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**MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY**

**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

**MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY**

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MOUNT MAGNET SOUTH NL
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DIRECTORS' REPORT

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

Directors

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

Geoffrey Newman (Appointed 31/05/2006)
Frederick William McMurray
Geoffrey Motteram (Appointed 31/05/2006)
Phillip Botsis (Appointed 31/05/2006)
John Stockley (Appointed 31/05/2006)
Dino Giovanni Capelli (Resigned 31/05/2006)
Robert De Joode (Resigned 31/05/2006)
Gary James Johnson (Resigned 31/05/2006)
Rodney Young (Resigned 31/05/2006)
Ralph McNab (Resigned 31/05/2006)
Geoffrey Newman

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

Operating Results

The consolidated loss of the economic entity for the financial year after providing for income tax and eliminating outside equity interests amounted to \$239,439.

Review of Operations

A review of the operations of the economic entity during the financial year and the results of those operations found that during the year, the economic entity continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

Significant Changes in State of Affairs

Significant changes in the economic entity's state of affairs that occurred during the financial year, other than those referred to elsewhere in this report, are as follows:

The company completed a successful takeover of Airborne Geoscience Exploration Pty Ltd (formerly Airborne Geoscience Exploration NL). The 1 for 2 share offer resulted in the issue of 20,164,825 shares. The loan balance receivable from Airborne Geoscience Exploration Pty Ltd at acquisition date of \$23,651 was forgiven at that time.

At a shareholding meeting held on 4 August 2005 approval was obtained for the company to raise an additional \$500,000 share capital by the issue of 25 million ordinary shares at 2c each. A total of \$285,364 was raised by the issue of 14,268,215 shares.

In addition to the above share issue the company issued an additional total of 3,666,667 shares by private placement raising \$55,000. An additional 1,399,999 shares were issued in satisfaction of tenement purchases of \$70,000. An additional 8,151,067 shares were issued in satisfaction of expenses incurred of \$150,364.

At a shareholding meeting held on 4 August 2005 approval was obtained for the company share register to be rationalised on a 1 for 6 reduction in the volume of shares in the parent entity to the effect that each shareholder would then hold 1 share for each 6 shares held. This rationalisation was to take place upon completion of the raising of \$500,000 or by 30 November 2005 whichever is the sooner. The rationalisation did not take place during the year ended 30 June 2006.

At a shareholding meeting held on 4 August 2005 approval was obtained for a convertible note agreement with Director Fred McMurray and entities controlled by him for the amount of \$250,000. The main terms of the final convertible note agreement signed on 15 February 2006 with Fred McMurray was:

- 1) Principal loan amount \$300,000
- 2) Interest Rate of 7.5% per annum payable annually in arrears
- 3) The loans are convertible to 30,000,000 fully paid ordinary shares at a strike price of 1c at any date as may be mutually agreed between the parties and at the option of the note holder.

Funds of \$298,153 have been provided under the terms of the agreement up to 30 June 2006. The notes were not converted by 30 June 2006.

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DIRECTORS' REPORT (Continued)

Principal Activity

The principal activity of the economic entity during the year was mineral exploration.
No significant change in the nature of these activities occurred during the year.

After Balance Date Events

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

Likely Developments

The economic entity expects to maintain the present status and level of operations and hence there are no likely developments in the economic entity's operations.

Environmental Issues

The economic entity's operations are subject to environmental regulations under a law of the Commonwealth and of a State or Territory. Details of the economic entity's performance in relation to such environmental regulation follows:

The economic entity is not aware of any current breaches of legislation which are material in nature and have no reason to believe that any possible legal or remedial action required would result in a material cost or loss to the economic entity.

Dividends Paid or Recommended

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Information on Directors

The information on directors is as follows:

Geoffrey Newman

Experience

– Chairman

– Geoff Newman holds an Honours degree in Economics (1973) and an MBA (1988) from the University of WA and is a Fellow of the Society of CPAs and a Fellow of the Australian Institute of Company Directors. In 1995, he joined Coogee Chemicals as Commercial Manager and was then appointed to the Board as Finance Director in the following year. Until August 2005, he was Finance Director/CFO and Company Secretary of both Coogee Chemicals Pty Ltd ("CC") and its oil and gas subsidiary Coogee Resources Limited ("CRL"). In September 2005, he moved to CRL to demerge that company from CC in preparation for a planned IPO in 2006. At the same time, he became a non-executive director of CC.

Frederick William McMurray

Experience

– Managing Director & Company Secretary

– Mr Fred McMurray has been engaged in Contract Administration in the Construction Industry throughout Western Australia and the Northern Territory since 1968. Mr McMurray has experience as President of the Master Plumbers and Mechanical Services Association of Western Australia, a member of the Incomes Committee of the Western Australian Construction Industry Redundancy Fund, and Member of the Master Builders Association of WA Industrial Committee.

Geoffrey Motteram

Experience

– Director

– Mr Motteram is a metallurgical engineer with over 30 years experience in the development of projects within the Australian resources sector. He has extensive experience in gold and base metals having worked with WMC at Central Norseman Gold, Kwinana Nickel Refinery and Kalgoorlie Nickel Smelter. As general manager of Exploration and Development at Bond Gold, he is responsible for the development of the Kalgoorlie Big Pit project. Since 1989 he has acted as a Mining Project and Metallurgical consultant, being involved in numerous gold operations and development projects. He was also a technical director of Anaconda Nickel Ltd for four years from 1994 and is currently a director for GME Resources Ltd.

**MOUNT MAGNET SOUTH NL
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DIRECTORS' REPORT (Continued)

Information on Directors (Continued)

- Phillip Botsis** – Director
Experience – Phillip Botsis is the founder and managing director of Ledge Finance Ltd, one of the most experienced and influential packagers and managers of business finance. Ledge Finance is a lead introducer to most financial institutions. Mr Botsis currently sits on the Board of Monarch Resources and is a director of Methuen Holdings Pty Ltd and Botsis Holdings Pty Ltd.
- John Stockley** – Director
Experience – John Stockley holds a Bachelor of Science (Honours) in Geology and Geochemistry, and is a member of the Society of Economic Geologists. Prior to 1993, he managed gold exploration programs in the Eastern Goldfields as well as Queensland, the Pacific Islands and South Eastern Australia. Since 1993, Mr Stockley has operated as a consultant to the Australian Resources industry both in Australia and overseas. He is very familiar with the Mount Magnet region having worked extensively with Hill 50 Gold.

Meetings of Directors

Eighteen meetings of directors were held during the year. The directors that resigned during the year all attended all seventeen meetings that they were eligible to attend. The directors that were appointed during the year all attended the one meeting they were eligible to attend. Director Fred McMurray attended all eighteen meetings during the year that he was eligible to attend.

Options

No options over issued shares or interests in the company or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the end of the financial year.

Indemnification of Officer or Auditor

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the economic entity.

Proceedings on Behalf of the economic entity

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.


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

Auditor's Independence Declaration

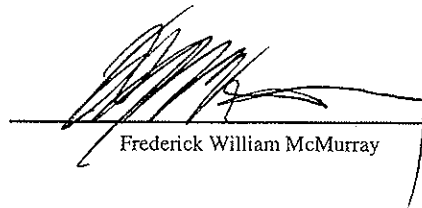
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

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

Director


Geoffrey Newman

Director


Frederick William McMurray

Dated: 23 October 2006

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**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C
OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF MOUNT MAGNET SOUTH NL**

As lead auditor for the audit of Mount Magnet South NL for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

- i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.



SYGNUM ASSURANCE SERVICES



J.F. TERRY

Director

23 October 2006

Perth, Western Australia

The accompanying notes form part of these financial statements.

MOUNT MAGNET SOUTH NL
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INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue		1,578	534	1,578	534
Depreciation and amortisation expenses	2	(456)	(527)	(456)	(527)
Transport costs		(45)	(105)	(45)	(105)
Advertising		-	(3,700)	-	(3,700)
Writedowns - capitalised expenditure		-	(95,030)	-	(95,030)
Consultancy fees		(55,926)	(29,032)	(55,926)	(29,032)
Directors fees		(20,000)	(20,000)	(20,000)	(20,000)
Auditors's remuneration	4	(34,500)	(19,768)	(34,500)	(19,768)
Travelling expenses		(4,351)	(2,510)	(4,351)	(2,510)
Printing and stationery		(26,215)	(8,171)	(26,215)	(8,171)
Grant allowance		(7,357)	(2,560)	(7,357)	(2,560)
Administration fees		(20,048)	(20,680)	(20,048)	(20,680)
Motor vehicle expenses		(5,573)	(6,446)	(5,573)	(6,446)
Fees and permits		-	(4,779)	-	(4,779)
Impairment of goodwill arising on consolidation		(23,243)	-	-	-
Impairment of investment in and receivable with controlled entity		-	-	(43,766)	-
Other expenses from ordinary activities		(22,446)	(19,921)	(19,417)	(19,921)
Borrowing costs expense	2	<u>(20,857)</u>	<u>(2,631)</u>	<u>(20,857)</u>	<u>(2,631)</u>
Profit from ordinary activities before income tax expense (income tax revenue)		(239,439)	(235,326)	(256,933)	(235,326)
Income tax revenue (income tax expense) relating to ordinary activities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net profit attributable to the members of the entity		<u>(239,439)</u>	<u>(235,326)</u>	<u>(256,933)</u>	<u>(235,326)</u>

The accompanying notes form part of these financial statements.

**MOUNT MAGNET SOUTH NL
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**BALANCE SHEET
AS AT 30 JUNE 2006**

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
CURRENT ASSETS					
Cash and cash equivalents	5	76,629	-	59,597	-
Trade and other receivables	6	15,469	9,535	14,518	9,535
Other current assets	7	<u>260</u>	<u>303</u>	<u>260</u>	<u>303</u>
TOTAL CURRENT ASSETS		<u>92,358</u>	<u>9,838</u>	<u>74,375</u>	<u>9,838</u>
NON-CURRENT ASSETS					
Trade and other receivables	6	-	19,180	-	19,180
Property, plant and equipment	8	7,424	3,223	3,403	3,223
Other non-current assets	7	<u>1,574,151</u>	<u>1,346,023</u>	<u>1,574,151</u>	<u>1,346,023</u>
TOTAL NON-CURRENT ASSETS		<u>1,581,575</u>	<u>1,368,426</u>	<u>1,577,554</u>	<u>1,368,426</u>
TOTAL ASSETS		<u>1,673,933</u>	<u>1,378,264</u>	<u>1,651,929</u>	<u>1,378,264</u>
CURRENT LIABILITIES					
Trade and other payables	10	42,769	118,135	38,259	118,135
Short term borrowings	11	<u>298,153</u>	<u>248,407</u>	<u>298,153</u>	<u>248,407</u>
TOTAL CURRENT LIABILITIES		<u>340,922</u>	<u>366,542</u>	<u>336,412</u>	<u>366,542</u>
TOTAL LIABILITIES		<u>340,922</u>	<u>366,542</u>	<u>336,412</u>	<u>366,542</u>
NET ASSETS		<u>1,333,011</u>	<u>1,011,722</u>	<u>1,315,517</u>	<u>1,011,722</u>
EQUITY					
Issued capital	12	2,190,998	1,630,270	2,190,998	1,630,270
Retained earnings		<u>(857,987)</u>	<u>(618,548)</u>	<u>(875,481)</u>	<u>(618,548)</u>
TOTAL EQUITY		<u>1,333,011</u>	<u>1,011,722</u>	<u>1,315,517</u>	<u>1,011,722</u>

The accompanying notes form part of these financial statements.

MOUNT MAGNET SOUTH NL
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

Economic Entity	Note	<u>Share Capital</u>		Total
		Ordinary Shares	Retained Earnings	
		\$	\$	
Balance at 1 July 2004		979,084	(383,221)	595,863
Shares issued during the year		651,186	-	651,186
Profit attributable to members of parent entity		-	(235,327)	(235,327)
Transfers to and from reserves				
Balance at 30 June 2005		<u>1,630,270</u>	<u>(618,548)</u>	<u>1,011,722</u>
Shares issued during the year		560,728	-	560,728
Profit attributable to members of parent entity		-	(239,439)	(239,439)
Transfers to and from reserves				
Balance at 30 June 2006		<u>2,190,998</u>	<u>(857,987)</u>	<u>1,333,011</u>

Parent Entity	Note	<u>Share Capital</u>		Total
		Ordinary Shares	Retained Earnings	
		\$	\$	
Balance at 1 July 2004		979,084	(383,221)	595,863
Shares issued during the year		651,186	-	651,186
Profit attributable to members of parent entity		-	(235,327)	(235,327)
Transfers to and from reserves				
Balance at 30 June 2005		<u>1,630,270</u>	<u>(618,548)</u>	<u>1,011,722</u>
Shares issued during the year		560,728	-	560,728
Profit attributable to members of parent entity		-	(256,933)	(256,933)
Transfers to and from reserves				
Balance at 30 June 2006		<u>2,190,998</u>	<u>(875,481)</u>	<u>1,315,517</u>

The accompanying notes form part of these financial statements.

**MOUNT MAGNET SOUTH NL
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**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
CASH FLOW FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(80,437)	(65,029)	(72,883)	(65,029)
Interest received		1,578	534	1,578	534
Borrowing costs		-	(336)	-	(336)
Income tax (paid) refunded		-	1,294	-	1,294
Net cash used in operating activities	15(b)	<u>(78,859)</u>	<u>(63,537)</u>	<u>(71,305)</u>	<u>(63,537)</u>
CASH FLOW FROM INVESTING ACTIVITIES					
Payment for property, plant and equipment		(636)	-	(636)	-
Payment for investments		-	-	(14,148)	-
Payment for other non current assets		<u>(158,128)</u>	<u>(562,870)</u>	<u>(158,128)</u>	<u>(562,870)</u>
Net cash used in investing activities		<u>(158,764)</u>	<u>(562,870)</u>	<u>(172,912)</u>	<u>(562,870)</u>
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from share issue		285,364	337,000	285,364	337,000
Proceeds from borrowings		50,000	225,000	50,000	225,000
Repayment of borrowings		-	(6,060)	(10,438)	(6,060)
Net cash provided by financing activities		<u>335,364</u>	<u>555,940</u>	<u>324,926</u>	<u>555,940</u>
Net increase/(decrease) in cash held		97,741	(70,467)	80,709	(70,467)
Cash at beginning of financial year		<u>(21,112)</u>	<u>49,355</u>	<u>(21,112)</u>	<u>49,355</u>
Cash at end of financial year	15 (a)	<u><u>76,629</u></u>	<u><u>(21,112)</u></u>	<u><u>59,597</u></u>	<u><u>(21,112)</u></u>

The accompanying notes form part of these financial statements.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers the economic entity of Mount Magnet South NL as an individual parent entity and Mount Magnet South NL and the controlled entity as an economic entity. Mount Magnet South NL is a company limited by shares, incorporated and domiciled in Australia.

The financial report of Mount Magnet South NL and the controlled entity and Mount Magnet South NL as an individual parent entity complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

Basis of Preparation

First time Adoption of Australian Equivalents to International Financial Reporting Standards

Mount Magnet South NL and the controlled entity, and Mount Magnet South NL as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirement of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the accounts resulting from the introduction of IFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Mount Magnet South NL to be prepared in accordance with AIFRS

No reconciliation of the transition from previous Australian GAAP to AIFRS has been provided as there is no change for either the economic or parent entities.

Reporting Basis and Conventions

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

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

Accounting Policies

(a) Principles of Consolidations

A controlled entity is any entity Mount Magnet South NL has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

A list of controlled entities are contained in Note 17 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied to the parent entity.

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

(b) Income Tax

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

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

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

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

temporary differences can be utilised.

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

(c) Property, Plant and Equipment

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

Plant and equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

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

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

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

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of fixed asset	Depreciation rates/useful lives	Depreciation basis
Plant and equipment	22.5 - 37.5	Straight Line

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

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

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

(d) Financial Assets

Recognition

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

Available-for-sale financial assets

All investments are classified as available-for-sale financial assets. Available-for-sale financial assets are reflected at fair value unless the fair value cannot be reliably measured. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Fair Value

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangibles

Goodwill

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

(f) Cash and Cash Equivalents

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

(g) Goods and Services Tax (GST)

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

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

(h) Comparative Figures

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

(i) Impairment of Assets

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

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

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

(j) Exploration and Development Expenditure

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

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

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

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

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

MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Going Concern

The continued operations of the economic entity and the parent entity on a going concern basis is dependent upon the ability of the entities to raise funds to support ongoing activities. The financial report takes no account of the consequences, if any, of the effects if the funds are not raised.

(l) Convertible Notes

Convertible Notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments.

Where the Convertible Notes issued by the parent entity, give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation. As there is no fixed term for the notes and the amounts are otherwise repayable on demand, it has been determined that there is no equity component to the convertible notes.

Interest expense on compound instruments is determined based on the principal component and does not include the actual interest paid to holders. Interest accrued on funds provided, to the extent that they are not paid to the note holder are able to be converted to form part of the note at balance date, until the total of the funds provided and interest accrued and not paid on those funds equals the balance agreed in the Convertible Note Agreement. There are no dividends associated with any future equity component until the notes are converted into shares.

(m) Critical accounting estimates and judgments

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

Key estimates - impairment

The economic entity assesses impairment at each reporting date by evaluating conditions specific to the economic entity that may lead to impairment of assets.

MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY

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

Note	Economic Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
NOTE 2: PROFIT FROM ORDINARY ACTIVITIES				
Profit (losses) from ordinary activities before income tax expenses (income tax revenue) has been determined after:				
(a) Expenses				
Borrowing costs:				
- director related parties	20,857	2,295	20,857	2,295
- other persons	-	336	-	336
Total borrowing costs	<u>20,857</u>	<u>2,631</u>	<u>20,857</u>	<u>2,631</u>
Depreciation of non-current assets				
- Plant and equipment	<u>486</u>	<u>527</u>	<u>456</u>	<u>527</u>
Write down of shares in controlled entity to recoverable amount				
	-	-	37,799	-
Remuneration of the auditors for				
- audit or review services	9,550	6,500	9,550	6,500
- other services	<u>24,950</u>	<u>13,268</u>	<u>24,950</u>	<u>13,268</u>

NOTE 3: KEY MANAGEMENT PERSONNEL COMPENSATION

	Short-term benefits				Post employment benefit		Total \$
	Salary & Fees \$	Super-annuation \$	Bonus \$	Non-Cash Benefits \$	Other \$	Long-term Benefits Long Service Leave \$	
2006							
Directors Compensation	<u>20,000</u>	-	-	-	-	-	<u>20,000</u>
2005							
Directors Compensation	<u>20,000</u>	-	-	-	-	-	<u>20,000</u>

The Directors fees were satisfied by the issued of shares in the parent entity.

NOTE 4: AUDITORS' REMUNERATION

Remuneration of the auditor for:				
- auditing or reviewing the financial report	9,550	6,500	9,550	6,500
- other services	<u>24,950</u>	<u>13,268</u>	<u>24,950</u>	<u>13,268</u>
	<u>34,500</u>	<u>19,768</u>	<u>34,500</u>	<u>19,768</u>

NOTE 5: CASH AND CASH EQUIVALENTS

Cash at bank	<u>76,629</u>	<u>-</u>	<u>59,597</u>	<u>-</u>
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MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY

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

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
NOTE 6: TRADE AND OTHER RECEIVABLES					
CURRENT					
Other debtors		<u>15,469</u>	<u>9,535</u>	<u>14,518</u>	<u>9,535</u>
NON-CURRENT					
Amounts receivable from:					
- controlled entities					
- wholly owned entities		-	19,180	5,967	19,180
- provision for doubtful debts wholly owned entities		<u>-</u>	<u>-</u>	<u>(5,967)</u>	<u>-</u>
		<u>-</u>	<u>19,180</u>	<u>-</u>	<u>19,180</u>

The amounts receivable from the wholly owned entity are interest free and repayable on demand, but are not expected to be repaid during the next twelve months.

NOTE 7: OTHER ASSETS

CURRENT					
Prepayments		<u>260</u>	<u>303</u>	<u>260</u>	<u>303</u>
NON-CURRENT					
Exploration expenditure					
Costs carried forward in respect of areas of interest in:					
- exploration and evaluation phases		<u>1,574,151</u>	<u>1,346,023</u>	<u>1,574,151</u>	<u>1,346,023</u>

The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation or alternatively sale of the respective areas of interest.

MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY

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

Note	Economic Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
NOTE 8: PROPERTY, PLANT AND EQUIPMENT				
PLANT AND EQUIPMENT				
Plant and equipment				
At cost	10,131	5,092	5,728	5,092
Less accumulated depreciation	<u>(2,707)</u>	<u>(1,869)</u>	<u>(2,325)</u>	<u>(1,869)</u>
	<u>7,424</u>	<u>3,223</u>	<u>3,403</u>	<u>3,223</u>

(a) Movements in Carrying Amounts

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

	Plant & equipment	
	Economic Entity \$	Parent Entity \$
2006		
Balance at the beginning of the year	3,223	3,223
Additions	636	636
Additions through acquisition of entity	4,051	-
Depreciation expense	<u>(486)</u>	<u>(456)</u>
Carrying amount at the end of the year	<u>7,424</u>	<u>3,403</u>

NOTE 9: INTANGIBLE ASSETS

Goodwill on consolidation				
At cost	23,243	-	-	-
Accumulated amortisation and impairment	<u>(23,243)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net carrying value	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTE 10: TRADE AND OTHER PAYABLES

CURRENT

Unsecured liabilities				
Trade creditors	-	1,000	-	1,000
Amounts payable to:				
- directors	-	37,000	-	37,000
Share application monies received	-	55,000	-	55,000
Accrued expenses payable to director related entity	11,000	11,000	11,000	11,000
Sundry creditors and accruals	<u>31,769</u>	<u>14,135</u>	<u>27,259</u>	<u>14,135</u>
	<u>42,769</u>	<u>118,135</u>	<u>38,259</u>	<u>118,135</u>

MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY

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

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
NOTE 11: BORROWINGS					
CURRENT					
Unsecured liabilities					
Bank overdrafts		-	21,112	-	21,112
Amounts payable to:					
- director-related parties		-	227,295	-	227,295
Convertible notes	1(l)	<u>298,153</u>	<u>-</u>	<u>298,153</u>	<u>-</u>
		<u>298,153</u>	<u>248,407</u>	<u>298,153</u>	<u>248,407</u>

The amounts payable to the director and director related parties are repayable on demand.

NOTE 12: ISSUED CAPITAL

Paid up Capital

211,365,761 (2005: 163,714,988) ordinary shares fully paid

<u>2,190,998</u>	<u>1,630,270</u>	<u>2,190,998</u>	<u>1,630,270</u>
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(a) ordinary shares

	\$	\$	\$	\$
Balance at the beginning of the reporting period	1,630,270	979,084	1,630,270	979,084
Issue of shares by private placement	340,364	282,000	340,364	282,000
Issue of shares for expenses and tenement purchases	<u>220,364</u>	<u>369,186</u>	<u>220,364</u>	<u>369,186</u>
	560,728	651,186	560,728	651,186
Balance at the end of the reporting period	<u>2,190,998</u>	<u>1,630,270</u>	<u>2,190,998</u>	<u>1,630,270</u>

	No. shares	No. shares	No. shares	No. shares
Balance at the beginning of the reporting period	163,714,988	112,015,035	163,714,988	112,015,035
Issue of shares by private placement	17,934,882	24,883,334	17,934,882	24,883,334
Issue of shares for expenses and tenement purchases	9,551,066	26,816,619	9,551,066	26,816,619
Issue of shares as part of take-over of Airborne Geoscience Resources Pty Ltd	<u>20,164,825</u>	<u>-</u>	<u>20,164,825</u>	<u>-</u>
Balance at the end of the reporting period	<u>211,365,761</u>	<u>163,714,988</u>	<u>211,365,761</u>	<u>163,714,988</u>

Ordinary shares entitle the holder to participation in dividends and the proceeds on winding up of the company in proportion to the number of shares held, and irrespective of the amounts paid up on the shares held.

Every holder of ordinary shares is entitled to exercise at any meeting of the company one vote for each ordinary share held.

MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY

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

Note	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 13: CAPITAL COMMITMENTS				
(a) Exploration commitments				
Due to the nature of the economic and parent entity's operations, it is very difficult to accurately forecast the nature or amount of future expenditure although it is necessary to incur expenditure in order to retain present interest. Expenditure commitments on mineral tenure can be reduced by selective relinquishment of exploration tenure.				
In order to maintain current rights of tenure to various tenements the economic and parent entity has the following discretionary exploration expenditure requirements up until expiry of the leases. These obligations, which are subject to renegotiation upon expiry of the lease are not provided for in the financial statements and are payable:				
- not later than one year	120,000	40,840	120,000	40,840
- later than one year and not later than five years	150,000	32,415	150,000	32,415
- later than five years	<u>170,000</u>	<u>-</u>	<u>170,000</u>	<u>-</u>
	<u>440,000</u>	<u>73,255</u>	<u>440,000</u>	<u>73,255</u>

NOTE 14: RELATED PARTY TRANSACTIONS

- (a) An entity related to Director, Fred McMurray provided office and secretarial services to the company for \$5,500 (2005: \$5,500) inclusive of GST for the financial year. Payment for these services is to be satisfied by the issue of 275,000 fully paid ordinary shares in the company at an issue price of \$0.02. At balance date no shares had yet been issued to satisfy payment of the expenses for the 2004, 2005 & 2006 years and the amounts payable were included in accrued expenses.
- (b) As part of the takeover of Airborne Geoscience Exploration Pty Ltd on 5 January 2006 where there was a 1 for 2 offer of shares, the following directors acquired additional shares in the parent entity:
- Ralph McNab converted 11,659,658 controlled entity shares into 5,829,829 parent entity shares.
- Fred McMurray converted 16,631,600 controlled entity shares into 8,315,800 parent entity shares.
- (c) During the year, the company paid for the car licence registration of a vehicle belonging to a member of the family of former Director, Ralph McNab.
- (d) Under the terms of his arrangement with the company, former Director Ralph McNab receives remuneration of \$1,000 (exclusive of GST) per week whilst stationed in Perth and \$300 (exclusive of GST) per day whilst on site. He also receives a rent allowance of \$560 (not subject to GST) per month from the company, supply of a fully paid telephone and reimbursement of other expenses incurred on behalf of the company.

Interest bearing loans payable to director				
(e) related parties as disclosed in Note 11				
Wyalee Pty Ltd	(156,859)	(101,253)	(156,859)	(101,253)
Sanwell Pty Ltd	(54,379)	(126,042)	(54,379)	(126,042)
McMurray Pty Ltd	<u>(54,424)</u>	<u>-</u>	<u>(54,424)</u>	<u>-</u>
	<u>(265,662)</u>	<u>(227,295)</u>	<u>(265,662)</u>	<u>(227,295)</u>

MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY

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

Note	Economic Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
NOTE 15: CASH FLOW INFORMATION				
(a) Reconciliation of cash				
Cash at the end of the financial year as shown in the statement of Cash Flows is reconciled to the related items in the income statement as follows:				
Cash at bank	76,629	-	59,597	-
Bank overdrafts	-	(21,112)	-	(21,112)
	<u>76,629</u>	<u>(21,112)</u>	<u>59,597</u>	<u>(21,112)</u>
(b) Reconciliation of cash flow from operations with profit from ordinary activities after income tax				
Loss from ordinary activities after income tax	(239,439)	(235,326)	(256,933)	(235,326)
Non-cash flows in profit from ordinary activities				
Depreciation	486	527	456	527
Write-off of capitalised expenditure	-	95,030	-	95,030
Write-downs to recoverable amount	-	-	43,766	-
impairment of goodwill on consolidation	23,243	-	-	-
Shares issued in satisfaction of expenses	113,364	-	113,364	-
Interest expense not actually paid	20,857	-	20,857	-
Changes in assets and liabilities				
Increase in receivables	(4,337)	(4,746)	(4,982)	(4,746)
Decrease in other assets	43	17	43	17
Increase in payables	6,924	79,667	12,124	79,667
Increase in income tax payable	-	1,294	-	1,294
Cash flows from operations	<u>(78,859)</u>	<u>(63,537)</u>	<u>(71,305)</u>	<u>(63,537)</u>

(c) Acquisition/disposal of businesses

Acquisition of controlled entity Airborne Goescience Exploration Pty Ltd

Note	Economic Entity		Parent Entity	
	Acquisitions/Disposals		Acquisitions/Disposals	
	2006 \$	2005 \$	2006 \$	2005 \$
Purchase or disposal price	<u>37,799</u>	-	-	-
Acquisition costs	14,148	-	-	-
Cash held at acquisition/disposal date	<u>(201)</u>	-	-	-
Cash outflow/inflow	13,947	-	-	-
Other assets and liabilities held at acquisition/disposal date:				
Receivables	1,597	-	-	-
Property, plant and equipment	4,051	-	-	-
Investments	16,000	-	-	-
Payables	<u>(7,293)</u>	-	-	-
	14,355	-	-	-
Goodwill on consolidation	<u>23,243</u>	-	-	-
	<u>37,598</u>	-	-	-

MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY

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

NOTE 15: CASH FLOW INFORMATION (Continued)

NOTE 16: FINANCIAL INSTRUMENTS

(a) Financial Risk Management

The economic entity's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries.

The main purpose of non-derivative financial instruments is to raise finance for entity operations.

(i) Financial Risks

The main risks the economic entity is exposed to through its financial instruments are interest rate risk, liquidity risk, credit risk and price risk.

Liquidity Risk

The economic entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit Risk

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

Credit risk for derivative financial instruments arises from the potential failure by counter-parties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts and interest rate swaps is the net fair value of these contracts as disclosed in the notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

Price Risk

The economic entity is not exposed to any material commodity price risk.

(b) Financial Instruments

j) Net Fair Values

For other assets and other liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form. Financial assets where the carrying amount exceeds net fair value have been written down.

The aggregate net fair values and carrying amount of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial statements

NOTE 17: CONTROLLED ENTITIES

Subsidiary:	Airborne Geoscience Exploration Pty Ltd
Country of incorporation:	Australia
Percentage owned:	100% (2005 -%)

NOTE 18: SEGMENT REPORTING

The economic entity undertakes mineral exploration in Western Australia.

**MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY**

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

NOTE 19: COMPANY DETAILS

The registered office of the company is:

Mount Magnet South NL

Level 2

62 Colin Street

WEST PERTH WA 6005

The principal place of business is:

Mount Magnet South NL

37 Division Street

WELSHPOOL WA 6106

**MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY**

DIRECTORS' DECLARATION

The directors of the economic entity declare that:

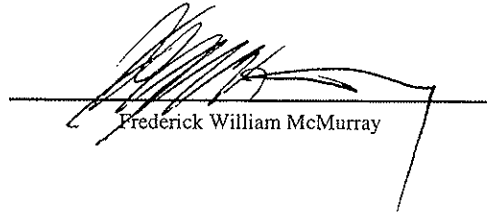
1. The financial statements and notes, as set out on pages 20 are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the economic entity.
2. In the directors' opinion there are reasonable grounds to believe that the economic entity will be able to pay its debts as and when they become due and payable.

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

Director


Geoffrey Newman

Director


Frederick William McMurray

Dated: 23 October 2006

**MOUNT MAGNET SOUTH NL
ABN 93 096 635 246
AND CONTROLLED ENTITY**

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
MOUNT MAGNET SOUTH NL**

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 Magnet South NL and Mount Magnet South NL, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during the year.

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

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance 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 judgment, 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 and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

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

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

Independence

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

Audit Opinion

In our opinion, the financial report of Mount Magnet South NL is in accordance with:

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

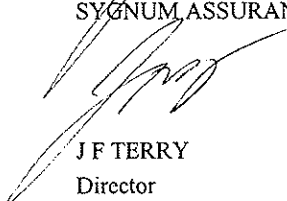
Inherent Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter set out in Note 1k to the financial statements for the year ended 30 June 2006.

The financial statements of the economic entity and parent entity have been prepared on a going concern basis. The continued operation of the economic entity and the parent entity on a going concern basis is dependent upon the ability of those entities to raise funds to support ongoing activities. The financial statements take no account of the consequences, if any, of the effects if the funds are not raised.



SYGNUM ASSURANCE SERVICES



J F TERRY
Director

23 October 2006
Perth, Western Australia