian Stock Exchange Ltd (ASX)
Code: ADY (shares)
OTCBB ARYRY

## WEB-SITE

www.ady.com.au

## ADMIRALTY RESOURCES GROUP STRUCTURE

Admiralty Resources NL (ACN 010 195 972) owns 100% of:

- ADY Resources Ltd (which operates the Argentinean projects)
- Bulman Resources Pty Ltd (Formerly Moonlight Mining NL)
- Pyke Hill Resources Pty Ltd (Formerly Greater Australian Gold NL)
- ADY Investments Pty Ltd (Formerly Solgold Pty Ltd which holds a 10% interest in the Nilnav Group of Companies)
- Five Star Resources Pty Ltd (Formerly Three Star Mining NL)
- Fortune Global Holdings Limited (which owns 50% of Cia Minera Santa Barbara)

ADMIRALTY RESOURCES

## *HIGHLIGHTS FOR 2006*

- *Production of 64.5% Fe iron ore sinter fines from Cia Minera Santa Barbara, Chile joint venture*
- *Construction completed on the 100,000 tonne per month plant at Vallenar, Chile in October 2006*
- *Completion of the pilot plant in Jujuy, Argentina to produce lithium carbonate, lithium chloride, lithium hydroxide and potash from the Rincon Salar brine salar.*
- *Successful negotiations with the Traditional owners and Northern Land Council at Bulman regarding our exploration licence application for lead and zinc*
- *Roads and observation drill holes completed in the Salar*
- *First Production hole drilled and completed*
- *Early conversion of the Converting note and removal of the put option to provide an additional AUD$7.6 million in funding after interest costs in July 2006*

## CONTENTS



The 2006 Annual report provides an overview of Admiralty Resources' main operating activities for the year ended 30 June 2006. In addition to the financial report released to the ASX on 29 September 2006, it contains details on the four main projects we are developing.

# CHAIRMAN'S REPORT

*It gives me pleasure to report significant progress again this year. The most exciting development was the production and sale of iron ore fines from our Santa Barbara joint venture in Chile. The Company has positioned itself to realise substantial earnings from sales of iron ore in 2006/2007 financial year and commence the first phase of lithium carbonate production in early 2007/2008.*

Iron ore, lithium carbonate, potash, zinc and nickel all increased in price dramatically during the year with shortages becoming apparent for iron ore, lithium carbonate, lithium hydroxide in Asia and especially Japan due to production shortages and growing demand. Iron ore increased 17% in May 2006 and lithium carbonate to more than US$6,000 per tonne. The Company made a strategic decision to produce about 4,000 tonnes of lithium hydroxide in 2008 as it has become an essential base material for battery manufacture, and commands the highest price of all lithium base minerals. The outlook for lithium compounds that we intend to manufacture looks very promising as hybrid cars and other applications for lithium continue to grow exponentially.

On the exploration front, excellent progress was made with the traditional owners at Bulman and draft contracts were discussed. Our CEO visited Bulman in October this year and gained agreement for the Exploration Licence 23814 to be issued subject to full council approval. Cougar Metals NL paid their option fee in January 2006 to commence exploration and further drilling. However, they have not indicated when they will commence mining.

The Company issued a A$20m converting note in February 2005, with an initial instalment received of $10.4 million, and final payment of $9.6 million, with a put option where the Company had to buy back the notes if the share price was less than 10 cents. Recently the Company was able to negotiate more flexible terms with the converting note holder and bring forward the final payment of the converting note from February 2007 and remove the put option obligation. This greatly assisted our funding and cash flow during 2006.

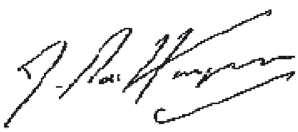
As part of our corporate governance, we have implemented and are monitoring our occupational health, safety and environmental policies. All Directors and senior employees are aware of our code of conduct. We modified the share acquisition code to make it more flexible for directors to acquire or dispose of shares rather than contain their activities to a three month trading period each year.

This year Deloitte Melbourne office conducted our December, and end of financial year audit, with Partner Ian Sanders signing off. The audit process continues to be lengthy with the criteria that needs to be complied with, regardless of size of company, and consumes a significant amount of management and accounting time and thus costs.

I express my thanks to Phillip Thomas, our energetic and immensely capable CEO, fellow Director, John Anderson and Company Secretary Stephen Prior.

I look forward to meeting you at our annual general meeting to be held in Melbourne on 27 November 2006 at 10.00am at the 530 Collins Street Theatrette.

Yours sincerely,



Professor J Ross Harper
Chairman

*2006 will be remembered by most as the year iron ore prices increased a further 24% after a previous year unanticipated increase of 71% fuelled by the enormous growth of China, and the demand for iron and steel products around the world. It will also be remembered for the huge increase in the lithium carbonate price from $3,500 per tonne to high's of $6,600 paid by some producers of batteries and related lithium products due to extreme shortages caused by increased demand and lower production. Admiralty is positioned to take advantage of these buoyant market conditions.*

## BUSINESS STRATEGY

Our business strategy was put in place in 2004/5 to take advantage of different energy storage methods developing over the next decade of which we knew lithium would play an enormous role. What we didn't foresee was the acceleration of the time frame to production by motor vehicle companies and their use of up to 2kg of lithium per battery in their hybrid cars. At estimates of 45 million cars on the road by 2009, this places demand for 90 million kilos (90,000 tonnes) of lithium carbonate and lithium hydroxide, where current world production of lithium carbonate is between 70-80,000 tonnes.

Our business strategy going into 2007/2008 is as follows:

- Capitalise on world markets going through technology, demographic and urbanisation transitions such as Japan, China and India by being a preferred supplier of iron ore and lithium based products.
- Build a world-class iron ore deposit in Vallenar, Chile with production of 125,000 tonnes per month of 64.5% plus iron ore with low sulphur and low phosphorous expanding to 500,000 tonnes. We will exploit the Leo 2, Mirador, Japonesita and Mariposa deposits as they offer very high quality grades of iron ore and can be processed using our existing plant. SRK Geological Consulting will be retained to develop JORC ASX inferred resource estimates and mine engineering.
- Identify a small number of clients and contract them to take all our production. Foster a strategic partnership with them so that they add to our business in terms of technology transfer and keeping us abreast of market developments in Asia. Our partnerships with ITOCHU, Sinosteel Australia and others will allow us to do this.

*Leonardo Farkas - President of Minera Barbara (right) with an iron ore buyer.*

*Santa Barbara Engineer using specialised laser to calculate stockpile.*

- Develop the ports of Caleta and Candelaria in Caldera to enable us to ship larger quantities of iron ore. We have applied for new environmental permits allowing us to ship up to 75,000 tonne ships from Caldera in mid July 2007.
- Develop the port of Punta Alcalde near the township of Huasco to build a first class super capesize facility 55km from the mine. This is an estimated $30m investment and so we will work with other partners to develop this project.
- Build a world-class lithium and potash facility with our development of the Rincon Salar, Rio Grande and Cauchari processing facilities. We will be a supplier of 20% of the world's lithium carbonate and other lithium based products when full production commences.
- Continue to prove up the Bulman mineral leases (726 and 727) and commence exploration of our EL 23814 to develop an economically feasible zinc and lead open cut mine. We may pursue other strategic options we have identified for this resource as an alternative to Admiralty fully developing the mine.
- Nickel and Cobalt prices continue to reach new highs. Our 50% interest in Pyke Hill will yield us A$0.40 per tonne of run of mine ore, when Cougar Metals NL decide to develop the mine located near Leonora, 200 kilometres north of Kalgoolie. Pyke Hill Resources Pty Ltd will receive a further $100,000 option fee when they commence mining.

## CLIENT ACQUISITION

In 2006 we handled many enquiries and conducted five sales trips to China and Japan to present to prospective clients interested in acquiring our lithium, potash, sodium sulphate and iron ore products.

We have had discussions with more than 20 principals and brokers regarding purchase of our iron ore. While shipping prices are seasonally high at present which is a potential negative for sending iron ore from Chile to China, which is a 30 day voyage, we are comforted by the fact we are expanding our port loading capacity and that in 2008/9 we will be loading 200,000 – 300,000 tonne ships.

We have had discussions with at least 15 clients who are interested in purchasing lithium based compounds from us which is encouraging. We will sign off take agreements in 2007 as the development of the Rincon Salar project moves forward to production stage.

*Iron ore pellet loading in Huasco Bay.*

*Port loading facility at Huasco Bay.*

*Rincon Salar production well construction.*

## PEOPLE

Dedicated staff will always be the deciding factor between success and failure. We have assembled an experienced and hard working team of people in Chile and Argentina. In Chile, led by Leonardo Farkas, President of Cia Minera Santa Barbara we have 31 staff and 4 consultants. Besalco, our partner for operations has 47 staff which will grow to more than 100 when the major plant begins operating in October 2006.

In Argentina we have 7 staff supervised by Dr Rodrigo Frias and Dr Carlos Sorentino our Director Technical Services for Admiralty Resources NL. Dr Daniel Galli is working on our production processes at the laboratory and pilot plant in Jujuy, Argentina.

We continually reinforce our safety and occupational health policies with our staff and contractors. To date we have been injury and accident free and we will continue to maintain this track record.

*Dr Sorentino (middle) with two members of the K-UTEC team in Sonderheim, Germany.*

## FINANCE

We currently have a converting note that is fully paid up by the owner who may convert the note to 196 million shares at a conversion price of 10 cents per share. We also have a USD$1.9m facility with Cornell Capital LLP which we can repay in cash or by issue of shares.

Going forward we have iron ore sales to cement pipe manufacturers, and sale of our iron ore production to supplement our cashflow. This should be sufficient with other debt we are arranging to meet our total cashflow requirements.

*Conveyor belt at Santa Barbara 100,000 tonne facility at Japonesa, Vallenar, Chile.*

## SHARE PRICE

Our share price has had significant volatility over the past year responding to some large holders exiting the register and (unfounded) perception of the uncertainty of Cia Minera Santa Barbara joint venture to produce and sell iron ore. Some investors have forgotten that we are building a sustainable business for many years to come and not just for a short term time horizon. Volatility will continue to play a role as prices and earnings change from year to year.

Yours sincerely,

Phillip Thomas
Chief Executive Officer

# OVERVIEW OF PROJECTS

Admiralty Resources has four major projects and one passive investment. The major projects are lithium and potash from the Rincon Salar, a salt enriched brine lake in the north of Argentina, iron ore from the Santa Barbara mine located near Vallenar in Chile, exploration for Zinc and lead from Bulman in the Northern Territory and through a farm out agreement with Cougar metals NL for nickel and cobalt from Pyke Hill in Western Australia.

ADY Investments Pty Ltd a 100% owned subsidiary holds 10% of the shares in Nilnav Orthopaedics Pty Ltd, that is marketing its hip prosthesis guidance system for inserting femoral stems and acetabular cups into hip patients.


*Engineers visiting Rincon Salar with interested buyers of lithium products.*

## RINCON SALAR

The Rincon Salar business is operated through ADY Resources Ltd, an Australian company registered for tax in Argentina and classified as a foreign controlled company. Dr Rodrigo Frias is our Argentinean legal representative. We have established an office at 282 Santiago del Estero, Salta, and a laboratory and pilot plant at Jujuy.

### Project Strategy

Demand for lithium carbonate, lithium chloride and lithium hydroxide which are the three lithium based chemicals in highest demand, has been increasing exponentially over the past year. Therefore we have modified our product strategy to include lithium hydroxide production, but reduce the amount of lithium chloride from 17,000 tonnes to 4,000 tonnes. This change in strategy gives us (potentially) higher revenues for no major increase in either capital expenditure or operating costs.


*Bulldozer creating roads for the production wells in the salt "lunar" surface.*

Work has been continuing on three fronts.

The first is the development of an economically viable process to produce lithium carbonate, lithium hydroxide and lithium chloride. We engaged the engineering firm K-UTEC to review our processes and provide us with the technical report. In this report the process to concentrate the brine to approximately 7% concentration of lithium was completed. The process required that we use moderate amount of sodium sulphate and calcium hydroxide (caustic soda).


*Production pipeline being laid for pumping brine to evaporation ponds.*

We have identified a large deposit of sodium sulphate at a mine called Rio Grande which we have acquired an option to purchase. We have also identified a large calcium deposit approximately 30 km from the Rincon Salar from which we will produce caustic soda. By owning these two deposits our operational expenditure has been reduced substantially.

After the brine has been concentrated to 7% we then put the brine through the ionisation process to concentrate it up to 99.0% or higher.

The second area of work has been understanding the geological structure of the lake and drilling monitoring and operational well holes. The key focus of these activities is to understand the hydrology of the late and the flow rates and porosity of the brine. We engaged a team of geologists to drill these holes and to do wireline testing so that they could get an understanding of the deposit sequence since the last interglacial period.

The third area is marketing. We have commenced meaningful dialogue with the top 15 purchasers and major traders of lithium product around the world specifically in the USA, Korea, China and Japan. Admiralty has been welcomed as a producer with a projected contribution of approximately 20% of the world's supply. Estimates of world current supply is about 70,000 tonnes of lithium carbonate, lithium hydroxide and lithium chloride but accurate numbers are difficult to determine. It is our intention to produce between 150 and 200 tonnes of lithium carbonate lithium hydroxide and lithium chloride before December 2007. This will enable some of these clients to utilise our products and arrange for their forward orders in 2008.

The next major work project will be installing a number of evaporation ponds and completing the production wells. Each of the evaporation ponds will be lined with plastic to ensure that they do not leak. Further work will also be continued on the ionisation process. A processing plant will be constructed late in 2007/early 2008.

*Conveyors from crushers being connected to high speed drums and hoppers.*

*Rincon Salar testing facility pumping 250,000 cubic metres per hour of brine.*

*Pilot evaporation pond for concentrating brine to 10,000 ppm of Lithium.*

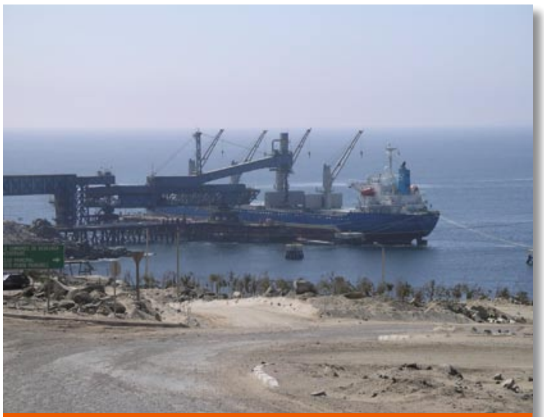
### SANTA BARBARA

Most of 2006 was focused on establishing a small plant to commence mining the Japonesa group of mines deposit. We bought an interest in the prospect in February 2005, received our environmental permits in May 2005 and proceed to develop the small plant in July 2005 and conduct an extensive mine engineering study. A plant with monthly production capacity of 15,000 tonnes was constructed and commissioned in July 2006. During the month of July and August 2006 substantial knowledge was accumulated that assisted greatly in setting up our larger plant that has the capacity of more than 100,000 tonnes per month. The large plant was commissioned in October 2006.

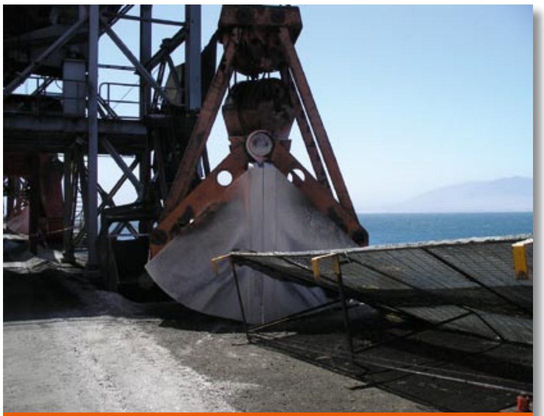
Geological work continued, by our own geologists and geological consulting firm SRK on the Leo 2 and Mirador tenements. SRK also completed an independent review of geological work completed so far including geophysics.

During the year three trips were made to China Japan New York and London ensuring that buyers knew of our iron ore mines and the superior quality of iron ore fines that we are producing. The iron ore is approximately 63.5% iron with 0.06% phosphorus, 4% silica, and the negligible sulphur. The loss of ignition is 0.5 and the FeO is approximately 22.3%.

We received an environmental permit to ship up to 47,000 tonnes of iron ore from the port of Caleta, Caldera on the 22nd July 2006. We have also entered into negotiations to utilise two other ports nearby. We expect to ship between two and three shipments per month from the port of Caleta in 2007. Our strategy for 2008 is to build our port so that we can reduce our freight cost substantially and are trucking costs by $8.50 and ship cape size vessel's of 200,000 tons or greater.
Santa Barbara commenced producing iron ore and on the 12 July 2006 sold the first production of 63.5%Fe 3mm iron ore fines to Holcim, a global concrete producer. This was a great effort by all as we only acquired the joint venture interest on 16 February 2005. Ore grades are exceeding our drilling analysis and we plan to produce more than 750,000 tonnes this financial year.



*Loading facility at Port of Candelaria, Caldera from Santa Barbara stockpile.*



*Clam style iron ore loader at the Port.*

*Engineers looking at Japonesa alluvial test for ore extraction.*

## PYKE HILL

In January 2006 Cougar Metals NL paid us a $100,000 option fee to commence preparations to mine the Pyke Hill nickel and cobalt resource. Admiralty will receive another payment of $100,000 and A$0.40 per tonne, when mining operations commence.

## BULMAN

In October this year, we had fruitful discussions with the Northern Land Council and received verbal approval from the traditional owners to continue exploring the zinc and lead deposits north of our two mining leases 726 and 727 near Bulman, Northern Territory. The exclusion zone of sacred sites of the traditional owners has now been delineated. A no-go moratorium has been put in place over approximately 400 of the 637 sq kilometres, however the most prospective areas are not affected (Hill 131 and areas A). Once the exploration licence is granted we hope to prove up a significant lead zinc resource.

*Aerial view of the Japonesa, Japonesita and Mirador tenements.*

*Stockpile at the Port of Caldera.*

*64.5% Fe iron ore on conveyors after being separated by magnetic drums*

## CORE BUSINESS SUMMARY

The Company has actively developed its iron ore mines owned by Sociedad Contractual Minera Santa Barbara (SCMSB) in Chile. SCMSB commenced production during July 2006. The first shipment of iron ore is expected in the fourth quarter of 2006.

Apart from the Chilean iron ore interests described above, the Company's business strategy is to produce high value evaporates from our salar in Argentina. Lithium carbonate, potassium chloride and other lithium compounds are the key products to be extracted from our salt lake brines. These compounds are experiencing strong demand from diverse industries, globally.

The Company's salar is known as the Salar del Rincon and is a major multi-elemental brine resource, located in the Salta Province of Argentina and in the vicinity of two of the largest producers of lithium compounds and potash in the world.

The Company will continue to develop the mineral evaporate resources of the Rincon and nearby salars (salt lakes) in Argentina.

The Rincon Salar tenements, covering an area in excess of 250 square kilometers, were acquired in February 2001. Twenty six square kilometers have been drilled and tested.

The lead zinc resource at Bulman has been developed and the Exploration Licence Application agreement drafted and submitted to all parties for final consideration. The granting of this Exploration Licence will allow the Company to further explore 250 sq kilometers of tenements to establish the full extent of the deposit.

## CORPORATE GOVERNANCE

The Directors are committed and support the implementation of best practice in corporate governance, applied in a manner that is appropriate to the Company's circumstances.

The Company will use some of the cash proceeds from its participation in SCMSB to fund construction of its lithium production facility and develop the evaporates business. The Company's corporate governance practices and procedures are directed to providing an appropriate framework for the pursuit of this objective, while protecting the rights and interests of shareholders and ensuring that the Company conducts its business lawfully and ethically.
On 31 March 2003 the Corporate Governance Council of the Australian Stock Exchange released its "Principles of Good Corporate Governance and Best Practice Recommendations" ("ASX Principles and Recommendations").

The board of directors has reviewed the Company's corporate governance practices and procedures and has put in place a revised framework of internal policies, procedures and guidelines for the governance of the Company, which has appropriate regard to the ASX Principles and Recommendations.
The governance framework will continue to be reviewed by the Board with the object of achieving at all times the highest standards of corporate governance and ethical corporate behaviour.

## Roles of the Board and Management

The Board is accountable to shareholders and regulators for the activities and performance of the Company and has overall responsibility for the Company's core business together with its corporate governance.

However, the Board provides guidance to the management team that manages the business and affairs of the Company.

Responsibility for management of the Company's business and affairs, within the scope of the governance framework established by the Board, is delegated to the Managing Director, and subject to the oversight and supervision of the Board. It is the responsibility of the Managing Director, acting within his delegated authority, to manage the Company and its business.

The corporate governance framework includes guidelines covering Board membership and operation that formalise the functions and responsibilities of the Board, including the nature of matters reserved to the Board, and also contain guidelines for the operation and management of the Board.

## Responsibilities of the Board

The Board's responsibilities include:

- Oversight of the Company, including its control and accountability systems and the performance of the Managing Director;
- Review and ratification of the integrity of the Company's financial management and reporting systems and processes;
- Establishment and monitoring of risk assessment and management, internal compliance and control procedures;
- Review and approval of the Company's yearly and half yearly financial reports and other financial reporting in compliance with the applicable accounting standards, the Listing Rules of the Australian Stock Exchange, and the Corporations Act;
- Appointment, removal and remuneration of, and delegation of authority to, the Managing Director;
- Appointment, removal and monitoring of the performance of the Secretary and the Company's external accountants;
- Appointment of, liaison with, and regular review of, the effectiveness and independence of the Company's external auditor;
- Regularly receiving, reviewing and applying reports and recommendations from the Managing Director concerning significant aspects of the Company's business and operations;
- Approving and monitoring financial and other reporting;
- Informing itself about and considering the implications of events and circumstances that could significantly affect the Company;
- Ensuring that appropriate policies and procedures are in place for sound corporate governance including compliance with continuous disclosure requirements and other legal compliance;
- To set the strategic direction of the Company and monitor progress of those strategies;
- Take responsibility for Corporate Governance;
- Review and ratify systems for health, safety and environmental management; risk and internal control and regulatory compliance for both employees and contractors.

### Appointment and Rotation of Directors

One third of directors retire by rotation annually. Phillip Thomas was elected a director in November 2003 and will be up for re-election at the 2006 annual general meeting. John Anderson was appointed as a director during the year and will submit himself to ratification at the 2006 annual general meeting. The Chairman of the Board is responsible for the performance appraisal of directors and this occurs annually. Criteria such as attendance, knowledge and familiarity of key issues and strategy input are some of the criteria. Each director has signed a directors agreement setting out their responsibilities, objectives and the outcomes expected.

## Board Structure and Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report. To add value to the Company, the Board has been formed to adequately discharge its responsibilities and duties given the Company's size and scale of operations.

The names of the independent directors of the Company are:

- Professor J Ross Harper (Chairman)
- John Anderson (Non-executive Director)

### Independent Directors and Chairman

The Board has a majority of independent directors.

### Assessing the Independence of Directors

The Board's criterion for determining the independence of a Director is whether the Director is independent of management and free from any business or other relationship that could materially interfere with (or could reasonably be perceived to materially interfere with) the exercise of unfettered and independent judgment.

In determining whether this criterion is satisfied, the Board has regard to threshold tests to assess whether there are matters that may require consideration in relation to a Director's ability to exercise unfettered and independent judgment.

However, the threshold tests are not conclusive. The Board may determine that a Director is independent notwithstanding that some of the threshold tests are not met. Conversely, there may be circumstances in which a Director will not be considered independent, although all the threshold tests are met.

In considering independence, the Board distinguishes between a relationship that may occasionally give rise to a particular discrete conflict of interest that can be addressed by appropriate conflict of interest procedures, and a relationship that may more generally impair the Director's objectivity and independence of mind.

Each Director is required to keep the Board fully informed of new developments or circumstances that may be relevant to the Director's independence.

The threshold tests to which the Board has regard in connection with assessing the independence of Directors are those set out in items 1 to 7 in Box 2.1 of the ASX Principles and Recommendations.

In this connection, for the purpose of considering whether a relationship with a professional advisor or consultant is material, the Board has regard to whether the aggregate payments for services to the advisor or consultant in any of the last three years has represented more than:

- 5% of the advisor's or consultant's revenue in any of those years; or
- 0.5% of the average market value of the Company's investment portfolio during any of those years.

However, these quantitative indicators of potential materiality will not be treated as conclusive. Qualitative aspects will also be considered, including the strategic significance and underlying nature of the relationship with the relevant advisor or consultant.

The Board considers that of a total of three Directors, two are considered to be independent (Professor J Ross Harper and Mr. John Anderson).

Mr. Phillip Thomas is Chief Executive Officer and an Executive Director of the Company and is not considered to be independent.

## Board Committees

The Board has established the following three committees to assist in carrying out the Board's responsibilities:

- Audit Committee
- Remuneration Review Committee
- Finance Committee

Each of these Committees has a formal charter setting out the Committee's role and responsibilities, composition, structure and membership requirements. The committees operate principally in a review or advisory capacity except where powers are expressly conferred on or delegated to a committee by the Board.

Due to the relatively small size of the Company and the nature of the Company's core business, the Board has not created a nominations committee.

The Board itself retains and exercises responsibility for the selection and appointment of new Directors.

The Remuneration Review Committee's functions include reviewing and making recommendations to the Board on matters concerning executive remuneration, about the recruitment, retention and termination procedures and policies for executive officers, and on the remuneration framework for Directors.

### Audit Committee

The members of the Audit Committee at the date of this report are Prof. J. Ross Harper and Mr. John Anderson. Mr. Stephen Prior is Secretary of the audit committee.

The Audit Committee's role and responsibilities, under its charter, include:

- Oversight of the reliability and integrity of the Company's accounting policies and financial reporting and disclosure practices;
- Advising the Board on the Company's financial reporting, due diligence, financial systems integrity and business risks;
- Reviewing and monitoring the Company's external audit and risk management procedures;
- Monitoring and reviewing the effectiveness of the Company's internal compliance and control;
- Reviewing the external auditor's qualifications and independence;
- Reviewing the performance of the external auditor;
- Assessment of whether the Company's external reporting is consistent with committee members' information and knowledge and is adequate for shareholder needs; and
- Ensuring proper procedures for the selection, appointment or removal of the external auditor and rotation of the external audit engagement partner.

The Audit Committee meets as often as required to carry out its role and responsibilities. It is expected that ordinarily this will be at least twice per year.

### Remuneration Review Committee

The members of the Remuneration Review Committee at the date of this report are Professor J Ross Harper and Mr. John Anderson. Mr. Stephen Prior is secretary of the Remuneration Review Committee.

Under its charter, the Review Committee's role and responsibilities are:

- to review executive remuneration, recruitment, retention and termination procedures and protection for executive officers, and the remuneration framework for Directors;
- to consider all other issues referred to the Committee by the Board;
- to make recommendations to the Board on matters which are the subject of the Committee's deliberations.

The Remuneration Review Committee meets as often as required to carry out its role and responsibilities. It is expected that ordinarily this will be at least twice per year.

### Finance Committee

The members of the Finance Committee at the date of this report are Phillip Thomas and Mr. John Anderson. Mr. Stephen Prior is secretary of the Finance Committee

Under its charter, the Finance Committee's role and responsibilities are:

- to consider all finance and funding issues referred to the Committee by the Board;
- to make recommendations to the Board on matters which are the subject of the Committee's deliberations.

## CORPORATE CODE OF CONDUCT

The Board has adopted a Corporate Code of Conduct to establish and encourage observance by the Company's Directors and Officers of standards of ethical and responsible decision making and behaviour that is necessary to maintain confidence in the Company's integrity. This enables Directors to recognise and guide compliance with legal and other obligations to the Company's shareholders and legitimate stakeholders.

### Share Ownership Policy

The Board has adopted a Directors' Share Ownership Policy that sets out the principles to be observed by the Company's Directors and Officers in relation to buying, selling and dealing in the Company's shares.

### Integrity of Financial Reporting

The Company has put in place a structure of review and authorisation designed to ensure factual presentation of the Company's financial position.

The structure includes:

- the role and responsibilities that the Audit Committee is charged with undertaking and performing in accordance with the Audit Committee Charter;
- referral to the full Board for approval of the Company's yearly and half yearly financial reports and other financial reporting; and
- external audit of the Company's yearly financial reports, external audit review of the Company's half yearly financial reports, and direct Board and Audit Committee access to the external auditor, whenever required (including in the absence of management).

The Audit Committee's role and responsibilities under its charter cover processes to ensure the independence and competence of the Company's external auditor including:

- evaluation of the qualifications, performance and independence of the lead audit partner and review partner;
- overseeing five yearly rotation of the lead audit partner and review partner; and
- deciding whether to retain or recommend termination of the appointment of the external auditor, including considering whether there should be rotation of the external audit firm itself.

The Chief Executive Officer and the Secretary are required 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.

### Disclosure Policy

The Board has put in place mechanisms designed to ensure compliance with the ASX Listing Rules Disclosure Requirements and to ensure accountability at senior management level for that compliance. The disclosure policy includes processes for the identification of matters that may have a material effect on the price of the Company's securities and notifying them to the ASX.

### Communications Strategy

The Company also has a strategy to promote effective communication with shareholders and encourage effective participation through a policy of open disclosure to shareholders, regulatory authorities and the broader community of all material information with respect to the Company's affairs.

### Attendance of External Auditor at Annual General Meetings

It is the practice of the Company to require the external auditor to attend the annual general meeting and be available to answer shareholders questions about the conduct of the annual audit and content of the auditors report.

### Risk Identification and Management

The risks involved in an exploration and mining Company and the specific uncertainties for the Company, continue to be regularly monitored and reviewed by the Board. All proposals reviewed by the Board include a conscious consideration of the issues and risks of the proposal. The potential exposures associated with operating the Company is managed by the Chief Executive Officer, the Company Secretary and Consultants who have significant broad-ranging industry experience, who work together as a team and regularly share information on current activities.

Additionally, it is the responsibility of the Board to assess the adequacy of the Company's internal control systems and that its financial affairs comply with applicable laws, regulations and professional practice. A Director and the Company Secretary declare in writing to the Board that the financial reporting risk management and associated compliance controls have been assessed and found to be operating efficiently and effectively. A Director and The Company Secretary prior to the Director's approval of the release of the annual and six monthly accounts make this representation. This representation is made after enquiry of, and representation by, appropriate levels of management.

### Performance Review

An annual performance evaluation of the board and all board members is conducted at the end of the financial year. Members of the Board are requested to provide feedback as to how they feel they have performed over the 12-month period (360 degree feedback). The Chairman also speaks to each Director individually regarding their role as a Director of the Company.

### Secretary

All Directors have access to the Secretary of the Company. The Secretary is accountable to the Board, through the Chairman, on all corporate governance matters.

### Independent Professional Advice

Directors may obtain independent professional advice at the expense of the Company subject to first informing the Chairman of their intention to obtain the advice.

### Remuneration

The Board's policy is to remunerate executive and non-executive directors at market rates. These rates are sourced from information published by various recruitment firms as well as those rates used to remunerate directors of comparable companies for the time commitment and responsibilities involved. Annually, the Board reviews directors' fees considering external data, the time commitment of directors, the size and scale of Admiralty Resources' operations, the quantum of the tasks in the initial phases of development of the Company, market capitalisation and various other factors.

### Annual Corporate Governance Review

At least annually, the Board reviews the Company's corporate governance framework and processes including:

- the composition of the Board and Board committees; and
- the Guidelines covering Board Membership and Operation, the charters of Board Committees, and other relevant policies

### Company's Website

The Company maintains a website at www.ady.com.au.
The website is used to complement the official release of material information to the market.
All relevant announcements made to the market, and related information, are placed on the website after they have been released to Australian Stock Exchange. The website also provides information about the last three years press releases/announcements plus three years of financial data.

# DIRECTORS' REPORT

The directors of Admiralty Resources NL submit the annual financial report of the company for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

## DIRECTORS

**Professor J Ross Harper** LLB MA D Univ CBE
Chairman of Directors

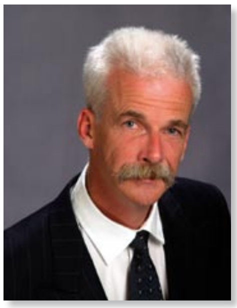
Professor Harper was appointed to the Board on 29 March 2005. Professor Harper holds a Bachelor of Laws and Master of Arts degrees from Glasgow University. He was awarded an Honorary Doctorate for services to Law at Glasgow University in 2002. Professor Harper is an Emeritus Professor of Law at Strathclyde University. He was awarded a CBE for public and political services in 1986.

**Phillip Thomas** BSc MBM AIG
Managing Director

Mr Thomas became a director of Admiralty Resources NL on 22 April 2003 and was appointed Managing Director on 18 August 2004. He commenced his geological career working for the Control Data Mining Centre as a consultant specialising in drill hole analysis and computer based exploration and mine applications. Subsequently he worked in the investment banking and asset management industries. Mr Thomas was the managing partner of Panopus Partners, a marketing strategy firm, prior to taking up his role with Admiralty Resources.

Mr Thomas is an Associate member of the Australian Institute of Geoscientists. He holds a Bachelor of Science degree majoring in geology from the Australian National University, and a Master of Business (Marketing) degree from Monash University.

**John Anderson** B Com, MBA
Director



Mr Anderson was appointed to the Board on 14 December 2005. Mr Anderson has over 25 years experience in the finance sector in banking, investment banking and consulting areas. Mr Anderson has held positions of Managing Director or Chairman with a number of public and private companies during his Australian career.

Mr Anderson has specialised in general financing and capital raisings, balance sheet and profit and loss management, resource and technology analysis, investment and development, design and implementation of planning information and control systems, strategic advice, and developing business plans for new and existing entities.

Mr Anderson is an executive director of Powersave Pty Ltd (a company supplying energy management solutions). Among previous positions held Mr Anderson was the managing director of an Australian publicly listed mining company and was responsible for the turning around of its unprofitable operations and the implementation of mining and operating plans.

**Mr Anthony Dickson** B Com, LLB, LLM, CA, FTIA
Former Director (resigned 16 December 2005)

Mr Dickson was a non-executive director to Admiralty Resources NL from 18 August 2004. He was a non-executive director until 16 December 2005 when he tendered his resignation to the Company.

The above named directors held office during and since the end of the financial year except for:

| | |
|---|---|
| Mr John Anderson | Appointed on 14 December 2005 |
| Mr Anthony Dickson | Resigned on 16 December 2005 |

## Company Secretary

**Mr Stephen C Prior** B.Com.(Melb.), C.A., F.T.I.A.

Mr Prior is a Chartered Accountant in public practice as a director of accountancy firm Prior & Co Pty Ltd which has been providing accounting and business advice to the Company since 13 September 2004.

## Principal Activities

The Consolidated Entity's principal activities in the course of the financial year were the exploration and development of economic mineral deposits including minerals occurring in brine lake deposits.

## Operating Results

The consolidated loss of the economic entity after providing for income tax amounted to $7,461,956 (2005 $2,961,799).

## Dividends Paid or Recommended

No dividends were paid during the year, nor are any recommended at 30 June 2006.

## REVIEW OF OPERATIONS

### Overview

The key focus of the Company over the past twelve months has been in the development of the Santa Barbara iron ore mines, and preparation to commence production of iron ore fines. The Company has also focused on the development of its lithium deposit in the Rincon Salar, and completed chemical engineering and feasibility studies on the various aspects of the project's development.

The company has a valuable brine and several ore resources from which it intends to extract:

- Lithium (Lithium Carbonate, Lithium Chloride and Lithium Hydroxide)
- Iron ore fines
- Potassium chloride
- Sodium sulphate
- Boric acid
- Lead oxide and lead sulphides
- Zinc oxide and zinc sulphides

The company has eight current major mining production prospects namely iron ore, lithium carbonate, lithium chloride and lithium hydroxide, potassium chloride, sodium sulphate, boric acid and lead and zinc sulphides. It will continue to develop these in pursuit of diversification of its mineral portfolio. The company currently has an agreement with Cougar Metals NL to mine nickel and cobalt at its Pyke Hill deposit in Western Australia.

Bulman Resources Pty Ltd has been advised by the Northern Lands Council it is preparing an agreement to enable the NT Mines and Energy department to issue an exploration licence in the fourth quarter of this year.

The company expects to generate revenue by commencing sales of iron ore fines at 100,000 tonnes per month, then bring its potash operations on stream in mid 2007, then its lithium operations in 2008.

Demand for lithium continues to be extremely strong especially in the lithium cobalt oxide and lithium hexafluoro phosphate markets which are used for new battery manufacturing, driven by growth in hybrid electric vehicles, notebook computer technology, camera and electronic sales and replacement of lithium batteries in mobile phones. In addition, Lithium usage continues to grow in the automotive, lubricants, pharmaceutical, polymers, ceramics and energy industries. Lithium carbonate, lithium chloride and lithium hydroxide prices showed a continued move upwards with an average increase of 10% in 2004 and 14% in 2005, with a further sharp upward trend in 2006. Prices for lithium hydroxide have been reported at US$7,000 per tonne.

### Iron Ore Project – Chile

The production from the Japonesa mine, which is one of ten existing mines situated at Vallenar is expected to be at least one million, two hundred thousand tonnes of iron ore per annum. The first shipment of iron ore is expected to be sold and shipped by either Cometals Inc or another distributor in the fourth quarter of 2006. The iron ore mines owned by our joint venture company, Sociedad Contractual Minera Santa Barbara, contain alluvial and hard rock (kiruna type) deposits and stockpiled iron ore fines.

Sociedad Contractual Minera Santa Barbara has continued with rock sampling and geomagnetic work at two new mining tenements situated near Vallenar at Pampa Tololo and Serro Varilla. They contain iron ore which will be mined in conjunction with the existing tenements at Vallenar.

In the past year the tenements were greatly expanded and Sociedad Contractual Minera Santa Barbara now has 7,421 hectares of highly prospective exploration tenements up from 421 hectares previously held.

### Rincon Salar – Argentina

The Rincon Salar is our large brine lake deposit in the Puna, Argentina near Susques containing valuable lithium and potassium compounds in solution. We have decided to focus our efforts on the extraction of lithium which offers the highest revenue potential. This multi-elemental brine resource is located in the Salta Province of Argentina and is close to two of the largest producers of lithium carbonate and potash in the world. The Rincon Salar tenements which cover an area in excess of 250 square kilometres, were acquired in February 2001. To date, 26 square kilometres have been drilled and tested, 40 kilometres of roads have been laid, seven pumping test holes have been drilled, and a pilot plant has been constructed and the laboratory fitted.

Substantial work has been done on the processes used to concentrate the lithium to 99.99% purity, and an independent report has been compiled by K-UTEC. We announced a JORC compliant estimate of the resources being 70,000 tonnes of lithium equivalent metal, and 2.48 million tonnes of Potassium and this will be upgraded shortly as a result of the engineering work completed over the year.

## FINANCIAL POSITION

The net assets of the economic entity have increased by $11,097,404 from 30 June 2005 to 30 June 2006. The increase has largely resulted from the following factors:

- Share issues during the year raised $5,875,058.
- Exercise of ordinary options to fully paid shares raising $4,020,000.
- Reclassification of converting notes previously classified as debt of $9,179,731 to equity.
- Receipt of $3,500,000 payments in respect of the converting notes.

During the past financial year the Company has invested in significant mining tenements and plant and equipment in Chile and will continue to dedicate resources to secure its long-term success. We anticipate generating revenue from the sale of iron ore in early 2006.

## CHANGES IN STATE OF AFFAIRS

During the financial year there was no significant change in the state of affairs of the Consolidated Entity other than that referred to in the financial statements or notes thereto.

## BUSINESS STRATEGIES

The focus of the Company has changed slightly in that we have expanded our product range in the lithium area by including 3,000 tonnes production of lithium chloride and 4,000 tonnes of lithium hydroxide in addition to 10,000 tonnes of lithium carbonate as demand for these elements has increased dramatically.

We have decided to defer development of our boric acid deposit at Rapé until 2007 as boric acid prices have not continued to increase and the funds required can be better used elsewhere.

## AFTER BALANCE DATE EVENTS

### First Sale of Ore In Chile

On the 12 July 2006 Sociedad Contractual Minera Santa Barbara made its first sale and shipment of magnetite iron ore to the Holcim Group of Companies. Holcim is one of the world's largest concrete manufacturers. The iron ore was used to manufacture concrete for pipe coating. Since then one other sale has been made to a local pipe constructor in Chile.

## FUTURE DEVELOPMENTS

The Company is keenly focussed on expanding its port options for shipment of iron ore, in the Caldera area, and in 2009 completing its own purpose built port near Huasco.

## OPTIONS

There are 109,800,000 unissued ordinary shares for which options are outstanding as at the date of this report. The three largest option holders are Algebraic Pty Ltd – 38,753,333 million, Leveraged Capital Pty Limited – 22,500,000 million and MTM Holdings (Australia) Pty Limited – 17,770,000 million.

No unlisted options were granted to directors during the year.

## MEETINGS OF DIRECTORS

During the financial year 10 directors meetings were held. Attendances at the meetings were as follows:

| | Board of Directors | | Remuneration Review Committee | | Audit Committee | | Finance Committee | |
|---|---|---|---|---|---|---|---|---|
| Directors | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| P Thomas | 10 | 10 | 2 | 2 | 1 | 1 | - | - |
| A Dickson | 4 | 4 | - | - | - | - | - | - |
| J Anderson | 6 | 6 | 2 | 2 | 1 | 1 | 1 | 1 |
| R J Harper | 10 | 9 | - | - | - | - | 1 | 1 |

There are three formally constituted committees of the board of directors as at the date of this report being the Remuneration Review Committee, the Audit Committee and the Finance Committee. The details of these committee have been outlined further in the Corporate Governance Statement disclosure on page 19 of the Annual Report.

## DIRECTORS' SHARE AND OPTION HOLDINGS

The directors disclose their interest in shares and options, as at the date of this report.

Shares and options held beneficially or where there is a relevant interest:

| Directors | No. of Shares | No. of Options |
|---|---|---|
| Phillip Thomas | 3,128,333 | Nil |
| John Anderson | Nil | Nil |
| Ross Harper | 320,000 | Nil |

## REMUNERATION REPORT - AUDITED

### Remuneration policy for directors and executives

The matters of remuneration for directors are dealt with by the Board of directors and are determined according to merit and normal industry levels. Remuneration levels are not directly linked to the performance of the company and the Consolidated Entity.

## Remuneration

The Board's policy is to remunerate executive and non-executive directors at market rates. These rates are sourced from information published by various recruitment firms as well as those rates used to remunerate directors of comparable companies for the time commitment and responsibilities involved. Annually, the Board reviews directors' fees considering external data, the time commitment of directors, the size and scale of Admiralty Resources' operations, the quantum of the tasks in the initial phases of development of the Company, market capitalisation and various other factors.

## Director and executive details

The directors of Admiralty Resources NL during the year were:

- Professor J. Ross Harper
- Phillip Thomas
- Anthony Dickson (resigned 16 December 2005)
- John Anderson (appointed 14 December 2005)

The other key management personnel of Admiralty Resources NL and the Consolidated Entity during the financial year were:

- Phillip Thomas

## Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered.

## Key management personnel service agreements

| Executives and Non-Executives | Duration of Contract | Termination Notice of Contract | Termination Payment Provided under contract |
|---|---|---|---|
| **Executives** | | | |
| Phillip Thomas | Open Ended | 3 Months | Nil |
| **Non - Executives** | | | |
| John Anderson | Open Ended | Not applicable | Nil |
| Ross Harper | Open Ended | 12 Months | Nil |

### Non – executive directors

Fees and payments to non-executive directors reflect the demands, which are made on, and the responsibilities of, the directors. The Board reviews the fees annually.

Non – executive director's fees are determined within an aggregate director's pool limit, which is periodically recommended for approval by shareholders. The maximum pool currently stands at $250,000.

### Retirement allowances for directors

There are currently no retirement allowances for directors.

### Executive pay

Fees and payments to executives reflect the demands which are made on, and the responsibilities of the executive.

### Short - term incentives

There are no short–term incentive plans in place.

Remuneration packages contain the following key elements:

- Directors fees
- Consulting fees

### Elements of remuneration related to performance

There are currently no elements of remuneration related to performance.

The following table discloses the remuneration of the key management personnel and directors of the Consolidated Entity:

| 2006 | Short – Term | | | Total |
|---|---|---|---|---|
| | Salary & Fees | Bonus | Non-monetary | |
| Directors | $ | $ | $ | $ |
| J. Ross Harper | 73,887 | - | - | 73,887 |
| Phillip Thomas | 394,327 | - | - | 394,327 |
| Anthony Dickson | - | - | - | - |
| John Anderson | 29,900 | - | - | 29,900 |

| 2005 | Short – Term | | | Total |
|---|---|---|---|---|
| | Salary & Fees | Bonus | Non-monetary | |
| Directors | $ | $ | $ | $ |
| Frank Edge | 53,636 | - | - | 53,636 |
| Phillip Thomas | 427,433 | - | - | 427,433 |
| Shane Mulcahy | 27,000 | - | - | 27,000 |
| Anthony Dickson | 36,000 | - | - | 36,000 |
| J. Ross Harper | 18,239 | - | - | 18,239 |

## ENVIRONMENTAL REGULATIONS

The Consolidated Entity aims to ensure that the highest standard of environmental care is achieved. The Board maintains the responsibility to ensure that the Consolidated Entity's environment policies are adhered to and to ensure that the Consolidated Entity is aware of and is in compliance with all relevant environmental legislation. There have been no environmental breaches during the 2006 financial year.

## NON AUDIT SERVICES

During the year, there were no non-audit services provided by Deloitte Touche Tohmatsu, the Company's auditors.

## INDEMNIFICATION OF OFFICERS AND AUDITORS

During or since the financial year, the company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor. In addition, the company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 26.

Signed in accordance with a resolution of the Board of Directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors

P Thomas
Director

Dated at Melbourne, this 29th day of September 2006.

## SCHEDULE OF MINING TENEMENTS

| Tenement Reference | Registered Holder | Country | Other Notes |
|---|---|---|---|
| 16879 | ADY Resources Limited | Argentina | Rincon Project |
| 16880 | ADY Resources Limited | Argentina | Rincon Project |
| 16881 | ADY Resources Limited | Argentina | Rincon Project |
| 16882 | ADY Resources Limited | Argentina | Rincon Project |
| 16883 | ADY Resources Limited | Argentina | Rincon Project |
| 16884 | ADY Resources Limited | Argentina | Rincon Project |
| 16982 | ADY Resources Limited | Argentina | Rincon Project |
| 16983 | ADY Resources Limited | Argentina | Rincon Project |
| 16984 | ADY Resources Limited | Argentina | Rincon Project |
| 16985 | ADY Resources Limited | Argentina | Rincon Project |
| 16986 | ADY Resources Limited | Argentina | Rincon Project |
| 16987 | ADY Resources Limited | Argentina | Rincon Project |
| 16988 | ADY Resources Limited | Argentina | Rincon Project |
| 16989 | ADY Resources Limited | Argentina | Rincon Project |
| 16990 | ADY Resources Limited | Argentina | Rincon Project |
| 16991 | ADY Resources Limited | Argentina | Rincon Project |
| 17052 | ADY Resources Limited | Argentina | Rincon Project |
| 17053 | ADY Resources Limited | Argentina | Rincon Project |
| 17054 | ADY Resources Limited | Argentina | Rincon Project |
| 17055 | ADY Resources Limited | Argentina | Rincon Project |
| 17056 | ADY Resources Limited | Argentina | Rincon Project |
| 17057 | ADY Resources Limited | Argentina | Rincon Project |
| 17058 | ADY Resources Limited | Argentina | Rincon Project |
| 17059 | ADY Resources Limited | Argentina | Rincon Project |
| 17083 | ADY Resources Limited | Argentina | Rincon Project |
| 17084 | ADY Resources Limited | Argentina | Rincon Project |
| 17112 | ADY Resources Limited | Argentina | Rincon Project |
| 17190 | ADY Resources Limited | Argentina | Rincon Project |
| 17170 | ADY Resources Limited | Argentina | Rincon Project |
| 17004 | ADY Resources Limited | Argentina | Rincon Project |
| 5449 | ADY Resources Limited | Argentina | Rincon Project |
| 9084 | ADY Resources Limited | Argentina | Rincon Project |
| 4730 | ADY Resources Limited | Argentina | Rincon Project |
| 18018 | ADY Resources Limited | Argentina | Rincon Project |
| 16824 | ADY Resources Limited | Argentina | Rapé Mine |
| M39/159 | Pyke Resources Pty Ltd | Australia | Pyke Hill |
| MLN 726 | Bulman Resources Pty Ltd | Australia | Bulman |
| MLN 727 | Bulman Resources Pty Ltd | Australia | Bulman |

| Tenement Reference | Registered Holder | Country | Other Notes |
|---|---|---|---|
| ELA23814 | Bulman Resources Pty Ltd | Australia | Bulman |
| 1422 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| 1416 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| 1417 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| 1418 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| 73 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| 1421 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| 1052 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| 796 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| 631 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo Uno 1-2 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo Siete 1-2 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo dos 1-40 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo Cinco 1-60 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo Seis 1-60 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 3 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 4 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 7 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 8 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 9 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 10 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 11 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 12 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
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| Leo 18 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 19 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 20 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 100 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 101 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 102 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 103 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 104 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 105 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 106 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |
| Leo 107 | Sociedad Contractual Minera Santa Barbara | Chile | Japonesa Group of Mines |

# DIRECTORS' DECLARATION

The directors declare that:

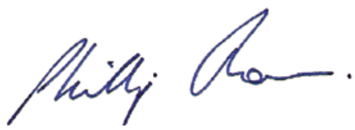
(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Entity; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors



Director

Dated this 29th day of September 2006

Deloitte

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Admiralty Resources NL
Level 14, 200 Queen Street,
Melbourne, VIC 3000

29 September 2006

Dear Board Members

**Re: Admiralty Resources NL - Auditors' Independence Declaration**

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

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

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

**Ian Sanders**
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Deloitte.

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# Independent audit report to the members of Admiralty Resources NL

## Scope

### The financial report, compensation disclosures and directors' responsibility

The financial report comprises the directors' declaration, balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes for Admiralty Resources NL (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 25 to 65. The consolidated entity comprises the company and entities it controlled at the year's end or from time to time during the financial year.

The company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 19 to 21 of the directors' report and not in the financial report, as permitted by the Corporations Regulations 2001.

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

### Audit approach

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on them to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

Member of
Deloitte Touche Tohmatsu

Deloitte.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

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

The audit opinion expressed in this report has been formed on the above basis.

**Qualification**

AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" requires an entity to use the same accounting policies in its opening Australian-equivalents-to-IFRSs balance sheet and throughout all periods presented in its first Australian equivalents to IFRSs financial report.

Accounting Standard AASB 136 "Impairment of Assets" requires an asset to be written down to its recoverable amount when its carrying value is greater than its recoverable amount. As at the dates of the opening Australian-equivalents-to-IFRSs balance sheet, and 30 June 2005 we were unable to obtain sufficient appropriate audit evidence of the recoverable amount of the investments and receivables set out below and, accordingly, we were unable to determine whether the recoverable amounts of the investments and the receivables are at least equal to their carrying values at those dates. We are however able to determine the recoverable amounts of the investments and receivables as at 30 June 2006 and we are satisfied that such carrying amounts do not exceed their recoverable amount as at 30 June 2006.

As at the dates of the opening Australian-equivalents-to-IFRSs balance sheet, and 30 June 2005,

- In the event that the carrying values of the investments and receivables exceeded their recoverable amounts, it would have been necessary for the carrying values of the investments and receivables to be written down to their recoverable amounts.
- In the event that an impairment loss was recognised, it would have been necessary to assess whether there is any indication that the impairment loss recognised in prior periods may no longer exist.

For the reasons set out above, we are unable to determine whether any such impairment write-downs, or reversals of write-downs, would have been necessary at 30 June 2005.

The balances referred to above are:

In the consolidated entity:

- The receivable from and investment in an associate, SCMSB, with respective carrying values of $2,598,566 and $11,581,465, at 30 June 2005
- The investment in Nilnav Orthopaedics Pty Limited with a carrying value of $3,328,830 at 1 July 2004, and 30 June 2005.

In the company:

- The receivables from the controlled entity, ADY Investments Pty Ltd (formerly Solgold Pty Limited) and an associate, SCMSB, with carrying value of $3,781,264 and $2,598,566 respectively at 30 June 2005;
- The investment in a controlled entity, Fortune Global Holdings Corporation, with a carrying value of $11,755,487 at 30 June 2005.

Deloitte.

**Qualified Audit Opinion**

1. In our opinion, except for the effects on the A-IFRS transitional balance sheet at 1 July 2004, the comparatives for the 30 June 2005 balance sheet or the 30 June 2005 income statement and statement of changes in equity, and any consequential effects on the current period of such adjustments, if any, as might have been determined to be necessary had the limitation on the scope referred to in the qualification paragraph not existed, the financial report of Admiralty Resources NL is in accordance with the Corporations Act 2001, including:

   (a) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

   (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

2. The compensation disclosures that are contained under the heading "remuneration report" on pages 19 to 21 of the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 Related Party Disclosures.

**Inherent Uncertainty Regarding Continuation as a Going Concern**

Without further qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(a) "Going Concern", there is significant uncertainty whether the company and the consolidated entity will be able to continue as a going concern and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

Ian Sanders
Partner
Chartered Accountants
Melbourne
29 September 2006

## INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| INCOME | Note | $ | $ | $ | $ |
| Interest Income – SCMSB | 2 | 184,421 | - | 361,609 | - |
| Other Income | 2 | 107,327 | 23,136 | 7,127 | 23,136 |
| | 2 | **291,748** | **23,136** | **368,736** | **23,136** |
| EXPENSES | | | | | |
| Depreciation expense | | 4,896 | 10,775 | 1,756 | 2,269 |
| Employee costs | | 95,885 | 125,201 | 52,788 | 124,473 |
| Consultancy expenses | | 523,231 | 806,236 | 516,512 | 578,742 |
| Professional expenses | | 355,387 | 301,344 | 319,110 | 282,184 |
| Occupancy expenses | | 10,435 | 52,228 | 6,000 | 50,681 |
| Communication expenses | | 1,304 | 59,626 | (331) | 58,717 |
| Travel expenses | | 304,105 | 190,130 | 265,517 | 190,130 |
| Finance costs | | 1,383,834 | 786,456 | 1,383,834 | 786,456 |
| Write back of bad debts expense | | - | - | (505,076) | - |
| Administration expenses | | 391,776 | 366,833 | 324,142 | 205,884 |
| Loss on disposal of asset | | 7,046 | - | - | - |
| Loss on equity accounting | | 1,040,329 | 174,022 | - | - |
| Impairment of investments | | 3,424,830 | - | 96,000 | - |
| Loss on exchange translation | | 210,646 | 112,084 | 210,646 | 112,084 |
| | | (7,753,704) | (2,984,935) | (2,670,898) | (2,391,620) |
| LOSS BEFORE INCOME TAX EXPENSE | 2 | (7,461,956) | (2,961,799) | (2,302,162) | (2,368,484) |
| Income tax expense | 5 | - | - | - | - |
| LOSS AFTER INCOME TAX | | (7,461,956) | (2,961,799) | (2,302,162) | (2,368,484) |
| LOSS FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY | | (7,461,956) | (2,961,799) | (2,302,162) | (2,368,484) |
| Basic and diluted loss per share (cents per share) | 9 | (1.41) | (0.65) | | |

Notes to the financial statements are included on pages 38 to 66

# BALANCE SHEET AS AT 30 JUNE 2006

| | Note | CONSOLIDATED 2006 $ | CONSOLIDATED 2005 $ | COMPANY 2006 $ | COMPANY 2005 $ |
|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | |
| Cash and cash equivalents | | 1,467,690 | 970,072 | 1,331,413 | 887,192 |
| Receivables | 10 | 28,103 | 46,112 | 28,055 | 46,112 |
| Other financial assets | 11 | 3,600 | 3,600 | 3,600 | 3,600 |
| Other | 14 | 95,570 | 612,432 | 93,497 | 612,432 |
| **TOTAL CURRENT ASSETS** | | 1,594,963 | 1,632,216 | 1,456,565 | 1,549,336 |
| **NON-CURRENT ASSETS** | | | | | |
| Receivables | 10 | 10,305,248 | 2,598,566 | 10,414,661 | 6,371,727 |
| Other financial assets | 11 | - | 3,328,830 | 17,648,175 | 11,755,487 |
| Investments accounted for using the equity method | 27 | 10,526,034 | 11,581,465 | - | - |
| Property, plant and equipment | 13 | 44,338 | 39,721 | 8,668 | 10,424 |
| Other | 14 | 2,667,451 | 1,484,065 | 122,138 | 390,350 |
| **TOTAL NON-CURRENT ASSETS** | | 23,543,071 | 19,032,647 | 28,193,642 | 18,527,988 |
| **TOTAL ASSETS** | | 25,138,034 | 20,664,863 | 29,650,207 | 20,077,324 |
| **CURRENT LIABILITIES** | | | | | |
| Payables | 15 | 4,748,083 | 4,667,421 | 4,717,062 | 4,667,421 |
| Borrowings | 16 | 2,654,125 | - | 2,654,125 | - |
| **TOTAL CURRENT LIABILITIES** | | 7,402,208 | 4,667,421 | 7,371,187 | 4,667,421 |
| **NON CURRENT LIABILITIES** | | | | | |
| Borrowings | 16 | - | 9,359,020 | - | 9,359,020 |
| **TOTAL NON CURRENT LIABILITIES** | | - | 9,359,020 | - | 9,359,020 |
| **TOTAL LIABILITIES** | | 7,402,208 | 14,026,441 | 7,371,187 | 14,026,441 |
| **NET ASSETS** | | 17,735,826 | 6,638,422 | 22,279,020 | 6,050,883 |
| **EQUITY** | | | | | |
| Issued Capital | 17 | 43,650,176 | 25,119,877 | 43,650,176 | 25,119,877 |
| Foreign Currency Translation Reserve | 18 | 29,061 | - | - | - |
| Accumulated Losses | 19 | (25,943,411) | (18,481,455) | (21,371,156) | (19,068,994) |
| **TOTAL EQUITY** | | 17,735,826 | 6,638,422 | 22,279,020 | 6,050,883 |

Notes to the financial statements are included on pages 38 to 66

## STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

| CONSOLIDATED 30 JUNE 2006 | Share Capital $ | Foreign Currency Translation Reserve $ | Accumulated Losses $ | Total $ |
|---|---|---|---|---|
| Balance at 1 July 2005 | 25,119,877 | - | (18,481,455) | 6,638,422 |
| Exchange differences arising on translation of foreign operations | - | 29,061 | - | 29,061 |
| Net Income recognised directly in equity | - | 29,061 | - | 29,061 |
| Loss for the period | - | - | (7,461,956) | (7,461,956) |
| **Total recognised income and expense for the year** | **-** | **29,061** | **(7,461,956)** | **(7,432,895)** |
| Issue of new shares | 1,855,058 | - | - | 1,855,058 |
| Conversion of Options | 4,020,000 | - | - | 4,020,000 |
| Converting Notes | 12,679,731 | - | - | 12,679,731 |
| Adjustment in equity – convertible notes | (24,490) | - | - | (24,490) |
| **Balance at 30 June 2006** | **43,650,176** | **29,061** | **(25,943,411)** | **17,735,826** |

| CONSOLIDATED 30 JUNE 2005 | Share Capital $ | Foreign Currency Translation Reserve $ | Accumulated Losses $ | Total $ |
|---|---|---|---|---|
| Balance at 1 July 2004 | 20,420,522 | - | (15,519,656) | 4,900,866 |
| Net Income recognised directly in equity | - | - | - | - |
| Loss for the period | - | - | (2,961,799) | (2,961,799) |
| **Total recognised income and expense for the year** | **-** | **-** | **(2,961,799)** | **(2,961,799)** |
| Option Premium on converting notes | 655,605 | - | - | 655,605 |
| Option Premium | 43,750 | - | - | 43,750 |
| Issue of new shares | 4,000,000 | - | - | 4,000,000 |
| **Balance at 30 June 2005** | **25,119,877** | **-** | **(18,481,455)** | **6,638,422** |

Notes to the financial statements are included on pages 38 to 66

# STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

| COMPANY 30 JUNE 2006 | Share Capital<br>$ | Accumulated Losses<br>$ | Total<br>$ |
|---|---|---|---|
| Balance at 1 July 2005 | 25,119,877 | (19,068,994) | 6,050,883 |
| Net Income recognised directly in equity | - | - | - |
| Loss for the period | - | (2,302,162) | (2,302,162) |
| **Total recognised income and expense for the year** | **-** | **(2,302,162)** | **(2,302,162)** |
| Issue of shares | 1,855,058 | - | 1,855,058 |
| Conversion of Options | 4,020,000 | - | 4,020,000 |
| Converting Notes | 12,679,731 | - | 12,679,731 |
| Adjustment in equity – convertible notes | (24,490) | - | (24,490) |
| **Balance at 30 June 2006** | **43,650,176** | **(21,371,156)** | **22,279,020** |

| COMPANY 30 JUNE 2005 | Share Capital<br>$ | Accumulated Losses<br>$ | Total<br>$ |
|---|---|---|---|
| Balance at 1 July 2004 | 20,420,522 | (16,700,510) | 3,720,012 |
| Net Income recognised directly in equity | - | - | - |
| Less: Loss for the period | - | (2,368,484) | (2,368,484) |
| **Total recognised income and expense for the year** | **-** | **(2,368,484)** | **(2,368,484)** |
| Option premium on converting notes | 655,605 | - | 655,605 |
| Option Premium | 43,750 | - | 43,750 |
| Issue of shares | 4,000,000 | - | 4,000,000 |
| **Balance at 30 June 2005** | **25,119,877** | **(19,068,994)** | **6,050,833** |

Notes to the financial statements are included on pages 38 to 66

# CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | Note | 2006 | 2005 | 2006 | 2005 |
| | | $ | $ | $ | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from customers | | 100,000 | - | - | - |
| Payments to suppliers and employees | | (2,321,038) | (1,416,138) | (2,151,801) | (1,054,687) |
| Interest received | | 7,127 | 23,136 | 7,127 | 23,136 |
| GST refunded | | 18,009 | - | 18,057 | - |
| Interest and other cost of finance paid | | (196,853) | (270,417) | (196,853) | (270,417) |
| **Net cash used in operating activities** | 22(b) | (2,392,755) | (1,663,419) | (2,323,470) | (1,301,968) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Payment for property, plant and equipment | | (32,235) | - | - | - |
| Proceeds from sale of property, plant and equipment | | 15,676 | - | - | - |
| Payment for development and exploration | | (609,282) | - | - | - |
| Purchase of business | 22(c) | - | (6,352,433) | - | - |
| Purchase of controlled entity | | - | - | - | (6,352,433) |
| Purchase of Mine Rapé | | (842,316) | - | - | - |
| Amounts advanced to associate | | (7,223,202) | (2,598,566) | (8,769,879) | (2,598,566) |
| Amounts advanced to controlled entities | | - | - | - | (424,374) |
| Proceeds from term deposit | | - | 10,000 | - | - |
| **Net cash used in investing activities** | | (8,691,359) | (8,940,999) | (8,769,879) | (9,375,373) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from issues of equity securities | | 9,186,756 | 2,543,750 | 9,186,756 | 2,543,750 |
| Converting notes – liability portion | | - | 9,244,257 | - | 9,244,257 |
| Converting notes – equity portion | | - | 755,741 | - | 755,741 |
| Costs of issuing converting notes | | - | (1,325,000) | - | (1,325,000) |
| Proceeds from convertible loan | | 2,350,814 | - | 2,350,814 | - |
| **Net cash provided by financing activities** | | 11,537,570 | 11,218,748 | 11,537,570 | 11,218,748 |
| Net increase in cash held | | 453,456 | 614,330 | 444,221 | 541,407 |
| Cash and cash equivalents at the beginning of the financial year | | 970,072 | 355,742 | 887,192 | 345,785 |
| Effects of exchange rate changes on the translation of foreign controlled entities | | 44,162 | - | - | - |
| **Cash and cash equivalents at the end of the financial year** | 22(a) | 1,467,690 | 970,072 | 1,331,413 | 887,192 |

Notes to the financial statements are included on pages 38 to 66

## 1. SUMMARY OF ACCOUNTING POLICIES

### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the Consolidated Entity.

The financial statements were authorised for issue by the directors on 29 September 2006.

### Basis of preparation

The financial report has been prepared on the basis of historical cost, except for certain financial assets that are carried at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The Consolidated Entity changed its accounting policies on 1 July 2005 to comply with AIFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the company's and Consolidated Entity's financial position, financial performance and cash flows is discussed in note 28.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening AIFRS balance sheet at 1 July 2004 (as disclosed in note 28), the Consolidated Entity's date of transition, except for the accounting policies in respect of financial instruments. The Consolidated Entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information and the impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in note 1(q).

The following is a summary of the material accounting policies adopted by the Consolidated Entity in the preparation of the financial report.

### (a) Going Concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The following factors are relevant in considering the ability of the Consolidated Entity and the company to continue as a going concern:-

- The Consolidated Entity has incurred a net loss of $7.5 million and has accumulated losses of $25.8 million;
- The Consolidated Entity is yet to generate material revenue from its operations and has negative operating cash flows of $ 1.7 million;
- The Consolidated Entity has commenced iron-ore operations and produced 20,000 tonnes of iron ore worth an estimated $800,000;
- The lithium operations will require a further investment before they start generating revenue. However, the decision to make the further investment rests entirely with the Consolidated Entity which may defer the investment if suitable funding is not available.

The ability of the Consolidated Entity to continue as going concern is dependent upon a number of factors, one being the continuation and availability of funds. To this end, the Consolidated Entity has entered into the following funding arrangements during the period since the last annual financial report 2005:

Issue of Series A Convertible Loan

- Purchaser: Cornell Capital Partners Offshore, L.P.
- Amount: US$2,000,000
- Term: 540 days repayable at any time, or can be converted at any time into shares.
- Repayment: 180 days interest paid in advance until 14 October 2006, after which interest only repayments on a monthly basis.
- Interest Rate: 8% per annum.
- Draw Down: May 2006.

Other additional funding avenues are also currently being negotiated by management.

Converting Notes

During the year, The Company received $3,500,000 in respect of the balance owing on the Converting Notes. Since the end of the year financial year, a further $2,800,000 has been received. An additional amount in excess of $1,000,000 is expected to be received shortly.

The Consolidated Entity has lent money for working capital to its joint venture entity in Chile, Sociedad Contractual Minera Santa Barbara (SCMSB). Pursuant to Clause 4.1 of the Loan Agreement dated 18 February 2005, on the last day of each month, SCMSB must pay any net income before tax to the Consolidated Entity, subject to cash being available and if it has capacity to do so. Given that the first shipment of iron ore is expected to commence in late 2006, with projected net income before tax being US$1.5 million per month, the SCMSB will have sufficient funds to repay the loan in accordance with the loan agreement.

Secondly, the Consolidated Entity, as detailed in the review of operations, is expected to receive an income stream (50% entitlement) from the sale of iron ore equivalent to approximately $0.825 million per month, the receipt of which will assist the Consolidated Entity in meeting its ongoing commitments as and when they fall due. Production of iron ore and shipment thereof at 125,000 tonnes per month is sustainable for at least 4 years based on stockpile reserves alone not to mention iron ore to be extracted from existing mines. The first shipment is anticipated for the last quarter of the 2006.

Lastly, the Consolidated Entity has the ability to defer certain expenditure with regards to the Boric Acid and Sodium Sulphate projects in Argentina, if this is necessary, which will conserve some of the Consolidated Entity's cash flow. It can minimise expenditure on the Rincon Project to US$900,000 for calendar 2007 and not inhibit scheduled progress.

At the date of this report and having considered the above factors, the directors are confident that the company or the Consolidated Entity will be able to continue as going concerns. Notwithstanding this there is significant uncertainty whether the Consolidated Entity or the company will continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Should the Consolidated Entity or the company be unable to continue as going concerns, they may be required to realise their assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities and appropriate disclosures that may be necessary should the Consolidated Entity or the company be unable to continue as a going concern.

### (b) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Consolidated Entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A controlled entity is any entity controlled by Admiralty Resources NL. Control, as defined in Accounting Standard AASB 127, exists where Admiralty Resources NL has the powers to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity. In preparing the consolidated financial statements, all inter company balances and transactions, and unrealised profits arising within the Consolidated Entity are eliminated in full.

### (c) Mining Tenements

Mining tenements are shown at cost. Ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. If an area of interest is abandoned or is considered to be of no further commercial interest, the mining tenement costs relating to the area are written off against income in the year of abandonment.

### (d) Exploration and Evaluation Expenditure

Expenditure represents direct costs incurred. Costs are accumulated in respect of areas of interest still in the exploration and/or evaluation phase where they have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. If an area of interest is abandoned or is considered to be of no commercial interest the accumulated exploration costs relating to the area are written off against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of economically recoverable reserves. Any costs of site restoration are provided for in the production stages and included in the costs of that stage. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

### (e) Financial Assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements.

Receivables and loans are recorded at amortised cost less impairment.

For financial instruments traded in organised financial markets, fair value is the current market bid for the asset. The Board reviews the values of the shares held at balance date. Where it is considered necessary a write down of the carrying amount of individual investments is made. At balance date a write down was made for current and non-current assets. The portfolio of shares will continue to be monitored by the Board in accordance with the company's corporate governance.

Subsequent to initial recognition, investments in subsidiaries are measured at cost. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

### (f) Income Tax

#### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the Consolidated Entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

#### Current and deferred for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess

### (g) Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment.

#### Plant and Equipment

Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

#### Depreciation

The depreciable amount of all fixed assets are depreciated over their useful lives to the Consolidated Entity using the diminishing value or prime cost method, commencing from the time the asset is held ready for use. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

The useful lives used for each class of depreciable assets are:-

| Class of Fixed Asset | Useful Life |
|---|---|
| Office Furniture | 9 yrs |
| Leasehold Improvements | 6 yrs |
| Plant & Equipment | 4 – 8 yrs |
| Motor Vehicles | 4 – 7 yrs |
| Low Value Pool | 3 yrs |

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal and is included in the result before income tax of the company in the year of disposal.

### (h) Borrowings

Borrowings, including convertible loans are recorded initially at fair value, net of transactions costs. Interest expense is recognised on an accrual basis. Subsequent to initial recognition, these are measured at amortised costs with any difference between the initial recognized amount and the redemption value being recognized in the profit and loss over the period of the borrowings including convertible loans using the effective interest method.

### (i) Cash and cash equivalents

For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions.

### (j) Revenue Recognition

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

Dividend revenue is recognised when the right to receive a dividend has been established.

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

### (k) Accounts Payable

Trade payables and other accounts payable are recognised when the Consolidated Entity becomes obliged to make future payments resulting from the purchase of goods and services.

## (l) Foreign Currency

### Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

Exchange differences are brought to account in the profit and loss in the period in which they arise except that:

- exchange differences which relate to assets under construction for future productive use are included in the cost of those assets; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of net investment in a foreign operation, are recognized in the foreign currency translation reserve and recognized in the profit or loss on disposal of the net investment.

### Foreign operations

On consolidation, the assets and liabilities of the Consolidated Entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

## (m) Leased assets

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

## (n) Impairment of assets

At each reporting date, the Consolidated Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

## (o) Financial Instruments Issued by the Company

### Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

### Compound Instruments

The component parts of compound instruments are classified separately as liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible debt. The equity component initially brought to account is determined by deducting the amount of the liability component from the amount of the compound instrument as a whole.

### Transaction Costs on the Issue of Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

### Interest

Interest is classified as expense consistent with the classification in the statement of financial position of the related debt.

## (p) Goods and Services Tax

Revenues, 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, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a group basis. The GST component of cash flows arising from investing and financing activities which is recoverable from or payable to, the taxation authority is classified as operating cash flows.

## (q) Financial instruments comparative period information

The Consolidated Entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement, as permitted on the first-time adoption of A-IFRS. The effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005 is to reduce the convertible note financial liability and reduce the other assets by $996,670 with no net asset or profit or loss impact. This takes account of netting off of transaction costs against the borrowing (the convertible note). The accounting policies applied to the comparatives are the same as those described above, except the accounting policy for transaction costs related to borrowings. Under the previous accounting policy transaction costs were capitalised as an asset and amortised on a straight line basis.

| PROFIT FROM OPERATIONS | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **2 . INCOME** | | | | |
| Income | | | | |
| - interest income – SCMSB | 184,421 | - | 361,609 | - |
| - other income | 107,327 | 23,136 | 7,127 | 23,136 |
| Total Income | 291,748 | 23,136 | 368,736 | 23,136 |
| **3. EXPENSES** | | | | |
| Operating Activities | | | | |
| Consultancy expenses | 523,231 | 806,236 | 516,512 | 578,742 |
| Professional expenses | 355,387 | 301,344 | 319,110 | 282,184 |
| Employee costs | | | | |
| - Wages and salaries | 91,527 | 124,606 | 48,430 | 123,878 |
| - Superannuation | 4,358 | 595 | 4,358 | 595 |
| Travel and entertainment | 304,105 | 190,130 | 265,517 | 190,130 |
| Occupancy costs | 10,435 | 52,228 | 6,000 | 50,681 |
| Borrowing costs | | | | |
| - amortisation of debt issue cost | - | 228,194 | - | 228,194 |
| - deferred purchase consideration | 207,427 | 173,082 | 207,427 | 173,082 |
| - interest | 1,176,407 | 385,180 | 1,176,407 | 385,180 |
| Bad Debts Expense | - | - | (505,076) | - |
| Overheads | 393,080 | 426,459 | 323,812 | 264,601 |
| Loss on equity accounting | 1,040,329 | 174,022 | - | - |
| Depreciation of non current assets | 4,896 | 10,775 | 1,756 | 2,269 |
| Foreign currency translation losses | 210,646 | 112,084 | 210,646 | 112,084 |
| | **4,321,828** | **2,984,935** | **2,574,899** | **2,391,620** |
| Provision for impairment on investments | 3,424,830 | - | 96,000 | - |
| Loss on disposal of non current assets | 7,046 | - | - | - |
| | 3,431,876 | - | 96,000 | - |
| | **7,753,704** | **2,984,935** | **2,670,899** | **2,391,620** |

## 4. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The directors are not aware of any contingent assets or contingent liabilities in existence at the date of this report.

| | Note | CONSOLIDATED 2006 $ | 2005 $ | COMPANY 2006 $ | 2005 $ |
|---|---|---|---|---|---|

## 5. INCOME TAXES

The prima facie tax expense on pre-tax accounting profit from operations reconciles to the income tax as follows:

| | | | | |
|---|---|---|---|---|
| **Loss from continuing operations** | (7,461,956) | (2,961,799) | (2,302,163) | (2,368,484) |
| Prima facie tax payable on loss from ordinary activities before tax income tax at 30% (2005:30%) | (2,238,587) | (888,540) | (690,649) | (710,545) |
| - assessable interest on loan to associate | 53,157 | - | - | - |
| - equity share of associate loss | 312,099 | 52,207 | - | - |
| — tax losses and timing differences not brought to account as deferred tax assets | **1,873,331** | **836,333** | **690,649** | **710,545** |
| Income tax expense attributable to loss from ordinary activities | - | - | - | - |
| The deferred tax assets not brought to account as assets: | | | | |
| Tax losses – revenue | 7,322,451 | 5,449,120 | 4,299,026 | 3,608,377 |
| Tax losses - capital | 1,135,901 | 1,135,901 | 292,928 | 292,928 |
| | **8,458,352** | **6,585,021** | **4,591,945** | **3,901,305** |

Realisation of the above benefits is dependent on:

(a) the ability of the parent entity and the Consolidated Entity to derive future assessable income of a nature and of a sufficient amount to enable the benefit to be realised;

(b) the ability of the parent and the Consolidated Entity to continue to comply with the conditions for deductibility imposed by law; and

(c) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

The Consolidated Entity and the company do not have any deferred tax liabilities.

Legislation to allow groups, comprising a parent entity and its Australian resident, wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company.

At the date of this report the directors have not elected to be taxed as a single entity. The financial effect of the implementation of the tax consolidation system on the company and Consolidated Entity has not been recognised in the financial statements.

## 6. KEY MANAGEMENT PERSONNEL REMUNERATION AND EQUITY HOLDINGS

### (a) Director and executive details

The directors of Admiralty Resources NL during the year were:

- Professor J. Ross Harper
- Phillip Thomas
- Anthony Dickson (resigned 16 December 2005)
- John Anderson (appointed 14 December 2005)

The group executives of Admiralty Resources NL during the financial year were:

- Phillip Thomas

### (b) Key management personnel compensation

The aggregate compensation of the key management personnel of the company is set out below:

| | 2006<br>$ | 2005<br>$ |
|---|---|---|
| Short-term employee benefits | 498,114 | 562,308 |
| Post-employee benefits | - | - |
| Other long-term benefits | - | - |
| Termination benefits | - | - |
| Share-based payments | - | - |
| Total | 498,114 | 562,308 |

### (c) Shareholdings

Number of shares held by parent entity directors and other key management personnel

| | Balance<br>1 July 2004 | Net Change<br>Other* | Balance<br>30 June 2005 | Net Change<br>Other* | Balance<br>30 June 2006 |
|---|---|---|---|---|---|
| Parent Entity Directors | | | | | |
| Phillip Thomas | 407,000 | 1,821,946 | 2,228,946 | 899,387 | 3,128,333 |
| John Ross Harper | - | - | - | 320,000 | 320,000 |
| Anthony Dickson | - | - | - | - | - |
| John Anderson | - | - | - | - | - |
| Total | 407,000 | 1,821,946 | 2,228,946 | 1,219,387 | 3,448,333 |

* Net change other refers to shares purchased or sold during the financial year.

## 7. REMUNERATION OF AUDITORS

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Auditor of the parent entity<br>- audit and review of the financial report | 140,000 | 120,000 | 140,000 | 120,000 |
| | **140,000** | **120,000** | **140,000** | **120,000** |

The auditors of the Consolidated Entity is Deloitte Touche Tohmatsu.

## 8. DIVIDENDS

At 30 June 2006, the balance of the franking account of the Consolidated Entity and the parent entity was $nil (2005: $nil).

## 9. EARNINGS PER SHARE

| | CONSOLIDATED | |
|---|---|---|
| | 2006 | 2005 |
| | $ | $ |
| **a. Reconciliation of Earnings to Net Profit or Loss** | | |
| Net loss | (7,461,956) | (2,961,799) |
| Earnings used in the calculation of basic EPS | (7,461,956) | (2,961,799) |
| Earnings used in the calculation of dilutive EPS | (7,461,956) | (2,961,799) |
| **b. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS** | 530,151,329 | 457,150,849 |
| Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS | 530,151,329 | 457,150,849 |
| **c. Basic and diluted earnings per share (cents per share)** | (1.41) | (0.65) |

d. Classification of securities

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

| | 2006 | 2005 |
|---|---|---|
| - options outstanding | 109,800,000 | 150,000,000 |
| - Converting notes | 134,999,980 | 99,999,980 |

## 10. RECEIVABLES

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| | | $ | $ | $ | $ |
| **CURRENT** | | | | | |
| Security deposits | | 950 | 950 | 950 | 950 |
| Sundry receivables | | 48 | - | - | - |
| Goods and services tax (GST) receivables | | 27,105 | 45,162 | 27,105 | 45,162 |
| | | **28,103** | **46,112** | **28,055** | **46,112** |
| **NON-CURRENT** | | | | | |
| Loans to controlled entities | | - | - | 7,585,449 | 11,863,686 |
| Loan to associate | (a) | 10,305,248 | 2,598,566 | 10,414,661 | 2,598,566 |
| Less: Allowance for unlikely recoverability of loans | | - | - | (7,585,449) | (8,090,525) |
| | | **10,305,248** | **2,598,566** | **10,414,661** | **6,371,727** |

(a) This loan to SCM Santa Barbara is in US dollars with interest receivable at 6.125%. Repayments will occur by allocation from the net proceeds of iron ore shipments when these commence until the loan is extinguished.

## 11. OTHER FINANCIAL ASSETS

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| | | $ | $ | $ | $ |
| **CURRENT** | | | | | |
| Shares in listed corporations, at fair value | (a) | 3,600 | 3,600 | 3,600 | 3,600 |
| **NON-CURRENT** | | | | | |
| Shares - at fair value | (b) | 3,328,830 | 3,328,830 | 334,000 | - |
| Shares in controlled entities - at cost | (c) | - | - | 17,648,175 | 11,993,487 |
| Less: Provision for impairment | (c) | (3,328,830) | - | (334,000) | (238,000) |
| | | **-** | **3,328,830** | **17,648,175** | **11,755,487** |

(a) The Consolidated Entity owns 300,000 ordinary shares in SmartTrans Holdings Ltd, a mining exploration and technology company, and this investment represents approximately 0.16% of the issued capital of that company.

(b) The Consolidated Entity holds 10% (2005: 10%) of the ordinary share capital of Nilnav Orthopaedics Pty Ltd, a company involved in minimally invasive hip replacement procedures and toolset design, modification and manufacture. This investment has been tested for impairment and fully provided for by the directors.

(c) The investment in certain controlled entities has been tested for impairment and fully provided for by the directors.

## 12. CONTROLLED ENTITIES

Admiralty Resources NL is the ultimate parent entity of the group. The country of incorporation is Australia.

| | Name of Entity | Country of Incorporation | Principal Activity | Percentage Owned (%) 2006 | 2005 |
|---|---|---|---|---|---|
| | ADY Resources Ltd | Australia | Lithium, Potassium Exploration | 100% | 100% |
| * | Bulman Resources Pty Ltd (formerly Moonlight Mining NL) | Australia | Lead, Zinc Exploration | 100% | 100% |
| * | Pyke Hill Resources Pty Ltd (formerly Greater Australian Gold NL) | Australia | Nickel, Cobalt Exploration | 100% | 100% |
| * | ADY Investments Pty Ltd (formerly Solgold Pty Ltd) | Australia | Investment Holding Entity | 100% | 100% |
| * | Five Star Resources Pty Ltd (formerly Three Star Mining NL) | Australia | Mineral Exploration | 100% | 100% |
| | Fortune Global Holdings Corporation | British Virgin Islands | Holding Entity | 100% | 100% |

* All these controlled entities are classified as small proprietary companies and, in accordance with the Corporations Act 2001, are relieved from the requirement to prepare, audit and lodge financial reports.

## 13. PROPERTY PLANT AND EQUIPMENT

| PLANT AND EQUIPMENT | CONSOLIDATED 2006 $ | 2005 $ | COMPANY 2006 $ | 2005 $ |
|---|---|---|---|---|
| Plant and equipment | | | | |
| At cost | 39,581 | 10,348 | 10,348 | 10,348 |
| Accumulated depreciation | (8,671) | (7,647) | (8,399) | (7,647) |
| | **30,910** | **2,701** | **1,949** | **2,701** |
| Motor Vehicles | | | | |
| At cost | 18,874 | 95,593 | - | - |
| Accumulated depreciation | (14,815) | (66,296) | - | - |
| | **4,059** | **29,297** | - | - |
| Office Furniture | | | | |
| At cost | 13,876 | 11,968 | 11,968 | 11,968 |
| Accumulated depreciation | (5,394) | (4,245) | (5,249) | (4,245) |
| | **8,482** | **7,723** | **6,719** | **7,723** |
| Low Value Pool | | | | |
| At cost | 1,094 | - | - | - |
| Accumulated depreciation | (207) | - | - | - |
| | **887** | - | - | - |
| **Net book value** | **44,338** | **39,721** | **8,668** | **10,424** |

## 2006 Movements in Carrying Amounts

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

| | PLANT AND EQUIPMENT $ | MOTOR VEHICLES $ | OFFICE FURNITURE $ | LOW VALUE POOL $ | TOTAL $ |
|---|---|---|---|---|---|
| Consolidated: | | | | | |
| Balance at the beginning of year | 2,701 | 29,297 | 7,723 | - | 39,721 |
| Additions/(Disposals) | 29,233 | (22,722) | 1,908 | 1,094 | 9,513 |
| Depreciation expense | (1,024) | (2,516) | (1,149) | (207) | (4,896) |
| **Carrying amount at the end of year** | **30,910** | **4,059** | **8,482** | **887** | **44,338** |
| Company: | | | | | |
| Balance at the beginning of year | 2,701 | - | 7,723 | - | 10,424 |
| Depreciation | (752) | - | (1,004) | - | (1,756) |
| **Carrying amount at the end of year** | **1,949** | **-** | **6,719** | **-** | **8,668** |

## 2005 Movements in Carrying Amounts

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

| | PLANT AND EQUIPMENT $ | MOTOR VEHICLES $ | OFFICE FURNITURE $ | LOW VALUE POOL $ | TOTAL $ |
|---|---|---|---|---|---|
| Consolidated: | | | | | |
| Balance at the beginning of year | 18,952 | 57,678 | 13,856 | - | 90,486 |
| Written off | (15,136) | (19,875) | (4,979) | - | (39,990) |
| Depreciation expense | (1,115) | (8,506) | (1,154) | - | (10,775) |
| **Carrying amount at the end of year** | **2,701** | **29,297** | **7,723** | **-** | **39,721** |
| Company: | | | | | |
| Balance at the beginning of year | 10,583 | - | 8,877 | - | 19,460 |
| Written off | (6,767) | - | - | | (6,767) |
| Depreciation | (1,115) | - | (1,154) | - | (2,269) |
| **Carrying amount at the end of year** | **2,701** | **-** | **7,723** | **-** | **10,424** |

## 14. OTHER ASSETS

| | Note | CONSOLIDATED 2006 $ | CONSOLIDATED 2005 $ | COMPANY 2006 $ | COMPANY 2005 $ |
|---|---|---|---|---|---|
| **CURRENT** | | | | | |
| Debt issue costs | (a) | - | 612,432 | - | 612,432 |
| Prepayments | | 93,497 | - | 93,497 | - |
| Other | | 2,073 | - | - | - |
| | | **95,570** | **612,432** | **93,497** | **612,432** |
| **NON-CURRENT** | | | | | |
| Development and exploration interest - at cost | | 1,709,109 | 1,099,827 | 6,112 | 6,112 |
| Purchase of Rapé Mine | | 842,316 | - | - | - |
| Debt issue costs | (a) | - | 384,238 | - | 384,238 |
| Other | | 116,026 | - | 116,026 | - |
| | | **2,667,451** | **1,484,065** | **122,138** | **390,350** |
| (a) Total issue costs relating to converting notes | | - | 1,325,000 | - | 1,325,000 |
| Costs attributable to equity component of converting notes (note 17(b)) | | - | (100,136) | - | (100,136) |
| | | - | 1,224,864 | - | 1,224,864 |
| Amortisation | | | (228,194) | - | (228,194) |
| | | - | **996,670** | - | **996,670** |

## 15 PAYABLES

| | Note | CONSOLIDATED 2006 $ | CONSOLIDATED 2005 $ | COMPANY 2006 $ | COMPANY 2005 $ |
|---|---|---|---|---|---|
| **CURRENT** | | | | | |
| Trade payables and accruals | (a) | 225,936 | 479,201 | 194,915 | 479,201 |
| Deferred purchase consideration | | 4,522,147 | 4,188,220 | 4,522,147 | 4,188,220 |
| | | **4,784,083** | **4,667,421** | **4,717,062** | **4,667,421** |

(a) No interest is charged on trade payables. The Consolidated Entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 16. BORROWINGS

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| | | $ | $ | $ | $ |
| **CURRENT** | | | | | |
| Convertible Loan | (a) | 2,654,125 | - | 2,654,125 | - |
| | | **2,654,125** | **-** | **2,654,125** | **-** |
| **NON-CURRENT** | | | | | |
| Converting Notes | (b) | - | 9,359,020 | - | 9,359,020 |
| | | **-** | **9,359,020** | **-** | **9,359,020** |

(a) This relates to the US dollar loan from Cornell Capital Partners Offshore, L.P. The terms of the loan is 540 days repayable at any time. Either party can be convert the loan at any time into a fixed number of shares. The repayment of interest is 180 days in advance until 14 October 2006, after which interest only repayments on a monthly basis. The rate of interest is 8%.

(b) 1,960,784 7.25% converting notes were issued on 9 February 2005 at an issue price of $10 per note. The first instalment of $9,999,998 was paid on the date of issue. The second and final instalment was originally due on 9 February 2007. The notes were to convert into ordinary shares on the basis of 100 ordinary shares for every note converted on 9 February 2007. Following conversion the holders had an option to put the shares to the company within 30 days.

The converting note contained both a financial liability and an equity element and accordingly the component parts were separately accounted for in accordance with substance of the contractual agreement.

On 19 June 2006, The Company entered into a deed of variation of the converting notes deed. Pursuant to the deed an initial payment of $3,500,000 was received on 30 June 2006. As a result of the deed of variation the whole of the carrying value of the converting notes is treated as equity (Refer to Note 17).

## 17. ISSUED CAPITAL

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| | | $ | $ | $ | $ |
| 556,253,159 (2005: 490,342,630) fully paid ordinary shares | (a) | 30,295,580 | 24,420,522 | 30,295,580 | 24,420,522 |
| Option premium on converting notes | (b) | - | 655,605 | - | 655,605 |
| Option premium | (c) | 43,750 | 43,750 | 43,750 | 43,750 |
| Converting Notes | (d) | 13,310,846 | - | 13,310,846 | - |
| | | **43,650,176** | **25,119,877** | **43,650,176** | **25,119,877** |

Fully paid ordinary shares carry one vote per share and the right to dividends.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| (a) Ordinary shares | $ | $ | $ | $ |
| At the beginning of the financial year | 24,420,522 | 20,420,522 | 24,420,522 | 20,420,522 |
| Shares issued during the 2006 year | | | | |
| - 15,000,000 on 3 March 2005 | - | 1,500,000 | - | 1,500,000 |
| - 25,000,000 on 3 June 2005 | - | 2,500,000 | - | 2,500,000 |
| - 25,000,000 on 1 September 2005 | 2,500,000 | | 2,500,000 | |
| - 16,666,667 on 6 December 2005 | 1,000,000 | | 1,000,000 | |
| - 15,000,000 on 15 December 2005 | 1,500,000 | | 1,500,000 | |
| - 7,018,480 on 28 April 2006 | 666,756 | | 666,756 | |
| - 1,276,618 on 16 May 2006 | 122,261 | | 122,261 | |
| - 200,000 on 23 May 2006 | 20,000 | | 20,000 | |
| - 748,764 on 5 June 2006 | 66,041 | | 66,041 | |
| **At the end of the financial year** | **30,295,580** | **24,420,522** | **30,295,580** | **24,420,522** |

| (b) Options | No. | No. | No. | No. |
|---|---|---|---|---|
| At the beginning of the financial year | 150,000,000 | 181,015,425 | 150,000,000 | 181,015,425 |
| Options issued | | | | |
| - 28 January 2005 | - | 175,000,000 | - | 175,000,000 |
| Options exercised | | | | |
| - 3 June 2005 | - | (25,000,000) | - | (25,000,000) |
| - 1 September 2005 | (25,000,000) | - | (25,000,000) | - |
| - 15 December 2005 | (15,000,000) | - | (15,000,000) | - |
| - 23 May 2006 | (200,000) | - | (200,000) | - |
| Options expired | | | | |
| — 31 July 2004 | - | (181,015,425) | - | (181,015,425) |
| **At the end of the financial year** | **109,800,000** | **150,000,000** | **109,800,000** | **150,000,000** |

(c) Equity Component of converting notes

This represented the conversion rights on the first instalment of the 1,960,784 (7.25%) converting notes. The notes were to convert into ordinary shares on 9 February 2007. For every note the holder is entitled receive one hundred ordinary shares and had the option to put the shares to the company within 30 days of conversion (refer note 16). The option premium was net of issue costs of $100,136 (note 14(a)).

(d) Option premium

The option premium represents the consideration received on the issue of 175,000,000 options on 28 January, 2005.

(e) Converting Notes

On 19 June 2006, The Company entered into a deed of variation of the converting notes deed. Pursuant to the deed payments totalling $3,500,000 were received by 30 June 2006. As a result of the deed of variation the whole of the carrying value of the converting notes is treated as equity.

## 18. FOREIGN CURRENCY TRANSLATION RESERVE

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Foreign Currency Translation Reserve | 29,061 | - | - | - |
| | **29,061** | **-** | **-** | **-** |

## 19. ACCUMULATED LOSSES

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Balance at the beginning of financial year | (18,481,455) | (15,519,656) | (19,068,994) | (16,700,510) |
| Net loss attributable to the members of the parent entity | (7,461,956) | (2,961,799) | (2,302,162) | (2,368,484) |
| **Balance at the end of financial year** | **(25,943,411)** | **(18,481,455)** | **(21,371,156)** | (19,068,994) |

## 20. CAPITAL AND LEASING COMMITMENTS

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **A. Operating lease commitments** | | | | |
| Office Premises | | | | |
| - not later than 1 year | 6,000 | - | 6,000 | - |
| | **6,000** | **-** | **6,000** | **-** |
| **B. Capital expenditure commitments** | | | | |
| The Consolidated Entity is committed to capital expenditure on its various mining tenement and leases as follows: | | | | |
| **Payable** | | | | |
| - not later than 1 year | - | 182,700 | - | - |
| - later than 1 year but not later than 5 years | - | - | - | - |
| | **-** | **182,700** | **-** | **-** |
| Consolidated Entity's share of associate's capital expenditure commitments. | | | | |
| **Payable** | | | | |
| - not later than 1 year | - | 808,921 | - | - |
| - later than 1 year but not later than 5 years | - | - | - | - |
| | **-** | **808,921** | **-** | **-** |

## 21. SEGMENT REPORTING

Primary reporting – Geographical segments.

The Consolidated Entity operates in three geographical locations, Australia, Argentina and Chile.

| | Australia | | Argentina | | Chile | | Eliminations | | Consolidated Entity | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 $ | 2005 $ | 2006 $ | 2005 $ | 2006 $ | 2005 $ | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
| **REVENUE** | | | | | | | | | | |
| Other revenue | 100,000 | - | - | - | - | - | - | - | 100,000 | - |
| Total allocated segment revenue | 100,000 | - | - | - | - | - | - | - | 100,000 | - |
| Unallocated interest income | | | | | | | | | 191,548 | 23,136 |
| Entity revenue | | | | | | | | | 291,548 | 23,136 |
| **RESULT** | | | | | | | | | | |
| Segment result | (6,255,024) | (2,396,007) | (166,612) | (391,770) | - | - | - | - | (6,421,636) | (2,787,777) |
| Equity accounted loss of associated company | | | | | | | | | (1,040,329) | (174,022) |
| Operating profit before income tax | | | | | | | | | (7,461,956) | (2,961,799) |
| **ASSETS** | | | | | | | | | | |
| Segment assets | 1,557,021 | 21,029,758 | 2,749,731 | 1,177,168 | 10,305,248 | 2,598,566 | - | (15,722,094) | 14,612,000 | 9,083,398 |
| Investment in equity accounted associated company | | | | | | | | | 10,526,034 | 11,581,465 |
| Consolidated total assets | | | | | | | | | 25,138,034 | 20,664,863 |
| **LIABILITIES** | | | | | | | | | | |
| Segment liabilities | 7,371,187 | 21,766,131 | 31,021 | 4,123,996 | - | - | - | (11,863,686) | 7,402,208 | 14,026,441 |
| Consolidated total liabilities | | | | | | | | | 7,402,208 | 14,026,441 |
| **OTHER** | | | | | | | | | | |
| Acquisitions of non-current segment assets | - | 11,755,487 | 842,316 | - | - | - | - | - | 842,316 | 11,755,487 |
| Depreciation & amortisation of segment assets | 1,756 | 2,269 | 3,140 | 8,506 | - | - | - | - | 4,896 | 10,755 |

### Secondary reporting – Business segments

The Consolidated Entity operates solely in one business segment, being mineral exploration.

### Accounting Policies

Segment revenues and expenses are those directly attributable to the segments. Segment assets and liabilities include all assets used in and all liabilities generated by the segments.

## 22. NOTES TO THE CASH FLOW STATEMENT

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance as follows:

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 1,467,690 | 970,072 | 1,331,413 | 887,192 |

(B) RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES WITH LOSS FOR THE PERIOD

| | | | | |
|---|---|---|---|---|
| Loss for the period | (7,461,956) | (2,961,799) | (2,302,162) | (2,368,484) |
| Non-cash flows in loss from ordinary activities:- | | | | |
| Depreciation | 4,896 | 10,775 | 1,756 | 2,269 |
| Assets written off | - | 39,990 | - | 6,767 |
| Loss on sale of assets | 7,046 | - | - | - |
| Write-back of bad debts expense | - | - | (505,076) | - |
| Diminution in value of investments | 96,000 | - | 96,000 | - |
| Non-cash interest income | (184,421) | - | (361,609) | - |
| Non-cash interest expense | 10,830 | - | 10,830 | - |
| Exploration costs written off | - | 16,112 | - | - |
| Debt issue costs | 607,115 | - | 607,115 | - |
| Impairment of investment | 3,328,830 | - | - | - |
| Inferred interest costs of converting notes | - | 114,763 | - | 114,763 |
| Inferred interest costs of deferred purchase consideration | 207,427 | 173,082 | 207,427 | 173,082 |
| Equity accounted loss of associated company | 1,040,329 | 174,022 | - | - |
| Amortisation of debt issue costs | - | 228,194 | - | 228,194 |
| Unrealised foreign exchange loss | 210,646 | 112,084 | 210,646 | 112,084 |
| Changes in assets and liabilities:- | | | | |
| - (Increase)/decrease in trade and term debtors | 18,009 | (2,187) | 18,057 | (2,188) |
| - (Increase)/decrease in prepayments | (24,241) | 3,348 | (22,168) | 3,348 |
| - Increase/(decrease) in trade creditors and accruals | (253,265) | 428,197 | (284,286) | 428,197 |
| Net Cash from operating activities | (2,392,755) | (1,663,419) | (2,323,470) | (1,301,968) |

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **(C) BUSINESS ACQUIRED** | | | | |
| During the 2005 financial year, Fortune Global Holdings Corporation was acquired. Details of the acquisition are as follows: | | | | |
| Consideration | | | | |
| Cash | - | 6,352,433 | - | - |
| Ordinary shares | - | 1,500,000 | - | - |
| Deferred purchase | - | 3,903,054 | - | - |
| | - | 11,755,487 | - | - |
| Fair value of net assets acquired | | | | |
| Investment in associate | - | 11,755,487 | - | - |
| Cash outflow on acquisition | - | 6,352,433 | - | - |

(D) CREDIT STANDBY ARRANGEMENTS WITH BANKS

There are no standby or unused credit facilities available to the Consolidated Entity or parent entity at year end, other than those disclosed in Note 1(a) to the financial statements.

## 23. EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the financial year the Company has received further payments totalling $2,800,000 in respect of the converting notes.

Apart from this, there has been no event subsequent to year end which has an impact on the state of affairs of the Company or the financial statements for 2006.

## 24. RELATED PARTY TRANSACTIONS

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

### (a) Equity interests in related parties

Equity interests in subsidiaries
Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 12 to the financial statements.

Equity interests in associates
Details of interests in associates are disclosed in note 27 to the financial statements.

Equity interests in other related parties
Details of interests in other related parties are disclosed in note 11 to the financial statements.

### (b) Key Management Personnel remuneration

Key management personnel remuneration are disclosed in note 6 to the financial statements.

### (c) Key management personnel remuneration equity holdings

Details of specified key management personnel remuneration equity holdings are disclosed in note 6 to the financial statements.

### (d) Loans

There were no loans to Key management personnel remuneration during the financial year.

## 25. FINANCIAL INSTRUMENTS

### (a) Financial risk management objectives

The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Consolidated Entity's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

### (b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expense are recognised, in respect of each class of financial liability and equity instrument are disclosed in note 1 to the financial statements.

### (c) Interest Rate Risk

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

| 2006 | Weighted Average Effective Interest Rate | Floating Interest Rate | Fixed interest rate maturity | | | Non-interest Bearing | Total |
|---|---|---|---|---|---|---|---|
| | | | Less than 1 year | 1-5 years | More than 5 years | | |
| | % | $ | $ | $ | $ | $ | $ |
| FINANCIAL ASSETS | | | | | | | |
| Cash | 3.5 | 1,331,413 | - | - | - | 136,277 | 1,467,690 |
| Receivables | 6.1 | 10,305,248 | - | - | - | 28,103 | 10,333,351 |
| Listed shares | | - | - | - | - | 3,600 | 3,600 |
| Prepayments | | - | - | - | - | 95,570 | 95,570 |
| Investment in associate | | - | - | - | - | 10,526,034 | 10,526,034 |
| **Total Financial Assets** | | **11,636,661** | **-** | **-** | **-** | **10,789,584** | **22,426,245** |
| FINANCIAL LIABILITIES | | | | | | | |
| Trade Payables and Accruals | 10.0 | - | - | - | - | 225,936 | 225,936 |
| Deferred purchase consideration | 12.0 | - | 4,522,147 | - | - | - | 4,522,147 |
| Convertible loan | 8.0 | - | 2,654,125 | - | - | - | 2,654,125 |
| **Total Financial Liabilities** | | **-** | **7,176,272** | **-** | **-** | **225,936** | **7,402,208** |

| 2005 | Weighted Average Effective Interest Rate | Floating Interest Rate | Fixed interest rate maturity | | | Non-interest Bearing | Total |
|---|---|---|---|---|---|---|---|
| | | | Less than 1 year | 1-5 years | More than 5 years | | |
| | % | $ | $ | $ | $ | $ | $ |
| **FINANCIAL ASSETS** | | | | | | | |
| Cash | 3.5 | 887,192 | - | - | - | 82,880 | 970,072 |
| Receivables | 6.1 | 2,598,566 | - | - | - | 46,112 | 2,644,678 |
| Listed shares | | - | - | - | - | 3,600 | 3,600 |
| Shares at cost | | - | - | - | - | 3,328,830 | 3,328,830 |
| Investment in associate | | - | - | - | - | 11,581,465 | 11,581,465 |
| **Total Financial Assets** | | **3,485,758** | **-** | **-** | **-** | **15,042,887** | **18,528,645** |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Trade Payables and Accruals | 10.0 | - | - | - | - | 479,201 | 479,201 |
| Deferred purchase consideration | 12.0 | - | 4,188,220 | - | - | - | 4,188,220 |
| Converting notes | 12.0 | - | - | 9,359,020 | - | - | 9,359,020 |
| **Total Financial Liabilities** | | **-** | **4,188,220** | **9,359,020** | **-** | **479,201** | **14,026,441** |

### (d) Credit Risk

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

The Consolidated Entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Consolidated Entity.

### (e) Liquidity risk management

The Consolidated Entity manages liquidity risk by maintaining centralised cash balances and by matching capital commitments to draw down of funding facilities.

(f) Fair Values

The aggregate fair values (2005: net fair values) of financial assets and liabilities, both recognised and unrecognised, at balance date is as follows:

| | 2006 | 2005 |
|---|---|---|
| | $ | $ |
| **Financial Assets** | | |
| Cash | 1,467,690 | 970,072 |
| Receivables | 10,333,351 | 2,644,678 |
| Listed shares | 3,600 | 3,600 |
| Prepayments | 95,570 | - |
| Shares – at fair value (2005: cost) | - | 3,328,830 |
| Investment in associate | 10,526,034 | 11,581,465 |
| **Total Financial Assets** | **22,426,245** | **18,528,645** |
| **Financial Liabilities** | | |
| Payables | 225,936 | 479,201 |
| Deferred purchase consideration | 4,522,147 | 4,188,220 |
| Converting notes | - | 9,359,020 |
| Convertible loan | 2,654,125 | |
| **Total Financial Liabilities** | **7,402,208** | **14,026,441** |

The following methods and assumptions are used to determine the fair values (2005: net fair values) of financial assets and liabilities:

The carrying amount for cash, receivables, prepayments, listed shares and payables approximates fair value.

The fair values (2005: net fair values) of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow theory.

## 26. NON-HEDGED FOREIGN CURRENCY BALANCES

The Australian dollar equivalent of foreign currency balances included in the financial statements which are not effectively hedged are as follows:

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
| **Argentinean Pesos** | | | | |
| Cash | 136,277 | 82,881 | - | - |
| **United States Dollars** | | | | |
| Loan to associate | 10,305,248 | 2,598,566 | 10,414,661 | 2,598,566 |
| Deferred purchase consideration | (4,522,147) | (4,188,220) | (4,522,147) | (4,188,220) |
| Convertible loan | (2,654,125) | - | (2,654,125) | - |
| **Chilean Pesos** | | | | |
| Cash | 888,691 | 333,305 | 888,691 | 333,305 |

## 27. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| NAME OF ENTITY ASSOCIATE | Principal activity | Ownership interest 2006 % | 2005 % | Consolidated carrying amount 2006 $ | 2005 $ |
|---|---|---|---|---|---|
| Sociedad Contractual Minera Santa Barbara S.A. (incorporated in Chile) | Mining | 49 | 49 | 10,526,034 | 11,581,465 |

| MOVEMENT IN INVESTMENT IN ASSOCIATE | CONSOLIDATED | |
|---|---|---|
| | 2006 $ | 2005 $ |
| Equity accounted amount of investment at the beginning of financial year | 11,581,465 | - |
| Acquisition of interest in associate | - | 11,755,487 |
| Share of loss from ordinary activities before and after income tax expense | (1,040,329) | (174,022) |
| Foreign exchange differential | (15,102) | - |
| Equity accounted amount of investment at the end of the financial year | 10,526,034 | 11,581,465 |

| SUMMARISED BALANCE SHEET OF ASSOCIATE | CONSOLIDATED | |
|---|---|---|
| | 2006 | 2005 |
| | $ | $ |
| **Current assets:** | | |
| Cash | 1,813,655 | 680,214 |
| Marketable securities | 136,900 | 360,571 |
| Prepayments | 670,245 | 890,487 |
| Receivables | 704,727 | 86,322 |
| **Non current assets:** | | |
| Investments | 39,330 | 36,189 |
| Plant & equipment | 1,247,964 | 35,364 |
| Motor vehicles | 110,741 | 23,636 |
| Development & exploration interest | 1,932,591 | 225,341 |
| Other | 1,299,458 | - |
| **Current liabilities:** | | |
| Payables | (217,079) | (72,087) |
| **Non current liabilities:** | | |
| Loans | (10,247,623) | (2,598,566) |
| **Net Liabilities** | **(2,509,091)** | **(332,529)** |
| **Net Loss** | **(2,123,122)** | **(355,147)** |

| SHARE OF RESERVES ATTRIBUTABLE TO ASSOCIATE | CONSOLIDATED | |
|---|---|---|
| | 2006 | 2005 |
| | $ | $ |
| Accumulated losses<br>At the beginning of the financial year | (174,022) | - |
| Current year loss | (1,040,329) | - |
| Foreign exchange differential | (15,102) | - |
| At the end of the financial year | (1,229,453) | (174,022) |

## CAPITAL COMMITMENTS

The Consolidated Entity's share of the capital commitments of the associate are disclosed in note 20.

## CONTINGENT LIABILITIES

The Consolidated Entity's share of the contingent liabilities of the associate are disclosed in note 4.

## DIVIDENDS

The Consolidated Entity's share of the dividends of the associate are disclosed in note 8.

## 28. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Consolidated Entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 July 2005 (refer note 1(a)). An explanation of how the transition from superseded policies to A-IFRS has affected the company and Consolidated Entity's financial position and financial performance in 2005 is shown below.

### Effect of A-IFRS on the income statement for the financial year ended 30 June 2005

There are no material differences between the income statement presented under A-IFRS and the income statement presented under the superseded policies.

### Effect of A-IFRS on the balance sheets as at 1 July 2004 and 30 June 2005

There are no material differences between the balance sheets presented under A-IFRS and the balance sheets presented under the superseded policies.

### Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

1. The shareholder information set out below was applicable as at 31 August 2006.

(a) Distribution of Shareholders by Class

| Category (size of holding) | Ordinary Shares | No of Holders | Unlisted Options | No of Holders |
|---|---|---|---|---|
| 1 - 1,000 | 234,533 | 1,236 | - | - |
| 1,001 - 5,000 | 1,789,394 | 546 | - | - |
| 5,001 – 10,000 | 4,306,633 | 506 | - | - |
| 10,001 - 100,000 | 92,390,590 | 2,018 | 300,000 | 3 |
| 100,001 and over | 457,532,009 | 763 | 109,500,000 | 12 |
| | **556,253,159** | **5,069** | **109,800,000** | **15** |

(b) The number of shareholdings held in less than marketable parcels is NIL as at 30th June 2006.

(c) The number of holders of each class of equity security as at 31 August 2006 was:

| Class of Security | Number |
|---|---|
| Ordinary fully paid shares | 5,069 |
| Unlisted options | 15 |

(d) The names of the substantial shareholders listed in the holding company's register as at 31 August 2006 are:

| Shareholder | No. Ordinary Shares |
|---|---|
| ANZ Nominees Ltd | 96,345,812 |

(e) Voting Rights

Every Member is entitled to be present at a meeting and may vote. Options do not carry a right to vote.

On a show of hands, every Member has one vote.

On a poll every Member has:
- one vote for each fully paid share; and
- voting rights pro rata to the amount paid up on each partly paid share held by the Member.

(f) 20 Largest Shareholders - Ordinary Capital as at 31 August 2006.

| | Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 1. | ANZ Nominees Ltd | 96,345,812 | 17.32% |
| 2. | Westpac Custodian Nominees Ltd | 24,275,607 | 4.36% |
| 3. | Craxgold Pty Ltd | 9,300,173 | 1.67% |
| 4. | Mr. Alfred Robert Gilliland | 8,344,483 | 1.50% |
| 5. | Barrios Pty Ltd | 7,194,789 | 1.29% |
| 6. | Mr Yu – Hsiang Huang | 6,679,667 | 1.20% |
| 7. | Mr Warren William Brown Mrs Marilyn Helena Brown | 6,200,000 | 1.12% |
| 8. | G Sandilands Investments Pty Ltd | 5,277,311 | 0.95% |
| 9. | R J Brown Holdings Pty Ltd | 4,800,000 | 0.86% |
| 10. | Mr Bruce Hodgens Mrs Barbara Susan Hodgens | 4,600,000 | 0.83% |
| 11. | WWB Investments Pty Ltd | 4,600,000 | 0.83% |
| 12. | Mr Pok Chi Ng | 4,533,333 | 0.81% |
| 13. | National Nominees Ltd | 4,278,036 | 0.77% |
| 14. | W & K Associates Pty Ltd | 3,800,000 | 0.68% |
| 15. | Mrs Rochelle Bull | 3,000,000 | 0.54% |
| 16. | Intrada International Pty Ltd | 2,600,000 | 0.47% |
| 17. | Citicorp Nominees Pty Ltd | 2,596,136 | 0.47% |
| 18. | Dr Saw Ted Sia | 2,477,400 | 0.45% |
| 19. | Mr Phillip Thomas | 2,400,100 | 0.43% |
| 20. | Mr Charles Edward Zimmerman | 2,200,000 | 0.40% |
| | | 205,502,847 | 36.95% |

2. The name of the company secretary is Stephen Charles Prior.

3. The address and telephone number of the administrative office and registered office are as follows:

**Administrative Office**
Level 14, 200 Queen Street
Melbourne, Victoria 3000

Telephone: (03) 9670 1838
Facsimile: (03) 9670 1898

**Registered Office**
C/- Prior & Co. Pty. Ltd
Level 14, 200 Queen Street
Melbourne Victoria 3000

Telephone: (03) 9670 1838
Facsimile: (03) 9670 1898

4. The register of securities is held at the following address:

Queensland
Computershare Investor Services Pty Ltd
Level 27, Central Plaza One
345 Queen Street
Brisbane, Queensland 4000

Telephone: (07) 3237 2173
Facsimile: (07) 3229 9860

5. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on the Australian Stock Exchange Limited.

6. Vendor Securities

There are no restricted securities on issue as at 31 August 2006.

7. Unquoted Securities

20 Largest Holders of Unlisted Options as at 31 August 2006.

| | Name | Number of Unlisted Options Held | % |
|---|---|---|---|
| 1 | Algebraic Pty Ltd | 38,753,333 | 35.29% |
| 2. | Leveraged Capital Pty Ltd | 22,500,000 | 20.49% |
| 3. | MTM Holdings (Australia) Pty Ltd | 17,770,000 | 16.18% |
| 4. | Ms Yiqin Wang | 10,360,000 | 9.44% |
| 5. | Blue Sky Equity | 7,430,000 | 6.77% |
| 6. | Cornell Capital Partners LP | 6,666,667 | 6.07% |
| 7. | WHI Securities Nominees Pty Ltd | 2,000,000 | 1.82% |
| 8. | Karela Giselle Pty Ltd | 1,600,000 | 1.46% |
| 9. | Dronkay Pty Ltd | 1,300,000 | 1.18% |
| 10. | Finta Pty Ltd | 600,000 | 0.55% |
| 11. | Mr Anthony Ka Wai Hung | 320,000 | 0.29% |
| 12. | Optex Exchange Pty Ltd | 200,000 | 0.18% |
| 13. | Sulamerica Investments Pty Ltd | 100,000 | 0.09% |
| 14. | Ms Lay Kee Tay | 100,000 | 0.09% |
| 15. | Mr Peter Man Chiu Yu | 100,000 | 0.09% |
| | | **109,800,000** | **99.99%** |


ADMIRALTY RESOURCES