

06 ANNUAL REPORT
MOUNT GIBSON
IRON LIMITED
STRIKING WHILE IRON'S HOT



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BOARD OF DIRECTORS

Bill Willis - Chairman
Brian Johnson - Deputy Chairman
Luke Tonkin - Managing Director
Alan Rule - Finance Director
Craig Readhead - Non-Executive Director
Ian MacIver - Non-Executive Director
Alan Jones - Non-Executive Director

COMPANY SECRETARY

Angela Dent

REGISTERED OFFICE

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West Perth 6005, Western Australia
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SOLICITORS

Wright Legal
Freehills

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace Perth 6000
Western Australia
Phone: 61 8 9323 2000
Fax: 61 8 9323 2033

AUDITORS

Ernst & Young

BANKERS

HSBC Bank Australia Ltd

ANNUAL GENERAL MEETING OF SHAREHOLDERS

To be held at 1pm on Thursday 30 November 2006 at Meeting Room 6, Level 2 Perth Convention and Exhibition Centre.

EASY ACCESS TO INFORMATION

See our website at www.mtgibsoniron.com.au for regular quarterly reports and financial results. Additionally, Shareholders or interested parties can register to receive emailed updates shortly after the Company makes any regular or major announcement.

Dear Shareholder

It is my pleasure to present the Mount Gibson Iron Limited ("MGI") annual report for the year ended 30 June 2006.

MGI generated a net profit after tax of \$23.5 million, compared with \$13.5 million for the previous financial year. Tallering Peak produced 1,122,000 tonnes of ore with sales of 1,362,000 tonnes most of which were sold in the first half of the financial year. These sales generated significant cash flows which allowed MGI to progress cut backs of existing pits in order to increase iron ore production to a sustainable 3Mtpa for the remaining life of mine.

MGI significantly expanded the capacity and capability of the Tallering Peak site by the introduction of a larger scale mining fleet, the introduction of a skilled and a competent technical team, the expansion of facilities and purchase of the crushing and screening facility from the incumbent contractor.

Tallering Peak achieved its target ore production rate of 3 Mtpa in the first quarter of the 2006/07 financial year, and will mine 3 million tonnes of ore this year.

The Board has strengthened MGI's focus on hematite based iron ore operations and reduced its financial exposure by divesting its interest in the Extension Hill Magnetite Project to Sinom Investments, through the sale of its 73% interest in Asia Iron Holdings which owns the Extension Hill Magnetite Project. MGI's continued participation with this project would have exposed MGI to unacceptably high levels of debt and would have had a significant dilutionary effect on current shareholders. MGI retains ownership and control of the hematite reserve at Extension Hill and plans to use the proceeds of the sale to develop the 2 to 3Mtpa hematite mining operation at Extension Hill.

As an established Australian iron ore producer, Mount Gibson Iron is leading the growth of the junior iron ore sector, is one of the driving forces behind the development of the iron ore industry in the Mid West region and will also be in a leading position to participate in any consolidation within the iron ore industry.

In recognition of the junior iron ore industries need to consolidate and MGI's strategy of pursuing accretive growth opportunities, MGI announced a takeover offer for Aztec Resources Limited ("Aztec") on 24 July, by offering one MGI share for every three Aztec shares. The takeover of Aztec by MGI will create Australia's largest independent pure-play iron ore producer with exposure to current high iron ore prices and an experienced and proven management team capable of developing new mining assets and bringing them into production. Both Aztec and MGI shareholders are expected to benefit from the financial and market re-rating that will occur when the takeover is concluded.

MGI is continuing to capitalise on the strong demand for iron ore from China by increasing iron ore production at Tallering Peak, and planning for the development of new projects, such as the Extension Hill DSO project, to ensure MGI continues to profit from expected sustained high iron ore prices.

On behalf of the Board, I want to personally thank all those employees who contributed to our strong performance throughout the year and wish them all the best for the very exciting and challenging year ahead.

Yours sincerely



Bill Willis
Chairman

Top left:
Craig Readhead - *Non-Executive Director*
Ian MacLiver - *Non-Executive Director*
Alan Rule - *Finance Director*
Alan Jones - *Non-Executive Director*

Bottom left:
Luke Tonkin - *Managing Director*
Bill Willis - *Chairman*
Brian Johnston - *Deputy Chairman*



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TALLERING PEAK HEMATITE OPERATIONS

Now in its second full year, the Talling Peak hematite operation includes the Talling Peak hematite mine, crushing and screening plant, the rail loading facility at Mullewa and the ore storage and loading facilities at the Port of Geraldton.

Talling Peak had a very strong physical and financial performance in the first half of the financial year as the mine completed the first stage of multiple small open pits. MGI generated strong cash flows which set the foundation for large cut backs of existing pits in the second half of the financial year. The development status of the Talling Peak open pit immediately prior to these large cut backs is shown in Figure 1. The large cut backs involved the removal of very large quantities of waste rock. This allowed development of the mine to the stage where production

of 3Mtpa for the remaining Life of Mine (“LOM”) at Talling Peak is possible on a sustainable basis.

Ore production for the year totalled 1,122,000 tonnes whilst ore sold totalled 1,362,000 tonnes. Ore production expectations in the second half of the year were not achieved. This was due to the under reconciliation of the resource in the upper sections of the geological resource resulting from limited drill rig access caused by the steep local topography. This is not expected to materially affect the total mining resource as the upper section contributes less than 4% of the total ore tonnes.

Material movement from Talling Peak accelerated substantially in the second half of the year compared with the first. Material movements in the first half averaged 390,000 BCM per month whilst rates of



approximately 1,000,000 BCM per month were achieved by the end of the financial year. Tallering Peak will maintain these rates over the next two years to ensure sustainable ore production rates of 3Mtpa can be achieved.

The LOM plan for Tallering Peak will be continually updated and further information is acquired however the current information indicates that the strip ratio will decline significantly in 2008-09 and continue to decline through to the completion of the mine life. There is a significant possibility of extending the mine life at Tallering Peak with the development of an area to the North East described as T1. This area was originally explored by Western Mining in the late 1960's with the establishment of an adit into the mineralised hill and some limited surface drilling. Hematite was intersected in both the adit and drilling

which gives MGI confidence that further hematite discoveries in the area are possible. The exploration target in the T1 area is subject to native title and discussions have commenced with the claimants in an attempt to gain access to this area for follow up exploration.

The remaining LOM plan at Tallering Peak will see the mine develop at least a further three cut backs in order to access the deepest areas of the known ore reserve. Under the current mine plan these stages are described as cut backs in Figures 2 and 3 which highlights three of these stages. The remaining LOM strip ratio will be in the order of 5:1 tonne for tonne. The current satellite open cut T5, which produces lower grade higher contaminant hematite ore for blending with the premium high grade and high quality ore from the Main pit, is scheduled to be completed in first half of the 2007-08 financial year.



Talling Peak lifted production considerably in the second half of the financial year by introducing large scale mobile fleet to the operation and by selling, at a profit, the smaller scale equipment used to initially establish the mine. The introduction of the larger fleet has been timely given the substantial increases in costs in the Western Australian resource sector. Although costs at Talling Peak have increased MGI has been able to mitigate some of the increases by introducing larger more productive equipment however future efficiencies will be pursued in order to maintain current unit costs against an escalation in fuel, consumable and wages costs. MGI has also focussed on owner operating rather than contracting out mining and crushing services. MGI has experienced an increase of contractor margins in this period of unprecedented demand for labour, services and materials. To this

end MGI closed out the crushing and screening contract on site and purchased the installed equipment. Although this impacted on cash spend the unit operating costs for crushing and screening have been reduced and the throughput increased significantly.

Subsequent to the end of the 2005/06 financial year, Talling Peak exceeded targeted ore production rates in the September quarter and has achieved an annualised production rate of 3Mpta. Ore production rates and material movements have been at record levels whilst ore grade and contaminant levels have been within contract specifications. MGI has also demonstrated that the mine, road transport and rail infrastructure can operate at 3Mtpa production rates and the Geraldton Port is well placed to deliver increased capacity with the introduction of a second iron ore ship loading facility due for completion early in 2008.

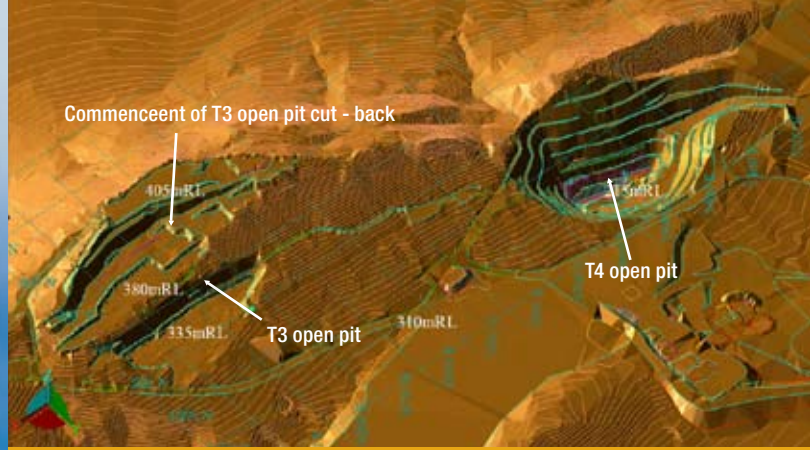


Figure 1 - Status of Talling Peak mine development in December 2005 looking south

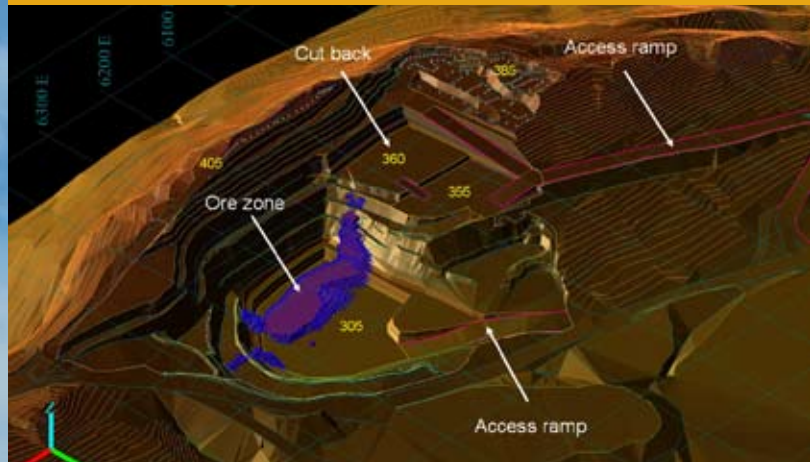


Figure 2 - Progress of Talling Peak open pit cut back - End of September 2006



Figure 3 - Talling Peak open pit cut back - September 2007

Operational risk mitigation and safety management in the workplace is MGI's highest management priority, and Talling Peak's management team are constantly working to improve safety awareness, reduce Lost Time Injuries and develop a "safety culture" among employees and contractors at all sites. The Lost Time Injury Frequency Rate and Disabling Injury Frequency Rate has improved over 90% since November 2005 and is in line with the industry average which reflects a significant improvement in the safety culture and risk management controls of the site. MGI will continue to adopt meaningful risk management strategies and controls that minimise the risks to people and plant.

Environmental performance is a critical "licence to operate" issue for mine management, and Talling Peak continues to make significant improvements in the management of local fauna and flora, rehabilitation, waste disposal, mine impact monitoring and dust and emissions controls.

Despite severe skills shortages in the mining industry in Western Australia, MGI has successfully recruited new management and expanded the Talling Peak workforce in line with the significant increase in output from the mine during the year. MGI continues to be one of largest employers in the Mid West region, and employs most of its mine personnel from Geraldton or other towns in the Mid West region. MGI will continue to employ local and regional employees as a clear and demonstrable commitment to the Mid West and the region's future growth, development and prosperity.

EXTENSION HILL DSO HEMATITE PROJECT

MGI completed a comprehensive desktop study and is nearing completion of a definitive feasibility study (“DFS”) into the development of a hematite mining and direct shipping operation located at Extension Hill in the Mt Gibson Range 85 kilometres east of Perenjori 260km east-south-east of Geraldton.

The desktop study demonstrates that the project can provide outstanding financial results in a short time-frame with minimal technical risks and relatively low capital requirements. This result is due to short construction times, minimal pre-strip enabling full ore production by the third month of mining and strong iron ore prices.

Most significant risks to the project lie in the implementation of development activities, particularly at the Geraldton Port and timing of production start-up.

MGI owns 100% of the Extension Hill DSO (“Direct Shipping Ore”) Hematite project and intends, subject to Board approval, to develop the project irrespective of whether the magnetite project at Extension Hill proceeds or not. The DFS is expected to be completed by December

2006, with submission of a project proposal to the MGI Board shortly thereafter. Project commencement would then be subject to receipt of all statutory approvals, readiness of the new Berth 5 ship loader in Geraldton, completion of MGI’s port facilities, availability of rail capacity, completion of road upgrades, and construction of site infrastructure. MGI is targeting the first quarter of calendar 2008 for first product shipment from Geraldton, subject to various environmental and statutory approvals.

The Extension Hill DSO project has JORC compliant Probable Reserves of 12.1 million tonnes already established within a designed open pit which demonstrates a life of mine waste to ore ratio of less than 1:1. There is excellent potential for significant increases in Reserves once environmental approvals are granted, both inside and adjacent to the present pit design. Shipment of up to 3 million tonnes per annum of product is envisaged, depending on final Reserves and off-site transport capacities. Lump and Fines product will be shipped in an approximate 50/50 ratio.

The Extension Hill DSO project can be substantially funded by the \$52.5 million proceeds of the sale of Mount Gibson Iron’s 73% interest in Asia Iron Holdings which owns the Extension Hill Magnetite Project.



The operation will directly employ approximately 110 people on site, with a further 60 involved in contract transport operations. The operating plan is likely to involve conventional truck and hydraulic excavator open pit mining, ore crushing and screening on-site to produce blended Lump and Fines products, road transport 85 kilometres to Perenjori, then by rail in specially designed ore carrying rail wagons for the final 240 kilometre journey to the new Berth 5 storage shed at the Port of Geraldton. From there, product would be exported in Panamax sized vessels directly to customers in China and throughout Asia.

Extensive investigation into the design and operation of MGI's second port facility is being conducted.

ASIA IRON SALE

On 7 June 2006 MGI advised ASX that it had signed an agreement with China's third largest steel producer, the Shougang Group, for the sale of MGI and Mount Gibson Mining Limited's ("MGM") entire 73% interest in Asia Iron Holdings Limited ("Asia Iron") for \$52.5 million. The agreement was subject to FIRB approval and the minority shareholders

in Asia Iron not exercising an option to match the Shougang offer. Minority shareholders had 28 days to exercise an option to match the Shougang offer.

On 6 July 2006 MGI advised ASX that it has received notice of an election to purchase MGI and MGM's shareholding in Asia Iron from a minority shareholder, Sinom Investments Limited ("Sinom"). Sinom's notice to match the Shougang offer resulted in a binding agreement for the sale of MGI and MGM's entire 73% interest in Asia Iron to Sinom on the same terms as those previously agreed with Shougang.

Sinom obtained FIRB approval for the Asia Iron acquisition on 2 August and the proceeds have been placed in escrow pending Environmental Approval, which is not expected until late 2006 or early 2007. In the event Environmental Approval is not obtained by 30 November 2007, the agreement with Sinom can be terminated, and the 73% interest in Asia Iron returned to MGI and MGM.

The Board's decision to divest its Asia Iron stake, and therefore the Extension Hill Magnetite Project, lowers MGI's financial and technical



risk profile and enables MGI to fund the development costs of the Extension Hill DSO project without diluting shareholders through significant equity capital raisings or increasing debt through substantial borrowings. The development of the Extension Hill Magnetite Project would have exposed MGI to unacceptably high levels of debt and would have had a significant dilutionary effect on current shareholders. Given the escalating operational and capital costs associated with new and existing resources projects in Western Australia and the inability for large scale projects to be delivered on schedule due to a shortage of skilled labour, engineering resources and protracted delivery times for major items of capital equipment the sale of MGI's stake in Asia Iron was considered by the Board to be in the best interest of MGI shareholders.

MGI has retained all the rights to hematite iron ore in the Mt Gibson Ranges.

TAKEOVER OF AZTEC RESOURCES

MGI is the first of the current generation of junior iron ore companies to achieve large scale iron ore production in the Mid West region whilst being recognised as a leader of the Mid West iron ore industry and a driving force behind the development of regional infrastructure. MGI has gained "first mover" status as a junior iron ore company and has taken the initiative to grow the company further during a period of strong iron ore prices whilst at the same time balancing and diversifying MGI's portfolio of assets.

On 24 July 2006, MGI announced a takeover offer for Aztec Resources Limited ("Aztec"), by offering one MGI share for every three Aztec shares.

The takeover bid is an important element of MGI's growth strategy that delivers both MGI and Aztec shareholders ASX 200 status, a significantly higher production capability and an asset portfolio that is based in Australia. MGI and Aztec shareholders will participate in a company that has a balanced and diversified asset base which helps to mitigate the risks associated with companies owning and operating single asset mining ventures. The merged company will enhance business performance by combining intellectual capital, reducing costs, combining production, reducing operational risk and improving access to future funding whilst providing all shareholders with a potential market re-rating.

Based on the projected production capacity of the merged company, consensus iron ore pricing and publicly available cost information, strong earnings growth is possible. The merger of the two companies creates Australia's leading pure-play iron ore producer and places the combined company in a strong position to participate from a position of strength in any future accretive expansion opportunities.

MGI's takeover offer was strongly endorsed by the largest shareholders in both Aztec and MGI. Aztec Resources' largest shareholder Cambrian Mining Plc granted an option to Mount Gibson Iron, which Mount Gibson has since exercised, to acquire an initial stake of 15.24% of Aztec's issued capital (reduced from 19.9% after the issue of shares in respect of outstanding options). Cambrian has accepted MGI's offer in relation to its remaining interest in Aztec.

At the time of writing this report, MGI had a relevant interest of 33.2% in Aztec.

Mineral Resources as at 30 June 2006

MGI Corporate Mineral Resources		M tonnes	Fe%	SiO ₂ %	Al ₂ O ₃ %	P%	S%	MgO%	LOI%
Measured	>57% Fe	8.37	63.6	4.35	2.19	0.02	0.07	0.58	1.42
	50-57% Fe	0.80	54.6	11.5	3.78	0.04	0.47	1.77	3.16
	Total >50% Fe	9.17	62.8	4.98	2.33	0.03	0.11	0.68	1.57
Indicated	>57% Fe	21.7	62.2	4.41	1.78	0.05	-	0.60	3.79
	50-57% Fe	3.68	55.3	9.73	3.16	0.07	-	0.97	6.21
	Total >50% Fe	25.4	61.2	5.19	1.98	0.05	-	0.65	4.14
Inferred	>57% Fe	5.51	61.5	5.52	1.59	0.05	-	-	4.12
	50-57% F3	2.66	54.7	11.1	2.76	0.08	-	0.58	6.28
	Total >50% Fe	8.17	59.3	7.33	1.97	0.06	-	-	4.82
Sub-Totals	>57% Fe	35.6	62.4	4.57	1.84	0.04	-	-	3.28
	50-57% FE	7.14	55.0	10.4	3.08	0.07	-	0.91	5.89
MGI Corporate Grand Total		42.7	61.2	5.55	2.05	0.05	-	-	3.72

Ore Reserves as at 30 June 2006

MGI Corporate Mining Reserves	M Tonnes	Fe%	SiO ₂ %	Al ₂ O ₃	P%	S%	MgO	LOI%
Total Proven	9.11	61.7	4.87	2.34	0.02	0.08	0.64	1.57
Total Probable	23.4	61.3	4.51	1.80	0.05	-	-	4.02
MGI Corporate Grand Total	32.5	61.4	4.61	1.95	0.04	-	-	3.34

A detailed breakdown of MGI's Reserves and Resources as at 30 June 2006 was released to the ASX on 3 August 2006.

Reserves and Resources

Exploration and development work during the year to 30 June 2006 has increased MGI's 100% owned Mining Reserve 75%, up from 18.6 Mt to 32.5 Mt. This increase is primarily due to:

- Establishment of a Probable Reserve for the Extension Hill Hematite deposit at Mt Gibson;
- Development of a sustainable Life-of-Mine Plan for Tallering Peak incorporating stockpiling strategies, enabling planned blending of subgrade material;
- Successful drilling at Tallering Peak allowing commitment to a cutback on the existing T5 pit;
- Increased product prices.

Mineral Resources (also 100% owned) have increased 27%, up from 33.6 Mt to 42.7 Mt, due to:

- Successful drilling extending the Extension Hill Hematite deposit at Mt Gibson;
- Successful drilling extending the T5 deposit at Tallering Peak;
- Reporting of Resources to a lower Fe cut-off to more accurately reflect mine planning requirements.

Resources are reported at 57% Fe and 50% Fe lower cut-offs, with total Resources now including 50%-57% Fe material (subgrade). Some, but not necessarily all, of this subgrade converts to mining Reserves.

No lower cut-off grades are quoted for mining Reserves, as cut-offs vary on a monthly basis throughout the mine life. The Life-of-Mine schedule targets consistent lump and fines product grades to meet customer specifications. Mining Reserves are the sum of scheduled production, and incorporate mining dilution, stockpiling, blending and transport strategies.



Exploration

Exploration activity during the year has contributed significantly to the growth of the company, with a 27% increase in established Mineral Resources achieved. This was backed by development and mining feasibility studies at both Talling Peak and Extension Hill, which resulted in a 75% increase in reported Mining Reserves.

Talling Peak

Total non-production drilling at Talling Peak during the year amounted to 11,453m of RC in 123 holes and 2,446m of diamond core in 20 holes. Most work was infill and extensional resource definition drilling, with geotechnical investigations accounting for the bulk of the diamond core.

Drilling of 35 extensional RC holes at the T5 deposit in late 2005 was successful, allowing commitment to a significant cutback on the T5 pit which was to have been exhausted by March 2006. Infill and extensional drilling on the main range pit continues to better define the orebody

around the active mining area (T3), and has identified additional material in the T2 area immediately to the north-east. Exploration drilling further along the main ridge to the north-east (T1 area) is scheduled to begin immediately land access agreements are put in place.

Validation, compilation and synthesis of existing data across the entire lease area at Talling Peak has been facilitated by the purchase and successful implementation of acQuire software, an industry-standard database platform specifically designed to meet the requirements of integrated explorers and producers like Mount Gibson. A number of follow-up targets have been selected for further work, with some drilling already completed in the Central Ridge area, a kilometre north-west of T3 and 2.5km along-strike from T5 (see Figure 4).

Extension Hill

Total drilling at Extension Hill during the year amounted to 3,476m of RC in 41 holes and 363.1m of PQ core in nine holes. Surface mapping

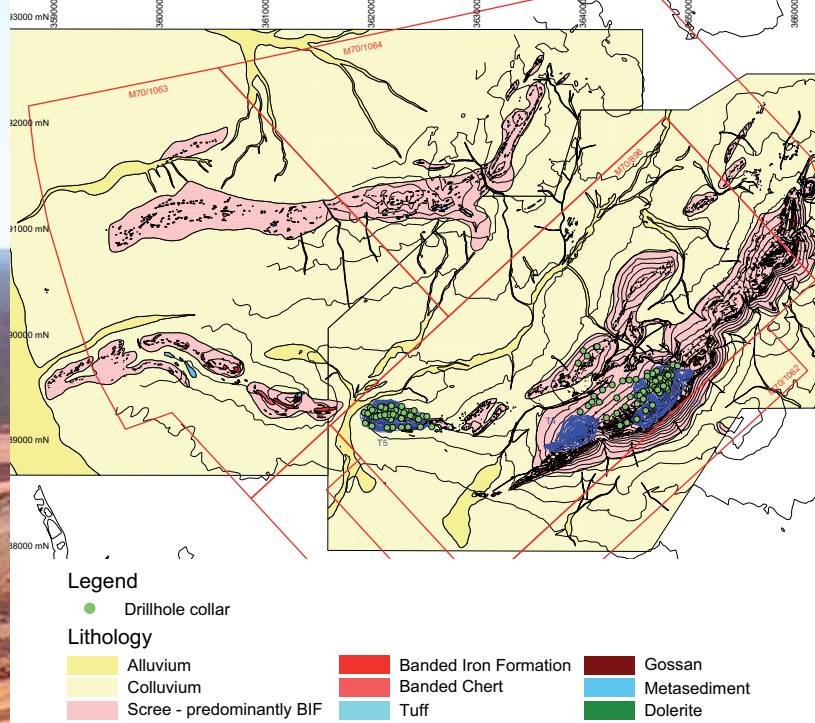


Figure 4 - Talling Peak Lease Area - Exploration drilling activity



Figure 5 - PQ diamond core drilling at Extension Hill March 2006

was also completed to support revision of the three-dimensional geological interpretation.

Three discrete drilling programs were completed. A program of deep RC holes towards the northern end of Extension Hill extended both magnetite and hematite zones of known mineralisation, a program of short RC holes better defined shallow hematite mineralisation and highlighted potential in detrital material off the flanks of the main hill, while a very specific program of nine PQ core holes (83mm core) was also completed to obtain hematite ore for metallurgical test work (see Figure 5).

Re-sampling of hematite zones of interest in RC drillholes is underway to provide better resolution data in areas of composited samples, mainly to allow mining dilution sensitivity studies to be conducted.

Large areas of excellent hematite exploration potential are known at Extension Hill which have not been drilled due to the presence of a Declared Rare Flora (*darwinia masonii*). Flora surveys conducted this year and mechanisms documented in the Public Environmental Review will allow

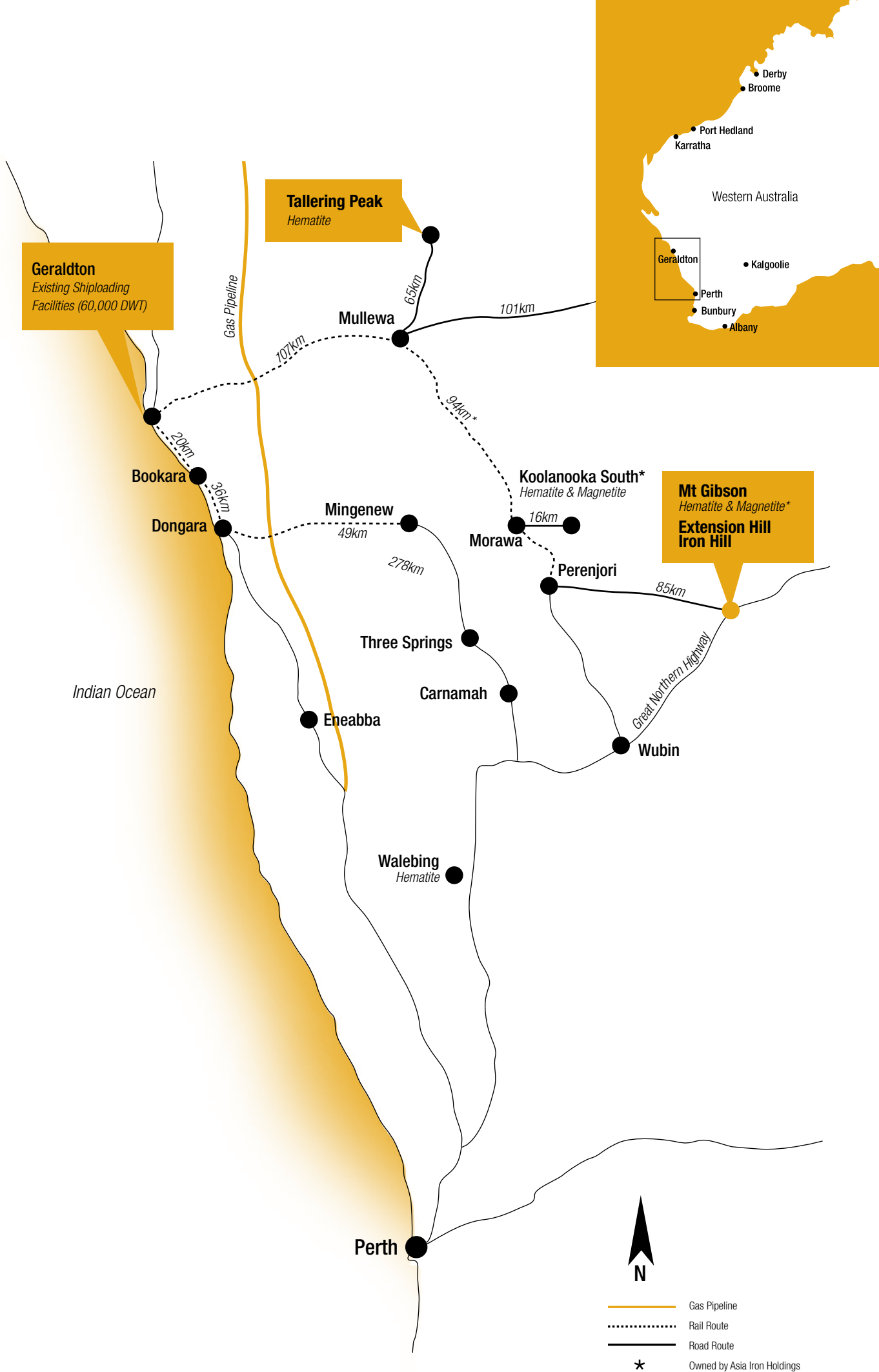
exploration through these areas once environmental approval is granted. Significant increases in hematite Resources and Reserves are anticipated.

Other Areas

Four short diamond core holes were drilled at Asia Iron's Irwin River Coal project to provide material for quality testing and flotation work. All four holes successfully intersected both known coal seams.

Environmental and ethnographic surveys were completed over tenements at Wolla Wolla and Walebing, enabling on-ground field activities to commence in the coming year.

Geological mapping and some ground magnetics surveys were conducted at Mt Yule, Wolla Wolla and Koolanooka South to assist in identification of drilling targets.



Your Directors submit their report for the year ended 30 June 2006 for Mount Gibson Iron Limited ("Company") and the consolidated entity incorporating the entities that it controlled during the financial year ("Consolidated Entity").

Directors

The names and details of the Company's Directors in office during the financial period and until the date of this report are set out below. Directors were in office for the entire period unless otherwise stated.

Names, Qualifications, Experience and Special Responsibilities

Bill Willis – *AssocDipGeol RMIT, FAusIMM, MGSA, AMP109 Chairman, Non-Executive Director*

Mr Willis is a geologist with extensive technical and management experience gained over more than 40 years in the Australian mining sector, mostly in iron ore. He was Executive Director and Chief Executive of Robe River Mining Co Pty Limited from 1993 to 1999 inclusive and held senior management positions with North Limited and Peko Wallsend Pty Ltd. During a twenty year period with BHP Pty Ltd he was variously responsible for exploration, mine geology and management of iron ore production at the BHP's iron ore mines at Koolyanobbing, Cockatoo Island and Yampi Sound, and responsible for exploration and mine geology at Mt Newman. Mr Willis consults to the group on a part-time basis, is a member of the Audit and Remuneration Committees and has overall responsibility for Corporate Governance. During the past three years Mr Willis has not served as a director of any other listed companies.

Brian Johnson – *B.E., MIEAust Deputy Chairman*

Mr Johnson is a civil engineer with extensive experience in the construction and mining industries in Australia, South East Asia and North America. Mr Johnson was a founding Director and shareholder of Mount Gibson Mining Limited. He has held a number of directorships in listed public companies. As a major shareholder and Chief Executive, Mr Johnson was instrumental in establishing Portman Limited's presence in the iron ore industry between 1991 and 1994, developing mines at Koolyanobbing and Cockatoo Island. He also personally partnered Mr Lang Hancock in the development and operation of McCamey's Monster iron ore mine in the Pilbara, prior to its sale to the BHP Group. Mr Johnson has experience in dealing with regional steel mills and major trading houses through his previous involvement in the production of coking coal, manganese and iron ore. Mr Johnson has been Managing Director since the inception of the Company. On 15 October 2005, Mr Johnson resigned as Managing Director and was appointed Deputy Chairman of the Company. Mr Johnson

is the Non-Executive Chairman of Envirogold Limited and Linc Energy Limited. During the past three years Mr Johnson has not served as a director of any other listed companies.

Luke Tonkin – *B.E., MAusIMM, AICD Managing Director*

Mr Tonkin was appointed as Managing Director on 25 October 2005. Mr Tonkin has extensive experience in the resource industry traversing multi-commodities of gold, nickel, tantalum, tin & lithium. He has held General Management roles within some of Australia's largest, more complex operations namely WMC's Kambalda Nickel Operations, St Ives Gold Operations and Leinster Nickel Operations. Mr Tonkin's most recent role was Chief Executive Officer of Sons of Gwalia, the world's largest Tantalum producer and third largest Australian listed gold producer, assisting administrators restructure the Company. Mr Tonkin has a proven track record of implementing large-scale investment, divestment, transition and integration plans. During the past three years Mr Tonkin has not served as a director of any other listed companies.

Alan Rule – *B.Comm, B.Acc, CA Finance Director*

Mr Rule was appointed Finance Director on 1 July 2005. He is a chartered accountant with extensive experience in the mining industry in Australia. He held the position of Chief Financial Officer of Western Metals Limited and more recently St Barbara Mines Limited. He has considerable experience in international financing of mining projects and implementation of accounting controls and systems. Mr Rule was previously Finance Director of Asia Iron Holdings Limited. Mr Rule is a Non-Executive Director of Resource Mining Corporation Limited. During the past three years Mr Rule served as a director of Nustar Mining Corporation Limited.

Craig Readhead – *B. Juris, LL.B, AICD Non-Executive Director*

Mr Readhead has spent the last 26 years practising in the resources law area and is a partner of law firm Pullinger Readhead Lucas. Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia. He is Chairman and a Non-Executive Director of Heron Resources Ltd, Agincourt Resources Ltd and Halcyon Group Ltd, Frankland River Olive Company Limited, and is past President of the Australian Mining and Petroleum Law Association, and past Vice-President of the Association of Mining and Exploration Companies. Mr Readhead is a member of the Audit and Remuneration Committees. During the past three years Mr Readhead has also served as a director of Pioneer Nickel Ltd, New World Alloys Ltd.

Ian Macliver – B.Comm, CA, F Fin, AICD

Non-Executive Director

Mr Macliver is Managing Director of Grange Consulting Group Pty Ltd, which provide specialist corporate advisory services to both listed and unlisted companies. He has many years experience as a senior executive and Director of both resource and industrial companies with particular responsibility for capital raising and other corporate initiatives. Mr Macliver is Chairman and a Non-Executive Director of Stratatel Ltd, BioProspect Ltd and is a Non-Executive Director of Port Bouvard Ltd, and Ottoman Energy Ltd. Mr Macliver is Chairman of the Audit and Remuneration Committees. During the past three years Mr Macliver has also served as a director of Commoditel Ltd.

Alan Jones – CA

Non-Executive Director

Mr Jones was appointed as a Non-Executive Director on 28 July 2006. Mr Jones is a chartered accountant with extensive senior management and board experience in listed and unlisted Australian public companies, particularly in the construction, engineering, finance and investment industries. He is a Non-Executive Director of Mulpha Australia Limited, Sun Hung Kai & Co. Limited (Hong Kong), Allied Group Limited (Hong Kong) and Allied Properties Limited (Hong Kong). Mr Jones has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. During the past three years Mr Jones has not served as a director of any other listed companies.

Guoping Liu

Non-Executive Director

Mr Guoping Liu is the Vice President of China Railway Materials and Supply Corporation (“CRMSC”) a Government owned entity ranked 60th by revenue in the top 500 enterprises in China. He has strong connections in Government and the steel industry in China, and extensive international trading experience within the USA, Europe,

and South America. During the past three years Mr Liu has not served as a director of any other listed companies. Mr Guoping Liu was appointed a director on 12 August 2005 and retired as a director on 22 February 2006.

Company Secretary

Angela Dent – BBus, CA

Ms Dent consults to a number of public and private companies, as a Management Accountant and Company Secretary. She has experience in financial and management accounting, and statutory requirements, in Australia and South East Asia.

Interests In The Shares And Options Of The Company

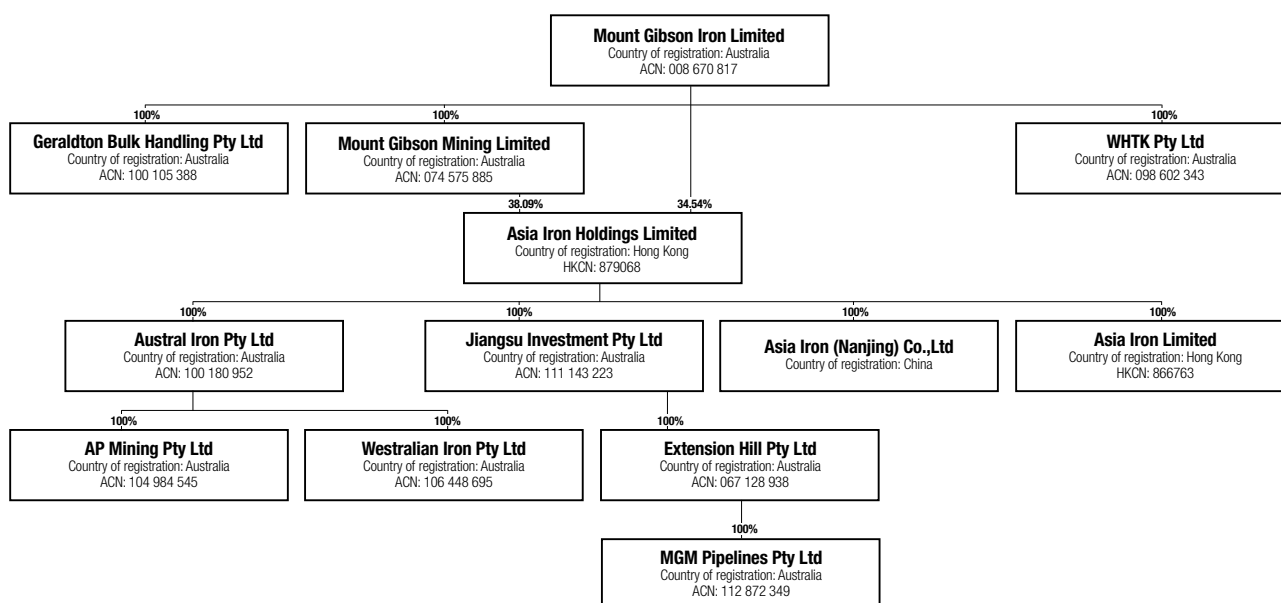
As at the date of this report, the interests of the Directors in the Shares and Options of the Company were:

	Ordinary Shares	Options over Shares
WB Willis	1,480,000	1,000,000
BG Johnson	-	5,000,000
L Tonkin	-	5,000,000
AD Rule	-	2,000,000
CL Readhead	727,500	500,000
IA Macliver	1,000,000	500,000
AS Jones	-	-

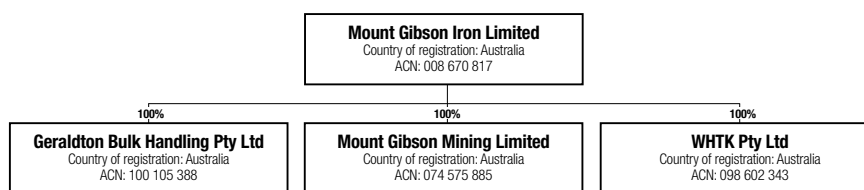
Corporate Information

Corporate Structure

Mount Gibson Iron Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The structure of the Consolidated Entity as at 30 June 2006 was as follows:



Following completion of the sale of Asia Iron Holdings Limited, as set out in note 10 in the financial statements, the corporate structure of the Consolidated Entity is:



Nature of Operations and Principal Activities

The principal activities of the entities within the Consolidated Entity are:

- mining of hematite deposits at Talling Peak; and
- exploration and development of hematite deposits in the Mid-West region of Western Australia.

Employees

The Consolidated Entity employed 120 employees as at 30 June 2006 (2005: 71 employees).

Future Funding

As at the date of this report the Consolidated Entity has sufficient funds or funding to develop and mine the Talling Peak iron deposits.

Review and Results of Operations

Operating Results for the Period

A summary of the operating results for the Consolidated Entity is set out below:

	Consolidated	
	2006 \$'000	2005 \$'000
Operating Profit Before Tax	16,151	22,032
Taxation Benefit / (Expense)	6,922	(8,530)
Operating Profit After Tax	23,073	13,502
Loss Attributable to Minority Interest	406	-
Net Profit Attributable to Members of the Company	23,479	13,502

The income tax benefit reflects the recognition in the current period of tax losses available for use by the Consolidated Entity.

Talling Peak Hematite Operations

During December 2005 the Company announced that detailed mine schedules to exploit the current ore reserve had recently been completed which indicated that development rates at Talling Peak would need to be increased to sustain 3 Mtpa of ore production through to the end of mine life.

The increased rate of development stripping commenced in January 2006 following the mobilisation of additional hired mining equipment which will give the operation the capacity to load and

haul approximately 32 Mtpa of ore and waste annually over the next two years.

The upper zone of the Talling Peak resource was sparsely pre-production drilled due to drill rig access limitations as a consequence of steep topography. Reconciliation of ore during the 6 months to 30 June 2006 from the upper zone of Talling Peak under-reconciled against the resource model. This is not expected to materially affect the total resource available for exploitation as the upper zone of the resource contributes less than 4% of the total ore tonnes.

During the six months to June 2006, further ore was mined from the upper section of the Talling Peak resource where the density of the geological information above the current pit floor was limited. The cut back of the T3c pit is now well established and has now entered the area of the Talling Peak resource that has been better defined by recent infill drilling. As the cut back of T3c progresses, higher grade hematite ore will be encountered and ore zones will become more continuous.

Infill resource definition drilling to improve the short to medium-term scheduling capability of Talling Peak operations progressed satisfactorily during the 6 months to 30 June 2006. Completion of drilling is scheduled for October 2006 with modelling and detailed resource estimation to follow.

Results to date confirm the general nature of the resource, as defined by the previous broadly spaced drilling, with the new data better defining local variations in geometry and grades.

Talling Peak's secondary ore source, T5 Open Pit, is currently mined by a large scale owner operated fleet which will complete mining from this ore source in June 2007.

The second half of 2005/06 has prepared the Consolidated Entity for growth with the company focusing resources on improving access to deeper ore zones, enabling Talling Peak to achieve sustainable ore production of 3 Mtpa. During the months of July and August 2006, a total in excess of 750,000 tonnes of ore was mined. Given the encouraging infill drilling results below the current pit floor and the mine's demonstrated capacity to substantially increase total material movements and ore production, the Company is confident of mining 3 Mtpa of ore in the 2006/07 financial year.

Production Summary For 12 Months	Unit	Sept Qtr 2005 '000	Dec Qtr 2005 '000	Mar Qtr 2006 '000	Jun Qtr 2006 '000	YTD 2006 '000
Mining						
- Waste mined	bcm	932	1,243	1,627	2,763	6,565
- Ore mined	wmt	471	248	254	149	1,122
Crushing						
- Lump	wmt	354	204	187	120	865
- Fines	wmt	190	68	107	120	485
- Low Grade Screen	wmt	17	143	98	-	258
		561	415	392	240	1,608
Transported to Mullewa Railhead						
- Lump	wmt	335	194	105	176	810
- Fines	wmt	173	106	94	114	487
		508	300	199	290	1,297
Transported to Geraldton Port						
- Lump	wmt	320	236	110	166	832
- Fines	wmt	186	113	78	126	503
		506	349	188	292	1,335
Shipping						
- Lump	wmt	322	300	97	170	889
- Fines	wmt	178	128	50	141	497
		500	428	147	311	1,386
Shipping						
- Lump	dmt	317	296	96	168	877
- Fines	dmt	174	125	49	137	485
		491	421	145	305	1,362

Production rates at Talling Peak for the 12 months ended 30 June 2006 compared with the 12 months ended 30 June 2005 were:

- waste mining increased by 73%;
- ore tonnes mined decreased by 42% and
- ore tonnes sold decreased by 26%.

Revenue from the sale of ore decreased by 5% in 2006 from the previous year as the mine embarked on major cut-backs of existing open pits. This resulted in a decrease of 26% in ore tonnes sold from 1,838,000 tonnes in 2005 to 1,362,000 tonnes in 2006, which was partially offset by an increase in the realised selling prices per tonne of ore sold of 29% in 2006 over the previous year.

Total cost of sales decreased marginally over the previous year whilst the cost per tonne sold increased by 33% which is directly related to the Company's inability to access ore whilst significant open pit cut backs were in progress. The increase in cost per tonne sold can also be attributed to significant cost increases in fuel, labour, tyres and consumables in line with cost increases experienced by all mine operators in the Western Australian mining sector. It is anticipated that the cost per tonne sold will decrease as the mine has achieved 3 Mtpa rates.

Extension Hill Magnetite Project

The Extension Hill Magnetite Project involves the proposed mining of magnetite ore from the Extension Hill tenements and the concentrating of that ore to produce 5 Mtpa of magnetite concentrate, which would be transported via a 270 kilometre slurry pipeline from Extension Hill to the port of Geraldton for storage and loading onto vessels. The feasibility study for the Extension Hill Magnetite Project was finalised in early 2006 containing a mineral resource of 240 Mt of magnetite ore.

Mount Gibson Iron Limited and Mount Gibson Mining Limited entered into an agreement on 5 July 2006 with Sinom Investments Limited ("Sinom Investments") for the sale to Sinom Investments of their combined 73% interest in Asia Iron Holdings Limited ("Asia Iron"), the ultimate owner of the Extension Hill Magnetite Project.

On completion, which occurred on 21 August 2006, the sale proceeds of \$52.5 million were placed in escrow until environmental approval is received. A decision on environmental approval is anticipated by the end of 2006.

If environmental approval is not obtained by 30 November 2007, Sinom Investments may terminate the agreement and the sale

shares will be returned to the Consolidated Entity. Consequently, the Consolidated Entity would then retain its indirect interest in the Extension Hill Magnetite Project and would re-assess the options available to it in respect of the project.

Extension Hill Direct Shipping Ore Project

The Consolidated Entity has recently completed a desktop study into the feasibility of the Extension Hill Direct Shipping Ore ("DSO") project. The purpose of the study was to demonstrate robust economics of an assumed base case project strategy, identify major risks and opportunities, and to identify key focus areas for the Definitive Feasibility Study ("DFS").

The desktop study has shown that the project has robust economics, minimal technical risks and relatively low capital requirements. The most significant risks to the project are timing and implementation. The desktop study estimates are within a ± 15 to 25% range and therefore are not as reliable as the results of a DFS.

The Consolidated Entity has commenced a DFS which will examine the most favourable development alternatives. The DFS will refine the commercial, technical, financial, social, economic and environmental prerequisites for a mining operation of this nature. The DFS will, given the normal risks associated with mining projects, enhance the estimated operational and financial results defined in the desktop study. The DFS is scheduled to be completed by the end of December 2006. Given the detail and currency of the Extension Hill Magnetite Project Feasibility Study, it is anticipated that both the cost and time to complete the Extension Hill DSO DFS is deliverable.

The Consolidated Entity is targeting to have the first shipment from the Extension Hill DSO project commence in the first quarter of 2008, subject to the successful completion of the DFS and subsequent Board approval. Project commencement is also subject to the readiness of the new Geraldton Port Authority Berth 5 ship loader, completion of the Consolidated Entity's port facilities, availability of rail capacity, transport route selection, environmental approval, statutory approvals and construction of site infrastructure.

The environmental approval process for the mining of the project is at an advanced stage, with notification periods having expired and submissions having been made by interested parties. The outcome of the requisite application is expected by the end of 2006.

All key native title agreements for the project are in place.

Of the 3 Mtpa of DSO to be produced at Extension Hill, 1.4 Mtpa is committed under existing sales contracts.

Review of Financial Condition

During the year, the Consolidated Entity incurred \$54.2 million (2005:\$24.1 million) in waste development expenditure of which, \$35.5 million was incurred in the 6 months ended 30 June 2006. In accordance with its usual accounting practice, waste development expenditure for the period has been capitalised in the Consolidated

Entity's balance sheet and will be amortised over the expected life of the mine. The Consolidated Entity's focus on substantially increasing waste development to ensure 3 Mtpa of sustainable ore production in the future combined with reduced ore sales during the 6 months ended 30 June 2006 reduced cash on hand to \$4.5 million.

Net assets increased by 42% to \$109.2 million.

During the course of the financial year, holders of 33.49 million options exercised their options resulting in \$7.5 million in equity funding for the Company.

The Consolidated Entity disposed of property, plant and equipment with an aggregate fair value of \$6.4 million that were financed by means of finance leases, reducing lease liabilities to \$5.8 million.

Significant Changes In The State Of Affairs

There were no significant changes in the state of affairs of the Consolidated Entity other than those referred to elsewhere in this report or the financial statements or notes there to.

Significant Events After Balance Date

On 24 July 2006, the Company announced the intention to merge with Aztec Resources Limited ("Aztec"), representing a landmark consolidation of Australia's emerging iron ore sector. The merger will result in the creation of a leading independent Australian iron ore company with a market capitalisation of approximately \$600 million (assuming dilution for all in-the-money Company and Aztec options), an asset portfolio offering near term cash flow, immediate growth potential supported by longer-life profile and longer term development opportunities. The Company proposes to implement the merger by means of an off-market scrip takeover bid for all shares in Aztec. Under the bid, the Company offered Aztec shareholders 1 new share for every 3 shares held in Aztec ("Offer"), valuing each Aztec share at \$0.263 based on the Company's volume weighted average price on 21 July 2006 of \$0.789, being the last trading day before announcement of the offer. The Offer is subject to a number of conditions, including a minimum acceptance condition of 90%, regulatory approvals, certain prescribed occurrences not having occurred and no material adverse change, acquisitions or disposals. Aztec's major shareholder, Cambrian Mining Plc, granted an option to the Company over Aztec shares equivalent to 15.27% of Aztec's issued capital, at the Offer price.

Completion of the sale by the Consolidated Entity of its 73% interest in Asia Iron was completed on 21 August 2006 with \$52.5 million being placed in escrow pending environmental approval which is expected by the end of 2006.

Likely Developments and Expected Results

Other than as referred to in the Review and Results of Operations and in this report, further information as to likely developments in the

operations of the entity and likely results of those operations would, in the opinion of the Directors, be speculation and not in the best interest of the Company.

Environmental Regulation and Performance

The Consolidated Entity has developed Environmental Management Plans for its operations at Talling Peak and the rail head at Mullewa. The Environmental Management Plans have been approved by the West Australian Government Departments' of Industry & Resources, Environment and, Conservation and Land Management.

The Consolidated Entity holds various environmental licenses and authorities, issued under both State and Federal law, to regulate its mining and exploration activities in Australia. These licenses include conditions and regulation in relation to specifying limits on discharges into the environment, rehabilitation of areas disturbed during the course of mining and exploration activities, and the storage of hazardous substances.

There have been no material breaches of the Consolidated Entities licenses and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

Share Options

Unissued shares

Details of Options over Ordinary Shares in the Company on issue as at balance date and at the date of this report are:

Exercise Price	Exercise Date/ Period	Options on issue at	
		Balance date	Date of report
25 cents	On or before 31 December 2006	7,256,920	7,238,920
50 cents	On or before 31 December 2007	5,000,000	5,000,000
55 cents	On or before 31 December 2008	5,000,000	5,000,000
78 cents	On or before 31 December 2006	823,712	823,712
90 cents	On or before 30 June 2010	2,000,000	2,000,000
90 cents	On or before 23 October 2010	3,000,000	3,000,000
110 cents	On or before 23 October 2012	2,000,000	2,000,000
	Total	25,080,632	25,062,632

In addition, as at 30 June 2006, there were 4,175,000 options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2007 before the options vest, at which time they will be issued to the respective employees. Once vested the options will be exercisable at 78 cents each and expire on 31 December 2009.

As at the date of this report, none of the options had vested. Option holders do not have any right, by virtue of the Option, to participate in any share issue of the Company.

Shares issued as a result of the exercise of options

During the financial year, 33,516,380 options were exercised to acquire fully paid ordinary shares in the company at a weighted average exercise price of \$0.22. Since the end of the financial year, a further 18,000 options have been exercised, at a weighted average exercise price of \$0.25.

Dividends

No dividends were paid during the period and no recommendation is made as to dividends.

Indemnification and Insurance of Directors and Officers

The Company has, during the financial period, entered into deeds of access and indemnity with each Director. These deeds provide access to documentation and indemnification against liability for loss suffered, as a result of any act or omission, to the extent permitted by the Corporations Act 2001, from conduct of the Consolidated Entity's business.

During the financial year, the Company has paid premiums in respect of a contract insuring all the Directors of the Company against costs incurred in defending proceedings except for conduct involving:

- a wilful breach of duty; or
- a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$57,127. This amount has not been included in Directors' and Executives' remuneration.

Remuneration Report

This report outlines the remuneration arrangements in place for Directors and Executives of the Consolidated Entity.

Remuneration Policy

The Remuneration Policy of the Company and its Controlled Entities has been put in place to ensure that:

- remuneration policies and systems support the Company's wider objectives and strategies;
- Directors' and Senior Executives' remuneration is aligned to the long-term interests of Shareholders within an appropriate control framework; and
- there is a clear relationship between the Executives' performance and remuneration.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director, Executive Director and Senior Executive management remuneration is separate.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to Shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 18 November 2005 when Shareholders approved an aggregate remuneration of \$300,000 per year.

Each Non-Executive Director receives a fee for being a Director of the Company.

Non-Executive Directors should be adequately remunerated for their time and effort and the risks involved. Non-Executive Directors are remunerated to recognise the responsibilities, accountabilities and associated risks of Directors.

All Non-Executive Directors' performance and remuneration is reviewed on an annual basis by the Chairman.

Non-Executive Directors' fixed remuneration will comprise the following elements:

- cash remuneration; and
- superannuation contributions made by the Company.

Non-Executive Directors are eligible to receive options under the Company Employee Option Scheme, subject to approval by Shareholders.

Board operating costs do not form part of Non-Executive Directors' remuneration.

Non-Executive Directors have long been encouraged by the board to hold shares in the Company (purchased by the director on market). It is considered good governance for Directors to have a stake in the Company on whose board they sit. The Non-Executive Directors of the Company can participate in the Employee Share Plan which provides incentives where specified criteria are met.

Executive Directors and Senior Executives Remuneration

Objective

The Company aims to reward Executive Directors and Senior

Executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward the Executive Directors and Senior Executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interest of the Executive Directors and Senior Executives with those of Shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Fixed Remuneration

The components of the Executive Directors and Senior Executives fixed remuneration are determined individually and may include:

- cash remuneration;
- accommodation and travel benefits;
- motor vehicle, parking and other benefits; and
- reimbursement of entertainment, home office and telephone expenses.

The Executive Directors' remuneration is reviewed on an annual basis by the Non-Executive Directors. The Senior Executives' remuneration is reviewed on an annual basis by the Managing Director.

In determining the remuneration package, the Remuneration Committee reviews the individual's remuneration with the use of market data for positions with comparable companies. Where appropriate, the package is adjusted so as to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, the Company's expected performance for the year is considered in the context of the Company's capacity to fund remuneration budgets. From time to time, a review of the total remuneration package by an independent consultant in this field is undertaken to provide an independent reference point.

Variable Remuneration

Short-term Incentive (STI)

The Executive Directors and Senior Executives may receive variable remuneration in the form of STI. STI are linked to clearly specified performance targets and provide rewards for materially improved Company performance. The total potential STI available is at the Board's discretion but is measured to provide sufficient incentive to the Executive Directors and Senior Executives to achieve the operational targets and such that the cost to the Consolidated Entity is reasonable in the circumstances.

Actual STI payments granted depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators covering both financial and non-financial measures of performance.

On an annual basis, the individual performance of each executive is reviewed and the Remuneration Committee determines the amount of STI to be allocated to each executive. Payments made are delivered as a cash bonus in the following reporting period.

Long-term Incentive (LTI)

LTI rewarded to Executive Directors and Senior Executives do not have a direct link to Company performance but in the opinion of the Board, they provide an incentive to increase performance of the business over an extended period.

LTI grants to executives are delivered in the form of options, rights or fully paid shares.

Employment Contracts

As at the date of this report, the Consolidated Entity had entered into employment contracts with the following Executive Directors:

Luke Tonkin

The key terms of his contract are as follows:

- 5 years from 24 October 2005 to 24 October 2010

- There are no termination benefits at the completion of the contract term. However, if the Company wishes to terminate the contract other than if Mr Tonkin is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Tonkin wishes to terminate the contract, he must provide three months notice.

Alan Rule

The key terms of his contract are as follows:

- 5 years from 1 July 2005 to 30 June 2010
- There are no termination benefits at the completion of the contract term. However, if the Company wishes to terminate the contract other than if Mr Rule is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Rule wishes to terminate the contract, he must provide three months notice.

Director remuneration for the year ended 30 June 2006

		Short Term			Post Employment		Share Based Payment	Total	% Performance Related
		Salary & Fees	Non Monetary	STI Bonuses	Superannuation	Retirement Benefits	Options		
WB Willis Non-Executive Chairman	2006	105,505	-	-	9,495	-	14,735	129,735	11%
	2005	116,731	-	-	6,229	-	29,230	152,190	19%
BG Johnson Deputy Chairman	2006	673,424	33,814	-	-	-	3,113,988	3,821,226	81%
	2005	344,669	88,309	250,000	-	-	1,405,809	2,088,787	79%
L Tonkin Managing Director	2006	316,396	1,051	250,000	28,476	-	399,479	995,402	65%
AD Rule Finance Director	2006	300,000	1,822	150,000	27,417	-	224,444	703,683	53%
CL Readhead Non-Executive Director	2006	48,000	-	-	-	-	7,368	55,368	13%
	2005	41,951	-	-	-	-	14,615	56,566	26%
IA Macliver Non-Executive Director	2006	44,037	-	-	3,963	-	7,368	55,368	13%
	2005	38,485	-	-	3,476	-	14,615	56,576	26%
G Liu Non-Executive Director	2006	-	-	-	-	-	-	-	-

Mr Tonkin, Mr Rule and Mr Liu were appointed directors of the company on 24 October 2005, 1 July 2005 and 12 August 2005 respectively. Mr Liu retired as a director on 22 February 2006.

Remuneration of the 5 named executives who received the highest remuneration for the year ended 30 June 2006

		Short Term			Post Employment		Share Based Payment	Total	% Performance Related
		Salary & Fees	Non Monetary	STI Bonuses	Superannuation	Retirement Benefits	Options		
DP Garcia <i>Commercial Director – Asia Iron Holdings Limited</i>	2006	398,655	-	-	12,777	-	-	411,432	-
KJ Malaxos <i>Chief Executive Officer – Mount Gibson Mining Limited</i>	2006	245,833	19,728	4,167	22,500	-	28,085	320,313	10%
	2005	207,692	6,412	10,000	19,592	-	31,285	274,981	15%
PJ Jones <i>Project Manager</i>	2006	275,229	1,410	-	24,771	-	13,171	314,581	4%
SP Coates <i>Exploration Manager</i>	2006	182,580	-	7,500	16,425	-	41,265	247,770	20%
	2005	130,780	-	10,000	12,670	-	31,285	184,735	22%
BS Wesley <i>Group Financial Controller</i>	2006	129,019	1,663	5,000	11,366	-	13,171	160,219	11%

All executive directors and executives are engaged through Controlled Entities of the Company.

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

	Grant Date	Exercise Price	Grant Number	Value per Option @ Grant Date	Value of Options Granted During the Year	Vesting Date	Exercised Number	Value at Date Option Lapsed	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
AD Rule	4-Oct-05	\$0.90	2,000,000	\$0.464	928,000	1-Jul-08	N/A	N/A	N/A	31.9%
L Tonkin	4-Oct-05	\$0.90	3,000,000	\$0.478	1,434,000	24-Oct-08	N/A	N/A	N/A	29.5%
L Tonkin	4-Oct-05	\$1.10	2,000,000	\$0.518	1,036,000	24-Oct-10	N/A	N/A	N/A	10.6%
SP Coates	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	5.3%
PJ Jones	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	4.2%
BS Wesley	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	8.2%

Options granted as part of director and executive emoluments have been valued using the Binomial option pricing model. The value per option at grant date is calculated using the following assumptions:

Grant date	31-Dec-05	4-Oct-05	4-Oct-05	4-Oct-05
Share price at grant date	\$0.70	\$0.86	\$0.86	\$0.86
Exercise price	\$0.78	\$0.90	\$0.90	\$1.10
Risk free interest rate	5.09%	5.40%	5.40%	5.40%
Volatility factor	60%	60%	60%	60%
Expiry date	31-Dec-09	30-Jun-10	23-Oct-10	23-Oct-12

Directors' Meetings

The numbers of meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each Director is as follows:

	Directors' Meetings	Audit Committee Meetings	Remuneration Committee
Number of Meetings Held	19	2	1
WB Willis	18	2	1
BJ Johnson	15	-	-
L Tonkin	14	-	-
AD Rule	19	-	-
CL Readhead	18	2	1
IA Macliver	17	2	1
G Liu	1	-	-

Mr Tonkin, Mr Rule and Mr Liu were appointed directors of the company on 24 October 2005, 1 July 2005 and 12 August 2005 respectively. Mr Liu retired as a director on 22 February 2006.

Tax Consolidation

The Company and its 100% owned controlled entities have formed a tax consolidated group with effect from 1 April 2006. Members of the Consolidated Entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rate basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

Proceedings on Behalf of the Company

There are no proceedings on behalf of the Company under section 237 of the Corporations Act 2001 in the financial year or at the date of this report.

Rounding

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the additional ASX information section of the annual report.

Auditor's Independence Declaration

In accordance with section 307C of the Corporations Act 2001, the directors received the attached independence declaration from the auditor of Mount Gibson Iron Limited on page 28 which forms part of this report.

Non-Audit Services

There were no non-audit services provided by the entity's auditor, Ernst & Young, during the financial year ended 30 June 2006.

Signed in accordance with a resolution of the Directors.



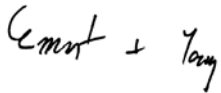
Bill Willis

Chairman

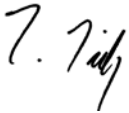
Perth, 4th September 2006.

Auditor's Independence Declaration to the Directors of Mount Gibson Iron Limited

In relation to our review of the financial report of Mount Gibson Iron Limited for the year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



V W Tidy

Partner

Perth

4 September 2006

For the year ended 30 June 2006

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
CONTINUING OPERATIONS					
Sale of goods	2[a]	73,389	76,872	-	-
Other revenue	2[a]	1,907	471	2,836	1,890
TOTAL REVENUE		75,296	77,343	2,836	1,890
Cost of sales	2[d]	(49,999)	(50,487)	-	-
GROSS PROFIT		25,297	26,856	2,836	1,890
Other income	2[b]	1,232	128	1	-
Administrative expenses	2[d]	(8,368)	(2,463)	(6,368)	(2,252)
Write back of impairment allowance	8	-	-	10,833	-
Exploration expenses	2[d]	(814)	(666)	(25)	-
Development expenses		-	(28)	-	-
PROFIT/(LOSS) BEFORE TAX AND FINANCE COSTS		17,347	23,827	7,277	(362)
Finance costs	2[c]	(1,196)	(1,795)	(11)	(168)
PROFIT/(LOSS) BEFORE INCOME TAX		16,151	22,032	7,266	(530)
Income tax benefit/(expense)	3	6,922	(8,530)	251	145
NET PROFIT/(LOSS) FOR THE PERIOD		23,073	13,502	7,517	(385)
Loss attributable to minority interest		406	-	-	-
NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF THE COMPANY		23,479	13,502	7,517	(385)

Earnings per share (cents per share)			
basic earnings per share	25	6.01	4.24
diluted earnings per share	25	5.88	4.08
dividends per share		-	-

As at 30 June 2006

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	4	4,548	33,633	145	44
Trade and other receivables	5	6,180	6,632	58	40
Inventories	6	5,685	5,296	-	-
Prepayments		877	625	1	-
Derivatives	16	2,541	-	-	-
		19,831	46,186	204	84
Assets classified as held for sale	10	46,093	-	-	-
TOTAL CURRENT ASSETS		65,924	46,186	204	84
NON-CURRENT ASSETS					
Trade and other receivables	5	-	-	29,690	53,419
Available for sale financial assets	7	1,248	2,942	1,248	2,942
Other financial assets	8	-	-	42,431	10,785
Property, plant and equipment	11	20,345	17,665	5	5
Deferred acquisition, exploration, evaluation and development costs	12	4,176	29,104	-	-
Mine properties	13	51,567	15,131	-	-
Deferred income tax assets	3	-	-	11,347	424
TOTAL NON-CURRENT ASSETS		77,336	64,842	84,721	67,575
TOTAL ASSETS		143,260	111,028	84,925	67,659
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	14	17,836	10,363	341	130
Interest-bearing loans and borrowings	15	1,594	2,780	-	-
Derivatives	16	1,470	-	-	-
Provisions	17	463	300	-	-
		21,363	13,443	341	130
Liabilities associated with assets classified as held for sale	10	3,068	-	-	-
TOTAL CURRENT LIABILITIES		24,431	13,443	341	130
NON-CURRENT LIABILITIES					
Provisions	17	702	655	-	-
Interest-bearing loans and borrowings	15	4,247	8,938	-	-
Deferred income tax liabilities	3	4,684	11,407	-	-
TOTAL NON-CURRENT LIABILITIES		9,633	21,000	-	-
TOTAL LIABILITIES		34,064	34,443	341	130
NET ASSETS		109,196	76,585	84,584	67,529

EQUITY					
Issued capital	18	86,851	79,381	86,851	79,381
Retained earnings / (Accumulated losses)	20	10,096	(13,383)	(5,966)	(13,483)
Reserves	19	473	1,631	3,699	1,631
Parent interests		97,420	67,629	84,584	67,529
Minority interest	21	11,776	8,956	-	-
TOTAL EQUITY		109,196	76,585	84,584	67,529

For the year ended 30 June 2006

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		75,519	76,662	-	-
Payments to suppliers and employees		(82,704)	(57,208)	(1,073)	(647)
Interest paid		(1,196)	(1,676)	(11)	(169)
NET CASH FLOWS (USED IN) / FROM OPERATING ACTIVITIES	4[b]	(8,381)	17,778	(1,084)	(816)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		1,951	427	40	33
Purchase of controlled entity		-	534	-	(1,512)
Contribution to controlled entity		-	-	(20,813)	-
Proceeds from sale of property, plant and equipment		7	45	-	-
Purchase of property, plant and equipment		(12,362)	(997)	-	-
Payment for deferred exploration and evaluation expenditure		(15,126)	(6,123)	-	-
Purchase of available for sale investments		(960)	(2,942)	(960)	(2,542)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(26,490)	(9,056)	(21,733)	(4,021)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		7,460	34,641	7,460	34,641
Payment for capital raising cost		-	(958)	-	(958)
Loans from/(to) other entities		(395)	48	(395)	-
Loans from related parties		-	-	15,853	(28,829)
Proceeds from borrowings		1,500	14,096	-	-
Repayment of lease liabilities		(2,520)	(2,034)	-	-
Repayment of borrowings		(419)	(20,291)	-	-
Payment for performance bonds		(1,100)	(1,202)	-	-
Proceeds from performance bonds		4,053	-	-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		8,579	24,300	22,918	4,854
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(26,292)	33,022	101	17
Net foreign exchange differences		56	-	-	-
Cash and cash equivalents at beginning of period		33,633	611	44	27
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4[a]	7,397	33,633	145	44

For the year ended 30 June 2006

CONSOLIDATED	Attributable to Equity Holders of the Parent						Minority Interest	Total Equity
	Issued Capital	Option Premium Reserve	(Accumulated Losses) / Retained Earnings	Net Unrealised Gains / (Losses) Reserve	Other Reserves	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
At 1 July 2004	40,848	-	(26,885)	-	-	13,963	6,344	20,307
Profit for the period	-	-	13,502	-	-	13,502	-	13,502
Issue of share capital	32,305	-	-	-	-	32,305	-	32,305
Exercise of options	4,811	-	-	-	-	4,811	-	4,811
Conversion of convertible notes	2,375	-	-	-	-	2,375	-	2,375
Capital raising cost	(958)	-	-	-	-	(958)	-	(958)
Change in Minority Interest	-	-	-	-	-	-	2,612	2,612
Cost of share-based payment	-	1,631	-	-	-	1,631	-	1,631
At 30 June 2005	79,381	1,631	(13,383)	-	-	67,629	8,956	76,585
Application of AASB 132 and AASB 139	-	-	-	1,165	-	1,165	-	1,165
At 1 July 2005	79,381	1,631	(13,383)	1,165	-	68,794	8,956	77,750
Profit/(loss) for the period	-	-	23,479	-	-	23,479	(406)	23,073
Net unrealised losses on available-for-sale financial assets	-	-	-	(3,305)	-	(3,305)	-	(3,305)
Net gains on cash flow hedges	-	-	-	465	-	465	-	465
Release to income statement on expiry of cash flow hedges	-	-	-	(115)	-	(115)	-	(115)
Currency translation differences	-	-	-	-	(465)	(465)	-	(465)
Issue of share capital	10	-	-	-	-	10	-	10
Exercise of options	7,460	-	-	-	-	7,460	-	7,460
Cost of share-based payment	-	4,323	-	-	-	4,323	-	4,323
New issue of capital by a Controlled Entity	-	-	-	-	(3,226)	(3,226)	3,226	-
At 30 June 2006	86,851	5,954	10,096	(1,790)	(3,691)	97,420	11,776	109,196

COMPANY	Attributable to Equity Holders of the Parent				Total Equity
	Issued Capital	Option Premium Reserve	Accumulated Losses	Net Unrealised Gains / (Losses) Reserve	
	\$'000	\$'000	\$'000	\$'000	
At 1 July 2004	40,848	-	(13,098)	-	27,750
Loss for the period	-	-	(385)	-	(385)
Issue of share capital	32,305	-	-	-	32,305
Exercise of options	4,811	-	-	-	4,811
Converted from convertible notes	2,375	-	-	-	2,375
Capital raising cost	(958)	-	-	-	(958)
Cost of share-based payment	-	1,631	-	-	1,631
At 30 June 2005	79,381	1,631	(13,483)	-	67,529
Application of AASB 132 and AASB 139	-	-	-	1,050	1,050
At 1 July 2005	79,381	1,631	(13,483)	1,050	68,579
Loss for the period	-	-	7,517	-	7,517
Net unrealised losses on available-for-sale financial assets	-	-	-	(3,305)	(3,305)
Issue of share capital	10	-	-	-	10
Exercise of options	7,460	-	-	-	7,460
Cost of share-based payment	-	4,323	-	-	4,323
At 30 June 2006	86,851	5,954	(5,966)	(2,255)	84,584

For the year ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate information

The financial report of the Company for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 4th September 2006.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of operations and principal activities of the Consolidated Entity are the mining of hematite deposits at Talling Peak and exploration and development of hematite deposits in the Mid-West region of Western Australia.

The address of the registered office is Level 1, 7 Havelock Street, West Perth, WA, 6005.

(b) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Australian Accounting Standards and other mandatory professional reporting requirements. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and quoted available-for-sale financial assets that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the class order applies.

(c) Statement of compliance

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

Compliance with AIFRS ensures that the consolidated financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

The Company financial statement 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 Company where its separate financial statements are presented together with the consolidated financial statements of the Consolidated Entity.

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. The company has taken the exemption available under AASB 1 to only apply AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" from 1 July 2005.

Reconciliations of:

- AIFRS equity as at 1 July 2004 and 30 June 2005; and
- AIFRS profit for the year ended 30 June 2005,

to the balances reported in the 30 June 2005 full-year financial report prepared under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") along with the accounting policies for financial instruments applicable for the year ended 30 June 2005 are detailed in Note 1(dd).

(d) Changes in accounting policies

Australian Accounting Standards and UIG interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006.

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard	Application Date for Group
2004-3	AASB1 "First-time Adoption of AIFRS" AASB 101 "Presentation of Financial Statements" AASB 124 "Related Party Disclosures"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-1	AASB 139 "Financial Instruments: Recognition and Measurement"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-4	AASB 1 "First-time Adoption of AIFRS" AASB 139 "Financial Instruments: Recognition and Measurement" AASB 132 "Financial Instruments: Disclosure and Presentation" AASB 1023 "General Insurance Contracts" AASB 1028 "Life Insurance Contracts"			

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard	Application Date for Group
2005-5	AASB 1 "First-time Adoption of AIFRS" AASB 139 "Financial Instruments: Recognition and Measurement"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3 "Business Combinations"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132 "Financial Instruments: Disclosure and Presentation" AASB 101 "Presentation of Financial Statements" AASB 114 "Segment Reporting" AASB 117 "Leases" AASB 133 "Earnings Per Share" AASB 139 "Financial Instruments: Recognition and Measurement" AASB 1 "First-time Adoption of AIFRS" AASB 4 "Insurance Contracts" AASB 1023 "General Insurance Contracts" AASB 1038 "Life Insurance Contracts"	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
New Standard	AASB 7 "Financial Instruments: Disclosures"	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
UIG 4	Determining whether an Arrangement contains a Lease	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
UIG 8	Scope of AASB 2	No change to accounting policy required. Therefore no impact.	1 May 2006	1 July 2006
UIG 9	Reassessment of Embedded Derivatives	No change to accounting policy required. Therefore no impact.	1 June 2006	1 July 2006

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

The following amendments are not applicable to the Consolidated Entity and therefore have no impact:

AASB Amendment	Affected Standard(s)
New Standard	AASB 119 "Employee Benefits" (Revised Dec 04) – Accounting policy options contained within the revised standard affect accounting for defined benefit schemes only. As Mount Gibson Iron Limited do not have or do not contribute to a defined benefit scheme, there is no impact of this change.
2005-2	AASB 1023 "General Insurance Contracts"
2005-9	AASB 4 "Insurance Contracts", AASB 1023 "General Insurance Contracts", AASB 139 "Financial Instruments: Recognition and Measurement" and AASB 132 "Financial Instruments: Disclosure and Presentation"
2005-12	AASB 1038 "Life Insurance Contracts" and AASB 1023 "General Insurance Contracts"
2005-13	AASB 25 "Financial Reporting by Superannuation Plans"
2006-1	AASB 121 "The Effects of Changes in Foreign Exchange Rates"
2006-2	AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards"
UIG 5	Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds"
UIG 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
UIG 7	Applying the Restatement Approach under AASB 129 "Financial Reporting in Hyperinflationary Economies"

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled entities.

The financial statements of controlled entities are prepared for the same reporting period as the Company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Controlled entities are consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

Minority interests represent the interests in Asia Iron Holdings Limited, not held by the Consolidated Entity.

Investments in controlled entities are carried in the balance sheet of the company at cost less impairment losses, if any.

(f) Foreign currency translation

Both the functional and presentation currency of the Company and its Australian controlled entities is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All such exchange differences are taken to the income statement in the consolidated financial report.

The functional currencies of the overseas controlled entities Asia Iron Holdings Limited and Asia Iron Limited are Hong Kong dollars (HK\$) and for Asia Iron (Nanjing) Co., Ltd is Chinese renminbi (RMB).

As at the reporting date the assets and liabilities of these overseas controlled entities are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(g) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation

The cost of property, plant and equipment directly engaged in mining operations is written off over its expected economic life on a units-of-production method, in the establishment of which, due regard is given to the life of the related area of interest. Assets which are depreciated or amortised on a basis other than the units-of-production method typically are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings 5 - 20 years
- Motor vehicles 4 - 5 years
- Office equipment 3 - 5 years
- Leasehold improvements Shorter of lease term or useful life of 5 – 10 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(h) Mine properties

Mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the Consolidated Entity in relation to areas of interest in which mining of mineral resource has commenced. When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on the units-of-production method, with separate calculations being made for each mineral resource.

Estimated future capital development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus measured resources).

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. Should the carrying value of the expenditure not yet amortised exceed its estimated recoverable amount in any year, the excess is written off to the income statement.

(i) Acquisition, exploration, evaluation and development costs

Acquisition costs

Exploration and evaluation costs arising from acquisitions are carried forward where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Exploration and evaluation costs

Costs arising from exploration and evaluation activities are expensed as incurred, except where, at balance date, it is expected that the expenditure will be recouped by future exploitation or sale of the area of interest, in which case the expenditure is capitalised.

Development costs

Costs arising from development activities are capitalised as incurred to the extent that such costs, together with any costs arising from acquisition, exploration and evaluation carried forward in respect of the area of interest, are expected to be recouped through future exploitation or sale of the area of interest.

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. Where uncertainty exists as to the future viability of certain areas; the value of the area of interest is written off to the income statement or provided against.

(j) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(k) Rehabilitation costs

Long-term environmental obligations are based on the Consolidated Entity's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has

occurred up to the balance sheet date. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining lives of the area of interest.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in the income statement as borrowing costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets.

(l) Recoverable amount of assets

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

Recoverable amount is the greater of fair value less costs to sell and value in use. Recoverable amount is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less cost to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(m) Investments

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

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

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

For investments with no active market, fair value is determined using valuation techniques. Such valuation techniques include using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where fair value cannot be reliably measured for certain unquoted investments, these investments are measured at cost.

(n) Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost comprises direct material, labour and expenditure in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(o) Trade and other receivables

Trade receivables, which generally have 60-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Consolidated Entity will not be able to collect the debts. Bad debts are written off when identified.

(p) Cash and cash equivalents

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

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

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of

the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

(r) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services

(s) Provisions

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

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

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

A provision for dividends is not recognised as a liability unless the dividends have been declared, determined or publicly recommended on or before the reporting date.

(t) Share-based payment transactions

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

There is currently a Directors, Officers, Employees and Other Permitted Persons option plan.

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

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Consolidated Entity, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met at the effect of these conditions is included in the determination of fair value at grant date.

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

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

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

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

(u) Employee benefits

Wages, salaries, annual leave and sick leave

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

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee

departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Superannuation

Contributions made by the Consolidated Entity to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

(v) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the income statement on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Finance Leases

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

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset or where appropriate, over the estimated life of the mine.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

(w) Revenue

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(x) Income tax

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

Deferred income tax liabilities are recognised for all taxable differences:

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

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

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

(y) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(z) Derivative financial instruments and hedging

The Consolidated Entity uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value.

Any gains and losses arising from changes in the fair value of derivatives, except those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for a special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

(aa) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the proceeds received.

(bb) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(cc) Significant accounting judgements, estimates and assumptions

Significant accounting judgements, estimates and assumptions have been made as follows:

(i) Mine rehabilitation provision

The consolidated entity assesses its mine rehabilitation provision annually in accordance with the accounting policy stated in Note 1(k). Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine site. Factors that will affect this liability include future development, changes in technology, commodity price changes and changes in interest rates. When these factors change or become known in the future, such difference will impact the mine rehabilitation provision in the period in which they change or become known.

(ii) Units of production method of depreciation

The consolidated entity applies the units of production method of depreciation of its mine assets based on ore tonnes mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and the production capacity of the plants to be depreciated under this method. Factors that are considered in determining reserves and resources and production capacity are the consolidated entity's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying values of assets.

(dd) Transition to AIFRS

For all periods up to and including the year ended 30 June 2005, the Consolidated Entity prepared its financial statements in accordance with AGAAP. These financial statements for the year ended 30 June 2006 are the first the Consolidated Entity is required to prepare in accordance with AIFRS.

Accordingly, the Consolidated Entity has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the Consolidated Entity has started from an opening balance sheet as at 1 July 2004, the Consolidated Entity's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time adoption of AIFRS.

This note explains the principal adjustments made by the Consolidated Entity in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Transitional exemptions

The Consolidated Entity has made its election in relation to the transitional exemptions allowed by AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" as follows:

- *Business combinations*

AASB 3 "Business Combinations" was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

- *Share-based payment transactions*

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

- *Exemption from the requirement to restate comparative information for AASB 132 and AASB 139*

The Consolidated Entity has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

- *Designation of previously recognised financial instruments*

Investments were designated as available-for-sale financial assets at the date of transition to AIFRS.

- *Rehabilitation costs*

As permitted by AASB 1 the consolidated entity has elected to apply the exemption relating to rehabilitation liabilities. Accordingly, these costs are:

- (a) measured as at the date of transition to Australian equivalents to IFRSs in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets;
- (b) estimated when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
- (c) the accumulated depreciation on that amount is calculated, as at the date of transition to Australian equivalents to IFRS, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity under Australian equivalents to IFRS.

Impact of adoption of AIFRS

The impacts of adopting AIFRS on total equity and profit after tax as reported under AGAAP are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	CONSOLIDATED		COMPANY	
	30 June 2005 \$'000	1 July 2004 \$'000	30 June 2005 \$'000	1 July 2004 \$'000
Total equity under AGAAP	88,257	23,399	67,105	27,471
Adjustments to equity:				
[A] Derecognition of existing rehabilitation accrual	246	15	-	-
[B] Adjustment for unwinding of rehabilitation provision	(61)	(30)	-	-
[C] Adjustment for additional amortisation charge on rehabilitation asset	(187)	(46)	-	-
[D] Adjustment relating to siding construction	(208)	(66)	-	-
[E] Adjustment for derecognition of Mullewa land	(55)	(88)	-	-
[F] Adjustment for Income tax	(11,407)	(2,877)	424	279
Total equity under AIFRS	76,585	20,307	67,529	27,750

[A] The provision for rehabilitation recognised under AGAAP is derecognised as it was not based on discounted future cash flows.

[B] AASB 137 "Provisions, Contingent Liabilities and Contingent Assets", requires recognition of full provision for rehabilitation based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date, as against an undiscounted provision for rehabilitation required to be recognised under AGAAP. The increase in the provision amount due to passage of time has been recognised as borrowing costs as required under AASB 137.

[C] Represents adjustment for additional amortisation charge due to increase in the value of rehabilitation asset created under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets".

[D] Siding construction was treated as an operating lease under AGAAP, however this has been treated as a finance lease under AASB 117 'Leases'.

[E] Mullewa land was treated as an asset purchased under finance lease under AGAAP, however this has been treated as operating lease under AASB 117 'Leases'.

[F] The Consolidated Entity had previously not recognised any deferred tax balances in its accounts under AGAAP. Under AIFRS deferred tax liabilities are recognised for all taxable temporary differences. This adjustment has increased by \$3,799,501 from that disclosed in the half year financial report for the period ended 31 December 2005, based on clarification of tax treatment of carried forward expenditure not previously tax effected.

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	CONSOLIDATED	COMPANY
	30 June 2005 \$'000	30 June 2005 \$'000
Profit after tax as previously reported	23,713	1,100
Adjustments to profit:		
[A] Derecognition of existing rehabilitation accrual	231	-
[B] Adjustment for unwinding of rehabilitation provision	(31)	-
[C] Adjustment for additional amortisation charge on rehabilitation asset	(141)	-
[D] Adjustment relating to siding construction	(143)	-
[E] Adjustment for derecognition of Mullewa land	33	-
[F] Share based payments	(1,630)	(1,630)
[G] Adjustment for Income tax	(8,530)	145
Profit after tax under AIFRS	13,502	(385)

- [A] The provision for rehabilitation recognised under AGAAP is derecognised as it was not based on discounted future cash flows.
- [B] AASB 137 "Provisions, Contingent Liabilities and Contingent Assets", requires recognition of full provision for rehabilitation based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date, as against an undiscounted provision for rehabilitation required to be recognised under AGAAP. The increase in the provision amount due to passage of time has been recognised as borrowing costs as required under AASB 137.
- [C] Represents adjustment for additional amortisation charge due to increase in the value of rehabilitation asset created under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets".
- [D] Siding construction was treated as an operating lease under AGAAP, however this has been treated as a finance lease under AASB 117 'Leases'.
- [E] Mullewa land was treated as an asset purchased under finance lease under AGAAP, however this has been treated as operating lease under AASB 117 'Leases'.
- [F] Share-based-payment costs are charged to the income statement under AASB 2 "Share-based-payments", but not under AGAAP.
- [G] The Consolidated Entity had previously not recognised any deferred tax balances in its accounts under AGAAP. Under AIFRS deferred tax liabilities are recognised for all taxable temporary differences. This adjustment has increased by \$3,799,501 from that in the half year financial report for the period ended 31 December 2005, based on clarification of tax treatment of carried forward expenditure not previously tax effected.

Comparative Information – financial instruments

The Consolidated Entity has elected not to restate comparative information for financial instruments within the scope of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement", as permitted on the first time adoption of AIFRS.

The effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005 is shown below:

		CONSOLIDATED	COMPANY
		\$'000	\$'000
Equity under AIFRS as at 30 June 2005		76,585	67,529
Adoption of AASB 132 and AASB 139			
- Unrealised gain on available-for-sale investment	(a)	1,050	1,050
- Cash flow hedge reserve	(b)	115	-
Equity under AIFRS as at 1 July 2005		77,750	68,579

Notes

- (a) the recognition in equity of the movement in the fair value of available-for-sale investments; and
- (b) the recognition and measurement of all derivatives (including any embedded derivatives at fair value).

The following transitional provision has an effect on future periods:

- The effectiveness of hedging relationships were assessed from 1 October 2005; no adjustment is made to hedges under superseded policies which were not highly effective before 1 July 2005.

The main adjustments necessary that would make the comparative financial statements comply with AASB 132 and AASB 139 are listed below. Similar adjustments were made at 1 July 2005 to restate the opening financial position of the Company and Consolidated Entity to a position consistent with the accounting policies specified in Note 1(o) to 1(r) and 1(z).

- (i) the measurement of financial assets designated as available-for-sale at fair value, with changes in fair value recognised in equity, rather than at cost in accordance with the superseded policy
- (ii) the recognition and measurement of all derivatives (including any embedded derivatives) at fair value
- (iii) the recognition in profit or loss of the movement in the fair value of derivatives which did not qualify for hedge accounting or were not designated as hedging reserve
- (iv) the transfer of deferred hedging gains and losses recognised as assets and liabilities arising from a cash flow hedge of a forecast transaction to the hedging reserve
- (v) the derecognition of other deferred hedging gains and losses recognised as assets and liabilities
- (vi) the deferral in equity of the effective portion of the movement in fair value of derivatives accounted for as a cash flow hedge
- (vii) the recognition in profit or loss of the ineffective portion of the movement in fair value of hedging instruments accounted for as a cash flow hedge
- (viii) the recognition of any current or deferred taxes in relation to the adjustments described above

The adjustments listed above are not a complete list of all adjustments that may be necessary on adopting the accounting policies specified by AASB 132 and AASB 139.

As a result of the decision not to restate comparative information the following accounting policies were applied to accounting for financial instruments in the comparative year:

Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.

Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

Investments

All investments are carried at the lower of cost and recoverable amount.

Investments in associates are carried at the lower of the equity-accounted amount and receivable amount in the consolidated financial report.

Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Consolidated Entity.

Payables to related parties are carried at the principal amount.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

Interest-bearing liabilities

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues. Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

Derivative financial instruments

Forward exchange contracts

The Consolidated Entity enters into forward exchange contracts where it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the Consolidated Entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 15 months.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains or losses on forward exchange contracts are recognised in net profit except those relating to hedges of specific commitments that are deferred and included in the measurement of the sale or purchase.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

2. Revenue and Expenses

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
[a] Revenue					
Sale of ore		73,389	76,872	-	-
Other revenue					
Finance income – other persons/ corporations		1,907	471	40	33
Finance income – intercompany loans		-	-	2,796	1,857
		1,907	471	2,836	1,890
[b] Other Income					
Grant received		-	126	-	-
Net gain on sale of plant and equipment		632	-	-	-
Other income		600	2	1	-
		1,232	128	1	-
[c] Finance costs					
Loans		229	842	11	168
Finance charges payable under finance leases		934	921	-	-
Unwinding of discount on rehabilitation provision		33	32	-	-
		1,196	1,795	11	168
[d] Expenses included in the Income Statement					
Depreciation of Non-Current Assets					
Plant and equipment		674	386	-	-
Plant and equipment under lease		3,079	2,359	-	-
Buildings		447	432	-	-
Buildings under lease		78	124	-	-
		4,278	3,301	-	-
Less : depreciation capitalised		(15)	-	-	-
		4,263	3,301	-	-
Amortisation of mine properties		17,769	17,557	-	-
Expense of share-based payments		4,323	1,631	4,323	1,631
Operating lease rental – minimum lease payments		754	1,029	-	-
Exploration expenditure written off		814	666	25	-
Government royalties		5,129	5,098	-	-
Salaries, wages expense and other employee benefits		9,288	4,516	-	-

3. Income Tax

Major components of income tax expense for the years ended 30 June 2006 and 2005 are:

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Income Statement					
<i>Current income tax</i>					
Current income tax charge		-	-	-	-
Adjustments in respect of current income tax of previous years		-	-	-	-
<i>Deferred income tax</i>					
Relating to origination and reversal of temporary differences		6,601	4,730	(251)	(145)
Benefit from previously unrecognised tax loss used to reduce deferred tax expense / temporary differences		(13,523)	3,800	-	-
Income tax expense/(benefit) reported in income statement		(6,922)	8,530	(251)	(145)
Statement of Changes in Equity					
<i>Current income tax</i>					
Current income tax on exchange difference on loan		-	-	-	-
<i>Deferred income tax</i>					
Remeasurement of foreign exchange contracts		199	-	-	-
Income tax benefit reported in equity		199	-	-	-
Reconciliation of income tax expense / (benefit)					
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2006 and 2005 is as follows:					
Accounting profit/(loss) before income tax		16,151	22,032	7,266	(530)
At the statutory income tax rate of 30% (2005: 30%)		4,845	6,610	2,180	(159)
Adjustments on formation of a tax consolidated group		(7,341)	-	-	-
Previously unrecognised tax losses now recognised		(5,752)	-	(3,731)	(213)
Tax Losses/Temporary differences not recognised		-	1,804	-	-
Expenditure not allowed for income tax purposes		1,326	116	1,300	227
Income tax expense/(benefit) reported in income statement		(6,922)	8,530	(251)	(145)
Effective income tax rate		30%	30%	30%	30%

	Notes	Balance Sheet		Income Statement	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Deferred Income Tax					
Deferred income tax at 30 June relates to the following:					
CONSOLIDATED					
<i>Deferred income tax liabilities</i>					
Accelerated depreciation for tax purposes		2,261	-	2,261	1,029
Income not yet assessable for taxation purposes		3,892	67	3,825	13
Capitalised expenditure deductible for tax purposes		17,318	12,063	5,255	7,635
Remeasurement of foreign exchange contracts		322	-	123	-
Gross deferred income tax liability		23,793	12,130		

	Note	Balance Sheet		Income Statement	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Deferred income tax assets</i>					
Expenses not yet deductible for taxation purposes		1,008	723	(285)	(147)
Increase in cost base of investment in Controlled Entity		1,662	-	(1,662)	-
Losses available for offset against future taxable income		16,439	-	(16,439)	-
Gross deferred income tax assets		19,109	723		
Net deferred tax asset/(liability)		(4,684)	(11,407)		
Deferred income tax expense/(benefit)				(6,922)	8,530
COMPANY					
<i>Deferred income tax liabilities</i>					
Accelerated depreciation for tax purposes		-	-	-	-
Income not yet assessable for taxation purposes		-	-	-	-
Gross deferred income tax liability		-	-		
<i>Deferred income tax assets</i>					
Expenses not yet deductible for taxation purposes		449	424	(25)	(145)
Losses available for offset against future taxable income		10,898	-	(226)	-
Gross deferred income tax assets		11,347	424		
Net deferred tax asset/(liability)		11,347	424		
Deferred income tax expense/(benefit)				(251)	(145)

Tax Consolidation

The Company and its 100% owned controlled entities have formed a tax consolidated group. Members of the Consolidated Entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rate basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the controlled entities intercompany accounts with the tax consolidated group head company, Mount Gibson Iron Limited. In this regard the Company has assumed the benefit of tax losses from controlled entities of \$10,672,000 as of the balance date. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

4. Cash and Cash Equivalents

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and in hand		4,334	13,544	145	44
Short-term deposits		214	20,089	-	-
		4,548	33,633	145	44
Cash at bank earns interest at floating rates based on daily bank deposit rates.					
Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.					
[a] Reconciliation of cash					
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:					
Cash at bank and in hand		4,334	13,544	145	44
Short-term deposits		214	20,089	-	-
		4,548	33,633	145	44
Cash at bank and in hand attributable to the disposal group	10	2,849	-	-	-
		7,397	33,633	145	44
[b] Reconciliation of the net profit/(loss) after tax to the net cash flows from operations					
Net profit/(loss) after tax		23,073	13,502	7,356	(385)
<i>Adjustments for:</i>					
Depreciation of non-current assets		4,263	3,301	-	-
Amortisation of mine properties		17,769	17,557	-	-
Net (profit)/loss on disposal of property, plant and equipment		(632)	17	-	-
Net exchange differences		(464)	(344)	-	-
Interest received		(1,907)	(427)	(40)	(33)
Exploration expenses written off		814	666	-	-
Share based payments		4,323	1,631	4,323	1,631
Intra-group interest income		-	-	(2,796)	(1,857)
Bad debts		541	-	420	-
Write down of investment		400	-	400	-
<i>Changes in assets and liabilities</i>					
(Increase)/decrease in trade and other receivables		(2,208)	(1,726)	5	9
(Increase) in inventory		(388)	(2,499)	-	-
(Increase)/decrease in prepayments and deposits		(335)	(127)	2	1
(Increase) in deferred tax assets		-	-	(10,923)	(145)
(Increase) in mine development expenditure		(54,205)	(24,159)	-	-
Increase/(decrease) in creditors and accruals		7,994	1,787	211	(53)
Increase/(decrease) in GST paid		(724)	(45)	(42)	16
Increase/(decrease) in deferred income tax liabilities		(6,922)	8,530	-	-
Increase in employee benefits		227	114	-	-
Net Cash Flow (used in)/from Operating Activities		(8,381)	17,778	(1,084)	(816)

[c] Non-cash financing activities

During the financial year, the Consolidated Entity acquired property, plant and equipment with an aggregate fair value of \$2,783,417 (2005: \$2,804,971) by means of finance leases. During the financial year, the Consolidated Entity disposed of property, plant and equipment with an aggregate fair value of \$7,143,498 (2005: \$nil) that were financed by means of finance leases.

5. Trade and Other Receivables

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Trade debtors	[b]	3,350	2,271	-	-
Sundry debtors	[b]	1,480	572	10	5
Other receivables		1,350	3,789	48	35
		6,180	6,632	58	40
Non-Current					
Other receivables	[a], [b]	-	-	29,835	53,564
Allowance for doubtful debts		-	-	(145)	(145)
		-	-	29,690	53,419
[a] Related party receivables					
Non-Current					
Controlled entities		-	-	29,690	53,419

[b] Terms and conditions

Terms and conditions relating to the above financial instruments:

[i] Trade debtors are non-interest bearing and generally on 30 day terms.

[ii] Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.

[iii] Except for amounts payable by Mount Gibson Mining Limited, on which interest is charged at 7%pa, related party receivables are non-interest bearing with no fixed repayment date.

6. Inventories

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Inventory – consumables at cost		627	199	-	-
Inventory – ore at cost		5,058	5,097	-	-
		5,685	5,296	-	-

7. Available-For-Sale Financial Assets

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Shares – unlisted at cost		400	400	400	400
Allowance for impairment		(400)	-	(400)	-
		-	400	-	400
Shares-listed at fair value		1,248	2,542	1,248	2,542
		1,248	2,942	1,248	2,942

Available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate

8. Other Financial Assets

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Non-Current					
Investments in controlled entities – at cost		-	-	42,431	21,618
Allowance for impairment		-	-	-	(10,833)
		-	-	42,431	10,785

In the current year, the previously recognised allowance for impairment relating to the Company's investment in Mount Gibson Mining Limited has been reversed based on current operational forecasts.

9. Interest in Subsidiaries

Name	Country of Incorporation	Percentage of Equity Interest Held by the Consolidated Entity		Investment	
		2006 %	2005 %	2006 \$'000	2005 \$'000
Mount Gibson Mining Limited	Australia	100	100	17,631	6,798
WHTK Pty Ltd	Australia	100	100	-	-
Geraldton Bulk Handling Pty Ltd	Australia	100	100	-	-
Asia Iron Holdings Limited	Hong Kong	73	63	24,800	3,987
• Asia Iron (Nanjing) Co., Ltd	China	73	63	-	-
• Asia Iron Limited	Hong Kong	73	63	-	-
• Jiangsu Investment Pty Ltd	Australia	73	63	-	-
• Extension Hill Pty Ltd	Australia	73	63	-	-
• Austral Iron Pty Ltd	Australia	73	63	-	-
• AP Mining Pty Ltd	Australia	73	63	-	-
• Westralian Iron Pty Ltd	Australia	73	63	-	-
• MGM Pipelines Pty Ltd	Australia	73	63	-	-
				42,431	10,785

10. Assets Held For Sale

On 7 June 2006 the Company advised the Australian Stock Exchange (ASX) that it had signed an agreement with China's third largest steel producer, the Shougang Group, for the sale of the Consolidated Entity's entire 73% interest in Asia Iron for \$52.5 million.

The agreement was subject to Foreign Investment Review Board (FIRB) approval and the minority shareholders in Asia Iron not exercising an option to match the Shougang offer. Minority shareholders had 28 days to exercise an option to match the Shougang offer.

On 6 July 2006 the Company advised the ASX that it has received notice of an election to purchase the Consolidated Entity's shareholding in Asia Iron from a minority shareholder, Sinom Investments. Sinom Investments notice to match the Shougang offer resulted in a binding agreement for the sale of the Consolidated Entity's entire 73% interest in Asia Iron on the same terms as those previously agreed with Shougang. As a result of Sinom Investments' election, the condition precedent to the Shougang agreement could not be satisfied. The Consolidated Entity therefore terminated the Shougang agreement to allow the sale to Sinom Investments.

Sinom Investments obtained FIRB approval on 2 August 2006 and completion of the sale by the Consolidated Entity of its 73% interest in Asia Iron to Sinom Investments occurred on 21 August 2006 with the \$52.5 million being placed in escrow pending environmental approval which is expected by the end of 2006.

If environmental approval is not obtained by 30 November 2007, Sinom Investments may terminate the agreement and the sale shares will be returned to the Consolidated Entity. Consequently, the Consolidated Entity would then retain its indirect interest in the Extension Hill Magnetite Project and would re-assess the options available to it in respect of the project.

As at 30 June 2006, Asia Iron and its subsidiaries was classified as a disposal group and was held for sale.

The major classes of assets and liabilities of Asia Iron measured at the lower of carrying amount and fair value less cost to sell as at 30 June 2006 in the Consolidated Balance Sheet are as follows:

	Notes	2006 \$'000
Assets		
Cash	4	2,849
Trade and other receivables		216
Prepayments		115
Property, plant and equipment	11	3,158
Deferred acquisition, exploration, evaluation and development costs	12	39,755
Assets classified as held for sale		46,093
Liabilities		
Trade and other payables		(1,568)
Interest bearing liabilities	15	(1,500)
Liabilities directly associated with assets classified as held for sale		(3,068)
		43,025
Less: Minority interest thereon		(11,776)
Net assets attributable to disposal of Asia Iron Holdings Limited		31,249

11. Property, Plant and Equipment

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Freehold land - at cost		3,020	5	5	5
Plant and equipment – at cost		10,057	2,433	-	-
Accumulated depreciation		(1,214)	(546)	-	-
		8,843	1,887	-	-
Plant and equipment under lease – at cost		6,095	13,456	-	-
Accumulated depreciation		(3,024)	(3,604)	-	-
		3,071	9,852	-	-
Buildings – at cost		6,709	6,111	-	-
Accumulated depreciation		(997)	(549)	-	-
		5,712	5,562	-	-
Buildings under lease – at cost		522	522	-	-
Accumulated depreciation		(241)	(163)	-	-
		281	359	-	-
Capital works in progress – at cost		2,576	-	-	-
Total property, plant and equipment					
At cost		28,979	22,527	5	5
Total accumulated depreciation		(5,476)	(4,862)	-	-
		23,503	17,665	5	5
Attributable to assets held for sale	10	(3,158)	-	-	-
		20,345	17,665	5	5
(a) Assets pledged as security					
The value of assets pledged as security are:					
Plant and equipment		8,843	1,887	-	-
Plant and equipment under lease		3,071	9,852	-	-
Buildings		5,712	5,562	-	-
Buildings under lease		281	359	-	-
		17,907	17,660	-	-

11. Property, Plant and Equipment (Continued)

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
[b] Reconciliations					
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year:					
Plant and equipment					
Carrying amount at the beginning of the year		1,887	1,514	-	-
Additions		7,666	618	-	-
Additions through acquisition of entities		-	82	-	-
Transfers		-	66	-	-
Disposals		(36)	(7)	-	-
Depreciation expense		(674)	(386)	-	-
Carrying amount at the end of the year		8,843	1,887	-	-
Plant and equipment under lease					
Carrying amount at the beginning of the year		9,852	9,548	-	-
Additions		2,783	2,784	-	-
Transfers		-	(66)	-	-
Disposals		(6,485)	(55)	-	-
Depreciation expense		(3,079)	(2,359)	-	-
Carrying amount at the end of the year		3,071	9,852	-	-
Buildings					
Carrying amount at the beginning of the year		5,562	5,615	-	-
Additions		597	379	-	-
Depreciation expense		(447)	(432)	-	-
Carrying amount at the end of the year		5,712	5,562	-	-
Buildings under lease					
Carrying amount at the beginning of the year		359	462	-	-
Additions		-	21	-	-
Depreciation expense		(78)	(124)	-	-
Carrying amount at the end of the year		281	359	-	-

12. Deferred Acquisition, Exploration, Evaluation and Development Costs

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Deferred acquisition, exploration, evaluation and development costs carried forward in respect of mining areas of interest:					
Mt Gibson Hematite		4,022	4,022	-	-
Extension Hill Hematite		154	-	-	-
Mt Gibson Magnetite		34,547	19,874	-	-
Koolanooka South Magnetite		5,208	5,208	-	-
		43,931	29,104	-	-
Attributable to disposal group	10	(39,755)	-	-	-
		4,176	29,104	-	-
Reconciliation					
Carrying amount at beginning of the year		29,104	17,889	-	-
Additions		15,641	11,881	25	-
Exploration expenditure written off		(814)	(666)	(25)	-
		43,931	29,104	-	-
Attributable to disposal group	10	(39,755)	-	-	-
Carrying amount at the end of the year		4,176	29,104	-	-

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of costs carried forward for the development phase is not being recognised pending commencement of production.

13. Mine Properties

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Mine development expenditure		91,603	37,398	-	-
Accumulated amortisation		(40,036)	(22,267)	-	-
		51,567	15,131	-	-
Reconciliation					
Carrying amount at beginning of the year		15,131	8,529	-	-
Additions		54,205	24,159	-	-
Amortisation		(17,769)	(17,557)	-	-
Carrying amount at the end of the year		51,567	15,131	-	-

14. Trade and Other Payables

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Trade creditors		7,333	4,004	175	85
Accruals and other payables		10,503	6,359	166	45
		17,836	10,363	341	130

Trade creditors and other payables are non-interest bearing and are normally settled on 30 day terms.

15. Interest-Bearing Loans and Borrowings

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Lease liability	[a]	1,594	2,361	-	-
Unearned revenue		-	419	-	-
		1,594	2,780	-	-
Non-Current					
Lease liability	[a]	4,247	8,938	-	-
Attributable to disposal group not included above - see Note 10	[b]	1,500	-	-	-

Terms and condition relating to the above financial instruments:

[a] Finance leases are repayable monthly with final instalments due in November 2014. Interest is charged at an average rate of 7.97%. Secured by first mortgage over the leased assets.

[b] Commercial bill facility held with National Australia Bank. Interest is charged at an average rate of 5.99% and expires on 28 February 2011. The commercial bill is secured by first mortgage over the land located at Yanda Farm, Western Australia which is owned by Westralian Iron Pty Ltd, a wholly owned subsidiary of Asia Iron Holdings Limited.

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
[c] Financing facilities available					
At reporting date, the following financing facilities had been negotiated and were available:					
Total facilities:					
Bank multiple advance	[i]	20,474	1,000	-	-
Finance leases		5,841	10,258	-	-
Guarantee facility	[i]	5,526	2,701	-	-
Export line of credit	[i]	-	4,000	-	-
Commercial bill		1,500	-	-	-
		33,341	17,959	-	-
Facilities used at reporting date:					
Bank multiple advance	[i]	-	-	-	-
Finance leases		5,841	10,258	-	-
Guarantee facility	[i]	5,526	493	-	-
Export line of credit	[i]	-	-	-	-
Commercial bill		1,500	-	-	-
		12,867	10,751	-	-
Facilities unused at reporting date:					
Bank multiple advance	[i]	20,474	1,000	-	-
Finance leases		-	-	-	-
Guarantee facility	[i]	-	2,208	-	-
Export line of credit	[i]	-	4,000	-	-
Commercial bill		-	-	-	-
		20,474	7,208	-	-

[i] The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of the Consolidated Entity.

16. Derivatives

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current Asset					
Foreign currency forward contracts and options	34(c)	2,541	-	-	-
Current Liability					
Foreign currency forward contracts and options	34(c)	1,470	-	-	-

17. Provisions

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Employee benefits		451	238	-	-
Road resealing		12	62	-	-
		463	300	-	-
Non-Current					
Employee benefits		14	-	-	-
Decommissioning Rehabilitation		688	655	-	-
		702	655	-	-
Movement in provisions:					
<i>Road Resealing</i>					
Carrying amount at beginning of the year		62	-	-	-
Provision for period		100	62	-	-
Amounts utilised during the period		(150)	-	-	-
Carrying amount at end of the year		12	62	-	-
<i>Decommissioning Rehabilitation</i>					
Carrying amount at beginning of the year		655	623	-	-
Unwinding of discount on rehabilitation provision		33	32	-	-
Carrying amount at end of the year		688	655	-	-

18. Issued Capital

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
[a] Ordinary shares					
Issued and full paid		86,851	79,381	86,851	79,381

		2006		2005	
		Number of Shares	\$'000	Number of Shares	\$'000
[b] Movement in ordinary shares on issue					
Beginning of the financial year		368,519,793	79,381	291,565,822	40,848
Conversion of convertible notes		-	-	7,916,667	2,375
Equity placement		-	-	49,760,604	32,305
Issue of shares		40,000	10	-	-
Exercise of options		33,498,926	7,460	19,276,700	4,811
Less capital raising costs		-	-	-	(958)
End of the financial year		402,058,719	86,851	368,519,793	79,381

18. Issued Capital (Continued)

[c] Terms and conditions of contributed equity

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

Effective from 1 July 1998, the Corporation legislation in place abolished the concept of authorised capital and par values. Accordingly, the Company does not have authorised capital nor par value in respect of its issued shares.

[d] Share options

As at balance date the following Options over unissued Shares were on issue:

Exercise Price	Exercise Date/Period	2006 Number	2005 Number
22 cents	On or before 15 October 2005	-	30,523,300
25 cents	On or before 31 December 2006	7,256,920	4,500,000
50 cents	On or before 31 December 2007	5,000,000	5,000,000
55 cents	On or before 31 December 2008	5,000,000	5,000,000
78 cents	On or before 31 December 2006	823,712	-
90 cents	On or before 30 June 2010	2,000,000	-
90 cents	On or before 23 October 2010	3,000,000	-
110 cents	On or before 23 October 2012	2,000,000	-
		25,080,632	45,023,300

In addition, as at 30 June 2006, there were 4,175,000 (2005: 6,400,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2007 before the options vest. Once vested the options will be exercisable at 78 cents each and expire on 31 December 2009.

Share options carry no right to dividends and no voting rights.

19. Reserves

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Option premium reserve	[a]	5,954	1,631	5,954	1,631
Net unrealised gains/(losses) reserve	[b]	(1,790)	-	(2,255)	-
Other reserves	[c]	(3,691)	-	-	-
		473	1,631	3,699	1,631
[a] Option premium reserve					
The option premium reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.					
Balance at the beginning of the year		1,631	-	1,631	-
Share based payments		4,323	1,631	4,323	1,631
Balance at the end of the year		5,954	1,631	5,954	1,631
[b] Net unrealised gains/(losses) reserve					
This reserve records movement for available-for-sale financial assets to fair value and gains and losses on hedging instruments determined to be effective cash flow hedges.					
Balance at the beginning of the year		-	-	-	-
Application of AASB 132 and AASB 139		1,165	-	1,050	-
Net unrealised losses on available-for-sale financial assets		(3,305)	-	(3,305)	-
Net gains on cash flow hedges		465	-	-	-
Release to income statement on expiry of cash flow hedges		(115)	-	-	-
Balance at the end of the year		(1,790)	-	(2,255)	-

19. Reserves (Continued)

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
[c] Other reserves					
Foreign currency translation reserve		(465)	-	-	-
Consolidation reserve		(3,226)	-	-	-
		(3,691)	-	-	-

Balances at 30 June 2006 represent the total movement during the year.

20. Retained Earnings / (Accumulated Losses)

Balance at the beginning of the year		(13,383)	(26,885)	(13,483)	(13,098)
Net profit/(loss) attributable to members of the Company		23,479	13,502	7,517	(385)
Balance at the end of the year		10,096	(13,383)	(5,966)	(13,483)

21. Minority Interests

Opening balance		8,956	6,344	-	-
Disposal by Mount Gibson Mining Limited of shares in Extension Hill Pty Ltd		-	(6,344)	-	-
Issue of capital by Asia Iron Holdings Limited		3,226	8,956	-	-
Share of current year loss		(406)	-	-	-
Closing balance		11,776	8,956	-	-

22. Expenditure Commitments

[a] Exploration Expenditure Commitments	[i]				
Minimum obligations not provided for in the financial report and are payable:					
Not later than one year		906	826	-	-
Later than one year but not later than five years		3,332	3,128	-	-
		4,238	3,954	-	-
[b] Operating Lease Commitments	[ii]				
Minimum lease payments					
Not later than one year		9,455	594	-	-
Later than one year but not later than five years		10,627	970	-	-
		20,082	1,564	-	-
[c] Finance Lease and Hire Purchase Commitments	[iii]				
Minimum lease payments					
Not later than one year		2,001	3,232	-	-
Later than one year but not later than five years		4,438	10,481	-	-
Later than five years		610	-	-	-
Total minimum lease payments		7,049	13,713	-	-
Future finance charges		(1,208)	(2,414)	-	-
		5,841	11,299	-	-
Total lease liability accrued for:					
Current					
Finance leases		1,594	2,361	-	-
Non-Current					
Finance leases		4,247	8,938	-	-
		5,841	11,299	-	-

[i] In order to maintain current rights to explore and mine the tenements at Talling Peak, Mt Gibson, Koolanooka, Extension Hill and Mintaja Coal, the Consolidated Entity is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Industry and Resources.

[ii] Operating leases:

- operating lease for office space with an initial lease term of 5 years and an implicit interest rate of 4%.
- operating lease for machinery has a term of 5 years and expires in September 2008.

[iii] Finance leases and hire purchases have an average term of 4.5 years with the option to purchase the asset at the completion of the lease term for a pre-agreed amount. The average discount rate implicit in the leases is 7.97%. Secured lease liabilities are secured by a charge over the leased assets.

23. Employee Benefits

	CONSOLIDATED		COMPANY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
The aggregate employee benefits liability is comprised of:				
Accrued wages, salaries and on-costs	1,544	629	43	25
Provisions	465	238	-	-
	2,009	867	43	25

24. Share-Based Payment Plans

Employee share scheme

An employee share scheme has been established where the Company may, at the discretion of the board, grant options over the ordinary shares of the Company. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of the Company. All directors, officers and employees are eligible for this scheme.

Information with respect to the number of options granted and issued under the employee share scheme is as follows:

	2006		2005	
	No. of Options	Weighted average exercise price (cents)	No. of Options	Weighted average exercise price (cents)
Balance at beginning of year	20,900,000	25.0	-	-
granted and issued	9,073,712	91.7	21,900,000	25.0
forfeited	(1,900,000)	56.9	(1,000,000)	25.0
exercised	(2,993,080)	25.0	-	-
Balance at year end	25,080,632	57.4	20,900,000	25.0
Exercisable at year end	13,080,632	37.8	-	-

The outstanding balance of options granted and issued as at 30 June 2006 is represented by:

Exercise Price	Exercise Date	Vesting Date	No. of Options
25 cents	On or before 31 December 2006	31-Dec-05	7,256,920
50 cents	On or before 31 December 2007	31-Dec-05	5,000,000
55 cents	On or before 31 December 2008	31-Dec-06	5,000,000
78 cents	On or before 31 December 2009	31-Dec-05	823,712
90 cents	On or before 30 June 2010	01-Jul-08	2,000,000
90 cents	On or before 23 October 2010	24-Oct-08	3,000,000
110 cents	On or before 23 October 2012	24-Oct-10	2,000,000
			25,080,632

In addition, as at 30 June 2006, there were 4,175,000 options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2007 before the options vest, at which time they will be issued to the respective employees. Once vested the options will be exercisable at 78 cents each and expire on 31 December 2009. As at the date of this report, none of the options had vested.

24. Share-Based Payment Plans (Continued)

The remaining contractual life for the options on issue as at 30 June 2006 is between 1 and 6 years (2005: 1 and 2 years).

The range for exercise prices for options on issue at the end of the year was \$0.25-\$1.10 (2005: \$0.25).

The weighted average fair value of options granted during the year was \$0.43 (2005: \$0.19).

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

Listed below are the inputs to the binomial model for the respective options granted during the financial period:

Grant date	31-Dec-05	4-Oct-05	4-Oct-05	4-Oct-05
Share price at grant date	\$0.70	\$0.86	\$0.86	\$0.86
Exercise price	\$0.78	\$0.90	\$0.90	\$1.10
Risk free interest rate	5.09%	5.40%	5.40%	5.40%
Volatility factor	60%	60%	60%	60%
Expiry date	31-Dec-09	30-Jun-10	23-Oct-10	23-Oct-12

25. Earnings Per Share

Basic earnings per share amount are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	CONSOLIDATED	
	2006 \$'000	2005 \$'000
Profits used in calculating basic and diluted earnings per share	23,479	13,502

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	390,533,080	318,817,812
Effect of dilution		
- Share options	8,624,527	12,232,478
Weighted average number of ordinary shares used in calculating diluted earnings per share	399,157,607	331,050,290

7,000,000 options have not been included in the calculation of diluted earnings per share as the exercise price is greater than the market value of the share and therefore considered to be anti-dilutive.

Conversions, calls, subscriptions or issues after 30 June 2006

Since the end of the financial year 18,000 options have been converted to ordinary shares. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this report.

26. Dividends Paid and Proposed

No amounts have been paid, declared or recommended by the company by way of dividend since the commencement of the year.

27. Contingent Liability

Litigation

The Consolidated Entity has received correspondence from lawyers acting for some of the minority shareholders in Asia Iron alleging that the previous managing director made certain representations to the minority shareholders on behalf of the Consolidated Entity and threatening legal action on the basis that the Consolidated Entity's decision to sell its interest in Asia Iron resulted in a breach of those representations. The Consolidated Entity disputes the assertions of the minority shareholders. The Consolidated Entity is unable at present to give an estimate of the financial impact of this threatened legal action.

28. Director and Executive Disclosures

[a] Details of Key Management Personnel

[i] Directors

WB Willis	Chairman
BG Johnson	Deputy Chairman
L Tonkin	Managing Director (appointed 25 October 2005)
AD Rule	Finance Director (appointed 1 July 2005)
CL Readhead	Non-Executive Director
IA Macliver	Non-Executive Director
G Liu	Non-Executive Director (appointed 12 August 2005, retired 22 February 2006)

[ii] Executives

SP Coates	Exploration Manager
DP Garcia	Commercial Director (Asia Iron Holdings Limited)
PJ Jones	Project Manager
KJ Malaxos	Chief Executive Officer (Mount Gibson Mining Limited)

[b] Compensation of Specified Key Management Personnel

[i] Compensation Policy

The compensation policy of the Company and its Controlled Entities has been put in place to ensure that:

- compensation policies and systems support the Company's wider objectives and strategies;
- key management personnel remuneration is aligned to the long-term interests of Shareholders within an appropriate control framework; and
- there is a clear relationship between the key management personnel performance and remuneration.

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and Executive Officers. The Board assesses the appropriateness of the nature and amount of emoluments of all officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. To assist in achieving these objectives, the nature and amount of Executive Directors' and Officers' emoluments are linked to the Company's financial and operational performance. The maximum total compensation payable to Non-Executive Directors is \$300,000 and was approved by Shareholders on 18 November 2005. All Directors and employees have the opportunity to qualify for participation in the Employee Share Scheme.

(A) Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director, Finance Director and all other key management personnel.

The Remuneration Committee assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

(B) Compensation Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive compensation is separate and distinct.

(C) Non-Executive Director Compensation

Objective

The Board seeks to set aggregate compensation at a level that provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 18 November 2005 when the shareholders approved an aggregate compensation of \$300,000 per year.

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. Non-executive directors have long been encouraged by the Board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company on whose board they sit.

The compensation of non-executive directors for the period ending 30 June 2006 is detailed in Note 28(b)(ii).

(D) Executive Compensation

Objective

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- reward executives for company, business unit and individual performance against targets set by to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the company; and
- ensure total compensation is competitive by market standards.

Structure

In determining the remuneration package, the Remuneration Committee reviews the individual's remuneration with the use of market data for positions with comparable companies. Where appropriate, the package is adjusted so as to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, the Company's expected performance for the year is considered in the context of the Company's capacity to fund remuneration budgets. From time to time, a review of the total remuneration package by an independent consultant in this field is undertaken to provide an independent reference point.

Compensation consists of the following key elements:

- Fixed compensations
- Variable compensations
- Short-term incentive (STI); and
- Long-term incentive.

(E) Fixed Compensation

Objective

Fixed compensation is reviewed annually by the Remuneration Committee. The process consists of a review of companywide and individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Structure

The components of the executive fixed remuneration are determined individually and may include:

- cash remuneration;
- accommodation and travel benefits;
- motor vehicle, parking and other benefits; and
- reimbursement of entertainment, home office and telephone expenses.

(F) Variable Compensation – Short Term Incentive (STI)

Objective

STI are linked to clearly specified performance targets and provide rewards for materially improved Company performance. The total potential STI available is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and such that the cost to the Consolidated Entity is reasonable in the circumstances.

Structure

Actual STI payments granted depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators covering both financial and non-financial measures of performance.

On an annual basis, the individual performance of each executive is rated and the Remuneration Committee determines the amount of STI to be allocated to each executive. Payments made are delivered as a cash bonus in the following reporting period.

28. Director and Executive Disclosures (Continued)

(G) Variable Compensation – Long Term Incentive (LTI)

Objective

LTI rewarded to Executive Directors and Senior Executives do not have a direct link to Company performance but in the opinion of the Board, they provide an incentive to increase performance of the business over an extended period.

Structure

LTI grants to executives are delivered in the form of options, rights or fully paid shares.

Note 28[c] provides details of options granted under the LTI plan.

[ii] Compensation of Key Management Personnel

	Short Term			Post Employment		Share-Based Payment	Total	Total Performance Related
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Superannuation	Retirement Benefits	Options		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
Directors								
WB Willis [#]								
2006	106	-	-	9	-	15	130	11%
2005	117	-	-	6	-	29	152	19%
BG Johnson								
2006	673	-	34	-	-	3,114	3,821	81%
2005	345	250	88	-	-	1,405	2,088	79%
L Tonkin								
2006	316	250	1	28	-	399	994	65%
AD Rule								
2006	300	150	2	27	-	224	703	53%
CL Readhead								
2006	48	-	-	-	-	7	55	13%
2005	42	-	-	-	-	15	57	26%
IA MacIver								
2006	44	-	-	4	-	7	55	13%
2005	38	-	-	4	-	15	57	26%
Executives								
SP Coates								
2006	183	8	-	16	-	41	248	20%
2005	131	10	-	13	-	31	185	22%
DP Garcia								
2006	399	-	-	13	-	-	412	-
PJ Jones								
2006	275	-	1	25	-	13	314	4%
KJ Malaxos								
2006	246	4	20	23	-	28	321	10%
2005	208	10	6	19	-	31	274	15%
2006	2,590	412	58	145	-	3,848	7,053	
2005	881	270	94	42	-	1,526	2,813	

[#] Included in Bill Willis' fees is a \$36,000 retainer for the provision of consulting services to Mount Gibson Mining Limited during the financial year.

[iii] Compensation by Category : Key Management Personnel

	CONSOLIDATED		COMPANY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Short-term	3,060	1,245	158	136
Post employment	145	42	10	7
Share-based payment	3,848	1,526	3,848	1,526
	7,053	2,813	4,016	1,669

[iv] Contract for Services

As at the date of this report, the Consolidated Entity had entered into employment contracts with the following Executive Directors:

Luke Tonkin

The key terms of his contract are as follows:

- 5 years from 24 October 2005 to 24 October 2010
- There are no termination benefits at the completion of the contract term. However, if the Company wishes to terminate the contract other than if Mr Tonkin is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Tonkin wishes to terminate the contract, he must provide three months notice.

Alan Rule

The key terms of his contract are as follows:

- 5 years from 1 July 2005 to 30 June 2010
- There are no termination benefits at the completion of the contract term. However, if the Company wishes to terminate the contract other than if Mr Rule is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Rule wishes to terminate the contract, he must provide three months notice.

[c] Compensation Options : Granted and Vested During the Year

During the financial year, the Directors or their nominees were issued Options approved by shareholders at a General Meeting and Executives or their nominees were issued Options under the Directors, Officers, Employees and Other Permitted Persons Option Plan.

Options granted as part of director and executive emoluments have been valued using the Binomial option pricing model. The value per option at grant date is calculated using the following assumptions:

Grant date	31-Dec-05	4-Oct-05	4-Oct-05	4-Oct-05
Share price at grant date	\$0.70	\$0.86	\$0.86	\$0.86
Exercise price	\$0.78	\$0.90	\$0.90	\$1.10
Risk free interest rate	5.09%	5.40%	5.40%	5.40%
Volatility factor	60%	60%	60%	60%
Expiry date	31-Dec-09	30-Jun-10	23-Oct-10	23-Oct-12

Terms and Conditions for each grant:

30 June 2006	Terms and Conditions for each grant						
	Vested Number	Granted Number	Grant date	Fair value per option at grant date \$	Exercise price per option \$	First exercise date	Last exercise date/expiry date
Directors							
AD Rule	-	2,000,000	4-Oct-05	0.464	0.90	1-Jul-08	30-Jun-10
L Tonkin	-	3,000,000	4-Oct-05	0.478	0.90	24-Oct-08	23-Oct-10
L Tonkin	-	2,000,000	4-Oct-05	0.518	1.10	24-Oct-10	23-Oct-12
Executives							
SP Coates	-	250,000	31-Dec-05	0.332	0.78	31-Dec-07	31-Dec-09
PJ Jones	-	250,000	31-Dec-05	0.332	0.78	31-Dec-07	31-Dec-09
	-	7,500,000					

28. Director and Executive Disclosures (Continued)

30 June 2005	Terms and Conditions for each grant						
	Vested Number	Granted Number	Grant date	Fair value per option at grant date \$	Exercise price per option \$	First exercise date	Last exercise date/expiry date
Directors							
BG Johnson	-	5,000,000	16-Mar-05	0.5516	0.50	31-Dec-05	31-Dec-07
BG Johnson	-	5,000,000	16-Mar-05	0.5716	0.55	31-Dec-06	31-Dec-08
Executives							
KJ Malaxos	-	750,000	15-Dec-04	0.0807	0.25	31-Dec-05	31-Dec-06
JP Arbuckle	-	750,000	15-Dec-04	0.0807	0.25	31-Dec-05	31-Dec-06
JR Tyers	-	1,000,000	15-Dec-04	0.0807	0.25	31-Dec-05	31-Dec-06
SP Coates	-	750,000	15-Dec-04	0.0807	0.25	31-Dec-05	31-Dec-06
C Lee	-	300,000	15-Dec-04	0.0807	0.25	31-Dec-05	31-Dec-06
	-	13,550,000					

[d] Option holdings of Key Management Personnel

30 June 2006	Balance at Beginning of Period 1 July 2005	Granted as Remuneration	Options Exercised	Net Change (Lapsed/ Disposed)	Balance at End of Period 30 June 2006	Vested at 30 June 2006		
						Total	Not Exercisable	Exercisable
Directors								
WB Willis	2,440,000	-	(1,440,000)	-	1,000,000	1,000,000	-	1,000,000
BG Johnson	12,500,000	-	-	(7,500,000)	5,000,000	-	-	-
L Tonkin	-	5,000,000	-	-	5,000,000	-	-	-
AD Rule	-	2,000,000	-	-	2,000,000	-	-	-
CL Readhead	1,250,000	-	(750,000)	-	500,000	500,000	-	500,000
IA Macliver	1,250,000	-	(750,000)	-	500,000	500,000	-	500,000
Executives								
SP Coates	750,000	250,000	-	-	1,000,000	750,000	-	750,000
DP Garcia	-	-	-	-	-	-	-	-
PJ Jones	-	250,000	-	-	250,000	-	-	-
KJ Malaxos	750,000	-	(400,000)	-	350,000	350,000	-	350,000
Total	18,940,000	7,500,000	(3,340,000)	(7,500,000)	15,600,000	3,100,000	-	3,100,000

30 June 2005	Balance at Beginning of Period 1 July 2004	Granted as Remuneration	Options Exercised	Net Change (Lapsed/ Disposed)	Balance at End of Period 30 June 2005	Vested at 30 June 2005		
						Total	Not Exercisable	Exercisable
Directors								
WB Willis	2,440,000	-	-	-	2,440,000	1,440,000	-	1,440,000
BG Johnson	6,460,000	10,000,000	-	(3,960,000)	12,500,000	-	-	-
CL Readhead	1,250,000	-	-	-	1,250,000	720,000	-	720,000
IA Macliver	1,944,444	-	(694,444)	-	1,250,000	750,000	-	750,000
Executives								
SP Coates	-	750,000	-	-	750,000	-	-	-
JP Arbuckle	-	750,000	-	-	750,000	-	-	-
JR Tyers	-	1,000,000	-	-	1,000,000	-	-	-
C Lee	-	300,000	-	-	300,000	-	-	-
KJ Malaxos	-	750,000	-	-	750,000	-	-	-
Total	12,094,444	13,550,000	(694,444)	(3,960,000)	20,990,000	2,910,000	-	2,910,000

[e] Shareholding of Key Management Personnel

30 June 2006	Balance 1 July 2005 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2006 Ord
Directors					
WB Willis	420,000	-	1,440,000	(380,000)	1,480,000
BG Johnson	-	-	2,500,000	(2,500,000)	-
L Tonkin	-	-	-	-	-
AD Rule	-	-	-	-	-
CL Readhead	177,500	-	750,000	(200,000)	727,500
IA Maccliver	1,200,000	-	750,000	(950,000)	1,000,000
Executives					
SP Coates	900,000	-	-	40,000	940,000
DP Garcia	-	-	-	-	-
PJ Jones	-	-	-	-	-
KJ Malaxos	25,000	-	400,000	(400,000)	25,000
Total	2,722,500	-	5,840,000	(4,390,000)	4,172,500

30 June 2005	Balance 1 July 2004 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2005 Ord
Directors					
WB Willis	420,000	-	-	-	420,000
BG Johnson	-	-	-	-	-
CL Readhead	177,500	-	-	-	177,500
IA Maccliver	1,081,666	-	694,444	(576,110)	1,200,000
Executives					
SP Coates	1,595,000	-	-	(695,000)	900,000
JP Arbuckle	-	-	-	-	-
JR Tyers	7,220	-	-	-	7,220
C Lee	-	-	-	-	-
KJ Malaxos	-	-	-	25,000	25,000
Total	3,281,386	-	694,444	(1,246,110)	2,729,720

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

[f] Loans to Specified Key Management Personnel

There were no loans to key management personnel during the year.

[g] Other Transactions and Balances with Key Management Personnel

Services

Pullinger Readhead Lucas, of which Mr CL Readhead is a partner, provided legal services to the Company and Consolidated Entity. The fees, paid under normal commercial terms and conditions, were \$1,546 (2005: \$3,237) and \$7,631 (2005: \$16,997) respectively.

Amounts recognised at the reporting date in relation to other transactions:

	CONSOLIDATED	
	2006 \$'000	2005 \$'000
Assets and Liabilities		
Current Liabilities		
Trade Creditors	-	-
Total Liabilities	-	-
Revenues and Expenses		
Corporate expenses	8	17
Total Expenses	8	17

29. Related Party Disclosure

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

Wholly-owned group transactions

Loans were made by the Company to wholly owned subsidiaries. Interest of \$2,795,958 (2005: \$1,857,257) was charged on the loan to Mount Gibson Mining Limited at 7%pa during the year. All other loans are interest free and have no fixed repayment date.

Director-related entity transactions

There are no director-related entity transactions other than those specified in Note 28.

30. Auditors' Remuneration

	CONSOLIDATED		COMPANY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amounts received or due and receivable by Ernst & Young for:				
An audit or review of the financial report of the entity and any other entity in the consolidated entity	100	45	24	12
Other services in relation to the entity and any other entity in the consolidated entity	40	-	-	-
	140	45	24	12

31. Segment Information

The Consolidated Entity operates primarily in the mining sector, through the exploration, evaluation and development of its iron ore deposits in the Midwest region of Western Australia.

32. Events After The Balance Sheet Date

On 24 July 2006, the Company announced the intention to merge with Aztec Resources Limited (Aztec), representing a landmark consolidation of Australia's emerging iron ore sector. The merger will result in the creation of a leading independent Australian iron ore company, with a market capitalisation of approximately \$600 million (assuming dilution for all in-the-money Company and Aztec options), an asset portfolio offering near term cash flow, immediate growth potential supported by longer life profile and longer term development opportunities. The Company proposes to implement the merger by means of an off-market scrip takeover bid for all shares in Aztec. Under the bid, the Company offered Aztec shareholders 1 new share for every 3 shares held in Aztec, valuing each Aztec share at \$0.263 based on the Company's volume weighted average price on 21 July 2006 of \$0.789, being the last trading day before announcement of the offer. The Offer is subject to a number of conditions, including a minimum acceptance condition of 90%, regulatory approvals, certain prescribed occurrences not having occurred and no material adverse change, acquisitions or disposals. Aztec's major shareholder, Cambrian Mining Plc, has granted an option to the Company over Aztec shares equivalent to 15.27% of Aztec's issued capital, at the Offer price.

Completion of the sale by the Consolidated Entity of its 73% interest in Asia Iron was completed on 21 August 2006 with \$52.5 million being placed in escrow pending environmental approval which is expected by the end of 2006.

33. Financial Risk Management Objectives and Policies

The Consolidated Entity's principal financial instruments, other than derivatives, comprise bank loans, finance leases and hire purchase contracts, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Consolidated Entity's operations.

The Consolidated Entity has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Consolidated Entity also enters into derivatives transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Consolidated Entity's operations and its sources of finance.

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

Interest rate risk

The Consolidated Entity's policy is to manage its interest cost using a mix of fixed and variable rate debt, and to keep between 50% and 75% of its borrowings at fixed rates of interest.

Credit risk

The Consolidated Entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the statement of financial position.

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Consolidated Entity's maximum credit risk exposure in relation to forward exchange contracts is the full amount of the foreign currency it will be required to pay or purchase when settling the forward exchange contract, should the counterparty not pay the currency it is committed to deliver to the company. At reporting date the net amount was A\$1,071,486 (2005: \$328,672).

The Consolidated Entity minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of letters of credit which guarantee 90% of receivable amount at the time of sale. There are no significant concentrations of credit risk within the Consolidated Entity.

Foreign currency risk

As a result of receipts being denominated in US dollars, the Consolidated Entity's cash flow can be affected significantly by movements in the US\$/A\$ exchange rates.

The Consolidated Entity has entered into forward exchange contracts designed as a hedge of anticipated future receipts that will be denominated in US dollars.

It is the Consolidated Entity's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

At 30 June 2006, the Consolidated Entity had hedged 48% of its foreign currency sales for which firm commitments existed at the balance sheet date, extending to 31 August 2006.

34. Financial Instruments

[a] Interest rate risk

The Consolidated Entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities are shown on the adjacent page.

34. Financial Instruments (Continued)

[a] Interest rate risk

The Consolidated Entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities are as follows:

	Floating interest rate		Fixed interest rate maturing in:				Non-interest bearing		Total carrying amount per statement of financial position		Weighted average effective interest rate	
	2006 \$'000	2005 \$'000	1 year or less		over 1 to 5 years		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 %	2005 %
			2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000						
i) Financial assets												
Cash	4,333	33,633	84	-	-	131	-	4,548	33,633	5.29	4.59	
Trade and other receivables	-	-	-	-	-	6,180	5,862	6,180	5,862	N/A	N/A	
Unlisted shares	-	-	-	-	-	-	400	-	400	N/A	N/A	
Listed shares	-	-	-	-	-	1,248	2,542	1,248	2,542	N/A	N/A	
Derivatives	-	-	-	-	-	2,541	-	2,541	-	N/A	N/A	
Total financial assets	4,333	33,633	84	-	-	10,100	8,804	14,517	42,437			
ii) Financial liabilities												
Trade and other payables	-	-	-	-	-	17,836	9,593	17,836	9,593	N/A	N/A	
Derivatives	-	-	-	-	-	1,470	-	1,470	-	N/A	N/A	
Lease liabilities	-	-	1,594	2,361	4,247	8,938	-	5,841	11,299	7.97	7.87	
Unearned revenue	-	-	-	419	-	-	-	-	419	N/A	7.15	
Total financial liabilities	-	-	1,594	2,780	4,247	8,938	9,593	25,147	21,311			

[b] Net fair values

All recognised financial assets and liabilities in the Consolidated Entity have been recognised at their net fair values at balance date.

The recognised financial assets and liabilities in the Consolidated Entity as at 30 June 2005, except for available for sale financial assets and derivatives, have been recognised at their net fair value as detailed below.

	Carrying Value at 30 June 2005	Net Fair Value at 30 June 2005
	\$'000	\$'000
Available for sale financial assets	2,942	3,992
Derivatives	-	115
	2,942	4,107

The net fair value, representing the mark to market of a financial asset or a financial liability, is the amount at which the asset could be exchanged or liability settled in a current transaction between willing partners after allowing for transaction costs.

[c] Hedging instruments

[i] Hedges for specific commitments

The Consolidated Entity has entered into forward exchange contracts and foreign exchange option contracts at reporting date designed as a hedge of anticipated future receipts that will be denominated in US dollars.

This hedge has been treated as effective, in accordance with AASB 139

As at 30 June 2006 the following foreign exchange contracts were outstanding:

	2006			2005		
	US\$'000	A\$'000 equivalent	Fair Value A\$'000	US\$'000	A\$'000 equivalent	Fair Value A\$'00
Forward Exchange Contracts						
contract rate 0.7397	9,000	12,167	48			
contract rate 0.7287	9,000	12,351	214			
contract rate 0.7070	6,000	8,487	366			
contract rate 0.7455				10,000	13,414	165
	24,000	33,005	628	10,000	13,414	165
Collar Option	60,000	83,443	443			
call strike price 0.760/0.750/0.770/0.740 /0.750/0.745						
put strike price 0.7245/0.718/0.7335/0.72/0.715/0.711						
Collar Option				36,500	50,093	51
call strike price 0.720/0.725/0.730/0.733						
put strike price 0.800/0.770/0.780/0.800						
Convertible Collar Option				11,500	15,333	(101)
call strike price 0.750						
put strike price 0.800						
barrier rate 0.7998						
Total	84,000	116,448	1,071	58,000	78,840	115

All of the above contracts mature by 30 April 2007.

In accordance with a resolution of the directors of Mount Gibson Iron Limited, I state that:

1. In the opinion of the Directors:

- a. the financial statements and the notes of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001, including:
 - i) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2006 and of their performance for the year ended on that date; and
 - ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2006.

Signed in accordance with a resolution of the directors.



Bill Willis
Chairman

Perth, 4th September 2006

Independent Audit Report to Members of Mount Gibson Iron Limited

Scope

The financial report and directors' responsibility

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

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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

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

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

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

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

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

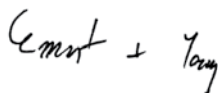
In our opinion, the financial report of Mount Gibson Iron Limited is in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the financial position of Mount Gibson Iron Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

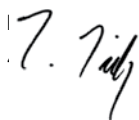
(b) other mandatory financial reporting requirements in Australia

Ernst & Young



V W Tidy

Partner



THE BOARD AND CORPORATE GOVERNANCE

The Company's Board is committed to protecting and enhancing shareholder value and conducting the Company's business ethically and in accordance with high standards of corporate governance.

The Company's Corporate Governance Principles and Practices Manual were approved on 10 June 2005 and have been reviewed and updated as necessary during the year.

A description of the Company's main corporate governance practices is set out below. Copies of the relevant corporate governance policies are available in the corporate governance section of the Company's website at www.mtgibsoniron.com.au.

The Board will continue to review and develop its corporate governance practices and the corporate governance section of the website will be updated with policies and procedures as they are formally adopted by the Company.

THE ROLE OF THE BOARD AND THE BOARD CHARTER

The Board is responsible for guiding and monitoring the Company on behalf of Shareholders by whom they are elected and to whom they are accountable. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of Shareholders.

Day to day management of the Company's affairs and the implementation of corporate strategies and policy initiatives are delegated by the Board to the Managing Director and senior executives, as set out in the Company's Board Charter.

The Company's Charter sets out the following overall powers and responsibilities of the Board:

- charting the direction, strategies and financial objectives of the Company and ensuring appropriate resources are available;
- monitoring the implementation of those policies and strategies and the achievement of those financial objectives and performance against the strategic plan and budgets; and
- monitoring compliance with control and accountability systems, significant disclosures to the market regulatory requirements and ethical standards.

Specific powers and responsibilities set out in the Board Charter include:

- appointing and monitoring the performance of the Managing Director and Company Secretary, and ratifying other key executive appointments and planning for executive succession;

- reviewing and ratifying systems of risk management and internal control and compliance, codes of conduct and compliance, codes of conduct and legal compliance;
- reviewing and ratifying major capital expenditure, capital management and acquisitions and divestitures; and
- approving the issue of any shares, options or other securities in the Company.

BOARD COMPOSITION

As at the date of this report the Company has seven Directors: four Non-Executive Directors including the Chairman, and three Executive Directors.

Board composition will be reviewed annually to ensure that the non-executive Directors between them bring the range of skills, knowledge and experience necessary to direct the Company. All Directors, other than the Managing Director, are required to retire and stand for re-election by Shareholders, every three years.

Details of the skills, experience and expertise relevant to the position of Director held by each Director in office as at the date of the Annual Report are set out on page 2.

The Board may have access to independent advisers where it sees need.

DIRECTOR INDEPENDENCE

The Company's Policy on Independence of Directors provides criteria for the assessment of the independence of Directors. The criteria used are those recommended by the ASX Guidelines. A Director may be considered by the Board to be independent where the Director does not meet one or more of the criteria. The test of independence of a Director, as recommended by the ASX Guidelines, is that they should be free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Directors unfettered and independent judgement.

The Board consider that the Non-Executive Directors are independent. In making this assessment the following were considered in relation to the criteria and the test for independence:

- Bill Willis provides consultancy services to the Consolidated Entity and its subsidiaries when required, and has a contract with the Company in relation to the provision of those services. Based on the nature, infrequency and irregularity of the consulting services provided, the Board concluded that the relationship would not interfere with Mr Willis' independent judgement.
- Craig Readhead and Pullinger Readhead Lucas a law firm of which he is a partner, provide legal services to the Consolidated Entity. The fees in relation to these legal services are not material to the Company or to the provider.

- Ian Macliver is a director and shareholder of Grange Consulting Pty Ltd which provided management, accounting and administration services to the Company prior to the “back-door” listing of Mount Gibson Mining Limited in January 2002. Grange Consulting continued to provide these services for Whittakers Timber Pty Ltd (subsidiary) until June 2002. Based on the time since the services were provided, and that the services were provided in relation to the Company prior to the acquisition of Mount Gibson Mining Limited, the Board concluded that the relationship would not interfere with Mr Macliver’s independent judgement.
- Alan Jones is a representative of Shareholder group, he has no other relationship which would interfere with his independent judgement.

If any Director has a material interest in a matter, the Director will not be permitted to vote on the matter.

BOARD MEETINGS

The Board meets at least nine times each year, and full Board meetings are usually held monthly. From time to time meetings are convened outside the scheduled dates to consider issues of importance. In addition the Board conducts visits to the Group’s operations at least once per year.

Directors’ attendance at Board and Committee meetings is detailed on page 14.

BOARD COMMITTEES

The Company’s Board has established an Audit Committee and a Remuneration Committee. It has not established a nomination committee (ASX Principal 2.4) as it believes the Company is not of a size to justify a separate nomination committee. The recommended functions of a nomination committee are fulfilled by the Board and the requirement for additionally committees is reviewed by the Board at least annually.

Audit Committee

The Audit Committee meets generally two times during a financial year. Committee members’ attendance at Audit Committee meetings is detailed on page 14.

The Audit Committee’s overall role is to assist the Board in fulfilling its responsibilities for the Company’s financial reporting and audit, internal control and financial risks.

The Audit Committee’s specific responsibilities include (but are not limited to):

- evaluating the effectiveness of the Company’s internal control measures, and gaining an understanding of whether internal control recommendations made by external auditors have been implemented;
- understanding the current areas of greatest financial risk for the Company and management’s response to minimising those risks;

- reviewing significant accounting and reporting issues; and
- reviewing annual financial reports, and meeting with management and external auditors to discuss the reports and the results of the audit.

The Managing Director, Finance Director and the External Auditors usually attend Audit Committee meetings.

Remuneration Committee

The Board established a Remuneration Committee during the year, it will meet at least two times during a financial year. Committee members’ attendance at Remuneration Committee meetings is detailed on page 14.

The Remuneration Committee’s specific responsibilities include (but are not limited to):

- making recommendation to the Board on remuneration of Directors and senior officers;
- reviewing the Managing Director’s performance, at least annually; and
- developing and facilitating the process for Board and Director evaluation.

FINANCIAL REPORTING

Consistent with ASX Principle 4.1, the Company’s financial report preparation and approval process for the financial year ended 30 June 2006 involved both the Managing Director and the Finance Director providing detailed representations to the Board covering:

- compliance with the Company’s accounting policies and relevant accounting standards;
- the accuracy of the financial statements and that they provide a true and fair view;
- integrity and objectivity of the financial statements; and
- effectiveness of the system of internal control.

INDEMNITIES

The Company has entered into deeds of access, indemnity and insurance with each Director. These deeds provide access to documentation, indemnification against liability from conduct of the Company’s business and subsidiaries, and Directors’ and officers’ liability insurance.

DIRECTORS AND EXECUTIVES PERFORMANCE EVALUATION AND REMUNERATION

The Board annually self assess its collective performance, and the performance of individual Directors and of Board committees. The assessment is undertaken using questionnaires, discussions and, where applicable, advice from external consultants.

The Company’s Policy on Identifying, Assessing and Enhancing Director Competencies and its Remuneration Policy are available on its website.

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATIONS

The Company Secretary has primary responsibility for ensuring that the ASX disclosure requirements are met.

As well as its Continuous Disclosure Policy, the Company has also adopted:

- Policy for dealing with Media Enquiries;
- Policy for Shareholder Communications.

Shareholders may elect to receive company reports by mail or e-mail.

RISK MANAGEMENT

The Board is responsible for the identification of significant areas of business risk, implementing procedures to manage such risks and developing policies regarding the establishment and maintenance of appropriate ethical standards to:

- ensure compliance in legal statutory and ethical matters;
- monitor the business environment;
- identify business risk areas; and
- identify business opportunities.

The Company does not have a formal internal control function (ASX Principle 7.2) as the Board considers that the Company is not of a size to warrant the implementation of a separate internal control function.

The Board has not yet formalised its risk management policy (ASX Principle 7.1), it intends to do so during this financial year. The Risk Management Policy will be available on the website when approved.

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 29 September 2006.

(a) Distribution of equity securities

The number of Shareholders, by size of holding, in each class of Share are:

	Ordinary Shares	
	Number of holders	Number of shares
1-1,000	425	304,009
1,001-5,000	1,850	6,151,121
5,001-10,000	1,617	13,678,485
10,001-100,000	3,073	97,921,742
100,001 and over	327	337,032,002
	7,292	455,087,359
The number of Shareholders holding less than a marketable parcel of Shares are:	176	66,815

(b) Equity security holders

(i) Twenty largest quoted shareholders

The names of the twenty largest holders of quoted Shares are:

	Listed Ordinary Shares	
	Number of Shares	Percentage of Ordinary Shares
Cambrian Mining plc	53,010,664	11.65
Sun Hung Kai Investment Services Ltd <New Fortress>	31,691,899	6.96
Sun Hung Kai Investment Services Ltd <Client Union>	26,948,877	5.92
CITICORP Nominees Pty Ltd	21,504,450	4.73
Sun Hung Kai Investment Services Ltd <Honest Opp>	16,681,298	3.67
Westpac Custodian Nominees Ltd	12,606,250	2.77
National Nominees Limited	11,647,719	2.56
Sun Hung Kai Investment Services Ltd <Katong>	9,393,061	2.06
HSBC Custody Nominees (Australia) Ltd	8,976,006	1.97
JP Morgan Nominees Australia Ltd	7,473,416	1.63
Chemco Pty Ltd	6,000,000	1.32
Dominant Holdings AG	6,000,000	1.32
Link Enterprises (Holdings) Pty Limited	5,249,517	1.15
Marico Holdings (BV) Bulk Chartering Armada Aust Pty Ltd	4,980,300	1.09
ANZ Nominees Ltd	3,660,807	0.80
Warbont Nominees Pty Ltd <Unpaid Entepot>	3,620,433	0.80
Citicorp Nominees Pty Ltd <Small Comp>	3,409,763	0.75
Desmond George Samuel Anderson	3,000,000	0.66
CRMSC Australia Pty Ltd	2,260,000	0.50
AMP Life Limited	2,150,000	0.47
	187,217,796	41.14

(b) Twenty largest quoted Optionholders

The names of the twenty largest holders of quoted options are:

	Listed Options Options expiring 31/12/06 @ \$0.25	
	Number of Options	Percentage of Options
WB Willis & RM Willis <Willis Super Fund A/c>	1,000,000	13.81%
Mr Sheldon Coates	650,000	8.98%
Cornela Pty Ltd	500,000	6.91%
Hengolo Pty Ltd <CL Readhead Super Fund A/c>	500,000	6.91%
Kenny Investments <K&G Malaxos Family A/c>	348,000	4.81%
Mrs Jennifer MacIndoe	277,000	3.83%
Gorbet Pty Ltd <Michaels Super Fund A/c>	270,000	3.73%
Mr Laurie Keith Wills	247,500	3.42%
Mrs Josephine May Lin Horne	200,000	2.76%
Mr Todd Axford	150,000	2.07%
Monfer Pty Ltd <Monk & Ferguson Super A/c>	140,000	1.93%
Ms Celia Lee	125,000	1.73%
Mr John Michael Moore <The Mike Moore S/F A/c>	124,100	1.71%
Fortis Clearing Nominees P/I <Settlement account>	106,964	1.48%
Mr Sheldon Coates <Super Fund A/C>	100,000	1.38%
Mr David Segal	100,000	1.38%
Mr Robert Leslie Stevenson	100,000	1.38%
W R Hill Pty Ltd	100,000	1.38%
Ms Julie Anne Abbott	90,000	1.24%
Ms Sue Happ	75,000	1.04%
Total for top 20:	5,203,564	71.88%

(c) Substantial Shareholders

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

	Number of Shares
Cambrian Mining plc	53,010,664
Sun Hung Kai Investment Services Ltd <Honest Opportunity Ltd and New Fortress Ltd Accounts>	48,373,197
Sun Hung Kai Investment Services Ltd <Client Union> and CRMSC Australia Pty Ltd	29,208,877
CITICORP Nominees Pty Ltd	21,504,450

(d) Voting rights

All ordinary Shares carry one vote per Share without restriction.

No voting rights attach to options

(e) Schedule of interests in mining tenements

Location	Tenement	Percentage Held
Koolanooka	E 70/2412	72.63
Koolanooka	E 70/2705	72.63
Koolanooka	G 70/0212	72.63
Koolanooka	L 70/0083	72.63
Koolanooka	M 70/1164	72.63
Koolanooka	M 70/1190	72.63
Koolanooka	M 70/1242	72.63
Mingenew	E 70/2517	72.63
Mintaja Coal	E 70/2595	72.63
Irwin River Coal	E 70/2766	72.63
Mt Gibson	E 59/1179	100
Mt Gibson	G 59/0030	72.63

Location	Tenement	Percentage Held
Mt Gibson	G 59/0031	72.63
Mt Gibson	G 59/0032	72.63
Mt Gibson	G 59/0033	72.63
Mt Gibson	G 59/0034	72.63
Mt Gibson	G 59/0035	72.63
Mt Gibson	L 59/0063	100
Mt Gibson	M 59/0338	72.63
Mt Gibson	M 59/0339	72.63
Mt Gibson	M 59/0454	72.63
Mt Gibson	M 59/0455	72.63
Mt Gibson	M 59/0526	100
Mt Gibson	M 59/0550	72.63
Mt Gibson	M 59/0609	72.63
Mt Yule	E 70/2731	100
Talling Peak	G 70/0192	100
Talling Peak	G 70/0193	100
Talling Peak	G 70/0201	100
Talling Peak	G 70/0202	100
Talling Peak	G 70/0203	100
Talling Peak	G 70/0204	100
Talling Peak	G 70/0205	100
Talling Peak	L 70/0060	100
Talling Peak	L 70/0069	100
Talling Peak	L 70/0073	100
Talling Peak	L 70/0074	100
Talling Peak	M 70/0896	100
Talling Peak	M 70/1062	100
Talling Peak	M 70/1063	100
Talling Peak	M 70/1064	100
Wolla Wolla	E 59/1151	72.63
Warriedar	P 59/1725	100
Warriedar	P 59/1726	100
Warriedar	P 59/1727	100
Warriedar	P 59/1728	100
Warriedar	P 59/1729	100

(f) Key Operational and Financial Statistics

	Unit	12 months ended 30-Jun-02	12 months ended 30-Jun-03	12 months ended 30-Jun-04	12 months ended 30-Jun-05	12 months ended 30-Jun-06
PRODUCTION						
Waste mined	BCM	0	0	1,668,023	3,796,000	6,565,311
Ore mined	WMT	0	0	554,992	1,935,000	1,122,183
Tonnes crushed						
lump	WMT	0	0	324,432	1,265,000	864,390
fines	WMT	0	0	192,529	688,000	743,876
		0	0	516,961	1,953,000	1,608,266
Tonnes sold						
lump	DMT	0	0	255,559	1,116,000	877,434
fines	DMT	0	0	125,221	722,000	485,179
		0	0	380,780	1,838,000	1,362,613
PROFIT & LOSS						
Revenue						
Sales revenue	\$	0	0	14,293,488	76,872,338	73,389,000
Other revenue	\$	1,845,221	1,069,636	177,918	471,000	1,907,000
	\$	1,845,221	1,069,636	14,471,406	77,343,338	75,296,000
EBITDA						
	\$	(365,286)	(11,091,978)	(3,492,297)	44,685,000	39,379,000
Net profit/(loss) before tax						
	\$	(400,300)	(12,350,643)	(10,982,811)	22,032,000	16,151,000
Tax (expense) / benefit						
	\$	0	0	0	(8,530,000)	6,922,000
Net profit after tax before minorities						
	\$	(400,300)	(12,350,643)	(10,982,811)	13,502,000	23,073,000
Minority interest						
	\$	0	0	0	0	406,000
Net profit after tax						
	\$	(400,300)	(12,350,643)	(10,982,811)	13,502,000	23,479,000
CASH FLOW						
EBITDA						
	\$	(365,286)	(11,091,978)	(3,492,297)	44,685,000	39,379,000
Capitalised waste						
	\$	0	0	(8,473,802)	(28,331,003)	(54,205,000)
Cash flow from operations						
	\$	(2,244,593)	(2,696,627)	(9,629,460)	18,205,376	(8,381,000)
Net cash flow						
	\$	2,143,292	4,150,029	(6,942,157)	33,022,121	(26,292,000)
BALANCE SHEET						
Current assets						
		4,806,231	7,761,640	9,491,469	46,186,000	65,924,000
Non-Current assets						
		19,934,122	17,705,655	43,295,276	64,842,000	77,336,000
Total assets						
		24,740,353	25,467,295	52,786,745	111,028,000	143,260,000
Current liabilities						
		3,895,397	693,995	17,710,021	13,443,000	24,431,000
Non-Current liabilities						
		76,546	3,822,865	11,677,748	21,000,000	9,633,000
Total liabilities						
		3,971,943	4,516,860	29,387,769	34,443,000	34,064,000
Net assets						
		20,768,410	20,950,435	23,398,976	76,585,000	109,196,000
Shares on issue						
		118,280,904	252,561,928	291,565,822	368,519,793	402,058,719
KPI'S						
Earnings per share						
	\$ / share	(0.0034)	(0.0489)	(0.0377)	0.0366	0.0574
Net asset value per share						
	\$ / share	0.1756	0.0830	0.0803	0.2078	0.2716



REGISTERED OFFICE

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