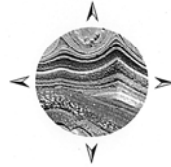


MALACHITE RESOURCES NL

A.B.N. 86 075 613 268



CONSOLIDATED FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

Directors' Report
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MALACHITE RESOURCES NL

Annual Consolidated Financial Report For The Financial Year Ended 30 June 2006

DIRECTORS' REPORT

Your directors present their report on the consolidated entity together with the financial report for the financial year ended 30 June 2006.

DIRECTORS

The names and positions of the directors of the consolidated entity during or since the end of the financial year are:

Garry George Lowder, BSc (Hons), PhD, FAusIMM, MAICD

Chairman and Managing Director, Age 62

Geologist with 40 years professional experience in Australia, Indonesia and Papua New Guinea. Expertise includes geological research, mineral exploration, mining and general management. Has held senior positions in public listed companies and was Director General of Mines in NSW from 1993 to 1997. Currently a non-executive director of ASX-listed Straits Resources Limited and Macmin Silver Limited. Credited with key roles in the discovery of several major ore deposits. Particular expertise in the geology and exploration of ore deposits related to intrusive systems. Graduate of University of Sydney (BSc Hons), University of California at Berkeley (PhD) and the Advanced Management Program at the Harvard Business School.

Russell Matthew Devenish Meares, BSc (Hons), MSc, FAusIMM, MAIG, GAICD

Executive Director, Age 59

Geologist with over 35 years experience in mineral exploration and mining. Has worked extensively in both technical and management roles in Australia, Asia and the South West Pacific. Experience ranges from project generation through to ore reserve estimation and economic evaluation. Has played key roles in the discovery of several ore deposits in Australia, Papua New Guinea and Fiji. Has been the consolidated entity's exploration manager since 1997. Graduate of University of NSW (BSc Hons) and James Cook University of North Queensland (MSc) and Company Directors' course of Australian Institute of Company Directors.

Peter William Hopkins, BEc, LLB (Hons) (resigned 1 September 2006)

Non-Executive Director, Age 52

Practising solicitor, specialising in natural resources law, mergers and acquisitions and fund raising. Has over 25 years experience in advising in business and corporate law. Former partner in the business and resources practice of Phillips Fox in Sydney. Has been closely involved in management and development of mining and petroleum companies and now operates his own legal practice. Holds the degrees of BEc and LLB (Hons) from Australian National University. Past NSW and National President of Australian Mining and Petroleum Law Association.

Warren John Staude, BSc, MSc, MAusIMM

Non-Executive Director, Age 62

Has over 40 years professional experience in the mining, exploration and resource finance industries. Has worked in Government, in industry, as a private consultant and on the academic staff at Macquarie University. Spent a number of years with the AMP Society's resource investment team, where he was involved in evaluating the operational and financial performance of numerous resource operations. Also spent some time in the stockbroking industry, before joining GIO Australia Asset Management, where he managed GIO's listed and direct resource equity investments in Australia and internationally. Currently an executive director of Jupiter Mines Limited and a non-executive director of Central West Gold NL and Frontier Resources Limited (formerly TasGold Limited), all ASX-listed companies. Graduate of University of Sydney (BSc), Macquarie University (MSc) and holds a Graduate Diploma from the Securities Institute of Australia. A member of the Joint Ore Reserves Committee and the Valmin Committee.

Denis M. O'Neill BSc (App. Geol.), MAusIMM, MAICD

Non-Executive Director, Age 55

Geologist with 32 years professional experience in mineral exploration and mining, both in Australia and abroad. Has worked in technical and management roles that include 10 years with Macmin Silver Ltd, where he is currently Managing Director. Four years as Chief Geologist for the Delta Gold Group of Companies in Australia and 7 years directing exploration projects in Italy, Ireland and the United Arab Emirates for Noranda Mines Ltd. Associated with the discovery of the "Reward" and "Highway" VHMS ore bodies (Charters Towers) earlier in his career and more recently the "Twin Hills" silver deposit at Texas, NSW. Graduate of the University of NSW (BSc in Applied Geology).

Roy M. Randall B.Com., LL.B. (appointed 1 September 2006)

Non-executive Director Age 69

Roy Randall is a former partner of the Sydney office of Stikeman, Elliott, Canada's pre-eminent international law firm. Prior to joining Stikeman, Elliott in early 1997 he was a partner at Freehill Hollingdale and Page in Sydney. Roy has more than 35 years broad practical experience in many areas of corporate legal practice and has also worked as a merchant banker. His extensive legal experience has extended to the areas of natural resources, structuring international transactions and infrastructure development. He has previously represented both issuers and underwriters in connection with initial public offerings for gold mining companies and advised on takeovers in the mining sector.

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

In the last three years none of the directors has held directorships in public companies other than those listed individually above.

Andrew J. Cooke LLB, FAICS

Company Secretary

Solicitor with 20 years experience in law, corporate finance and as a Company Secretary of listed resource companies. Responsible for corporate administration together with stock exchange and regulatory compliance.

MALACHITE RESOURCES NL

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

	Board of Directors		Audit Committee		Prospectus Due Diligence Committee	
	Held	Attended	Held	Attended	Held	Attended
Dr Garry G Lowder	14	14	-	-	4	4
Mr Russell MD Meares	14	14	-	-	-	-
Mr Peter W Hopkins (resigned 1/9/06)	14	12	5	5	4	3
Mr Warren J Staude	14	12	5	5	-	-
Dennis M O'Neill	14	12	-	-	-	-

DIRECTORS' INTERESTS

	ORDINARY SHARES		OPTIONS	
	DIRECT	INDIRECT	DIRECT	INDIRECT
Dr Garry G Lowder	100,000	4,012,500	17,497	222,497
Mr Russell MD Meares	-	688,750	-	140,000
Mr Peter W Hopkins (resigned 1/9/06)	-	-	-	-
Mr Warren J Staude	40,000	-	15,000	-
Mr Dennis M O'Neill	-	-	-	-
Mr Roy M. Randall (appointed 1/9/06)	-	1,646,253	-	100,000

None of the options held were issued during the year. Full details of options issued are contained in Note 23.

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the financial year was exploration for economic deposits of gold, silver, copper, tin and other minerals.

No significant changes in the nature of the principal activities occurred during the financial year.

OPERATING RESULTS

The results of the operations of the consolidated entity during the financial year were as follows

	2006	2005
	\$	\$
Loss after income tax	(517,836)	(1,383,232)

DIVIDENDS

No dividends have been paid or declared since the start of the financial year. The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2006 (2005: Nil).

REVIEW OF OPERATIONS

During the year the company continued its exploration activities in eastern Australia with significant success. At the Tooloom Gold Project drilling enhanced the potential of the Phoenix gold discovery and the company entered into a farm in agreement with Newmont Australia Ltd., with effect from 1 July 2006. At Conrad highly promising, high grade, silver-rich polymetallic sulphide mineralisation was intersected in drilling at the King Conrad mine. Further work at the Elsmore Project, including diamond drilling, confirmed the potential of the Sheep Station Hill prospect to host economic tin/tungsten mineralisation that might be amenable to early development as small scale open pit. Elsewhere the company tested submittals and acquired new tenements that may develop into significant projects in future years. Full details of the company's activities are contained in the Chairman's Statement and Review of Operations.

STATE OF AFFAIRS

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

SUBSEQUENT EVENTS

On 20 June 2006 Malachite Resources NL announced that it had entered into an agreement with Newmont Australia Ltd pursuant to which Newmont has agreed to farm in to the Tooloom Gold Project in northeastern NSW. Under this agreement Newmont can earn an initial 51% interest at Tooloom by spending \$5 million on exploration within 5 years from 1 July 2006, with a minimum expenditure in the first year of \$1 million. Newmont can earn an additional 24% interest by electing to sole fund exploration to completion of a Bankable Feasibility Study.

On 25 July 2006 Malachite Resources NL allotted 1,625,000 ordinary fully paid shares in a placement which raised \$260,000. Except as described above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

MALACHITE RESOURCES NL

DIRECTORS' REPORT (CONTINUED)

FUTURE DEVELOPMENTS

As the consolidated entity's areas of interest are at the exploration stage only, it is not possible to postulate likely developments. The consolidated entity is hoping to identify additional precious and base metal exploration and evaluation targets.

ENVIRONMENTAL REGULATIONS

The consolidated entity's activities in the mining industry are subject to regulations and approvals including mining heritage, environmental regulation, the implications of the High Court of Australia decisions in what are generally known as the "Mabo" and "Wik" cases and any laws of the Commonwealth or of a State or Territory regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined in some parts of the consolidated entity's interests and certain mining titles may be affected by native title.

The consolidated entity has an environmental rehabilitation policy that is applied to each tenement upon grant. The policy has been adhered to and no breaches have occurred during the period.

SHARE OPTIONS

	2006	2005
Options on issue 30 June 2005	29,130,095	28,830,095
Employee options issued	175,000	400,000
Employee options lapsed	(100,000)	(100,000)
Listed options expired	(28,830,095)	-
Listed options issued	20,754,585	-
Options on issue 30 June 2006	<u>21,129,585</u>	<u>29,130,095</u>

From the commencement of the financial year to the date of this report there have been no shares issued by virtue of the exercise of options. Further information is given in Note 23 to the financial statements.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest of any other registered scheme.

OFFICERS AND AUDITORS

Indemnification

In accordance with the Constitution of Malachite Resources NL each director and officer is indemnified on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by them as officers of Malachite Resources NL or a related body corporate. The consolidated entity has not indemnified or agreed to indemnify any auditor of the consolidated entity against a liability incurred as auditor.

Insurance Policies

Since the end of the financial year the consolidated entity has paid premiums in respect of directors' and executive officers' liability and legal expenses insurance contracts for the year ended 30 June 2006. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the parent entity.

Directors have not included details of the nature of the liabilities covered, or the amount of the premium paid, as such disclosure is prohibited under the terms of the insurance contract.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- (a) Principles used to determine the nature and amount of remuneration
- (b) Details of remuneration
- (c) Service agreements

(a) Principles used to determine the nature and amount of remuneration

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

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

MALACHITE RESOURCES NL

DIRECTORS' REPORT (CONTINUED)

(a) Principles used to determine the nature and amount of remuneration (continued)

Drawing on external comparisons for reference, the company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The overall level of executive reward takes into account the performance of the consolidated entity over a number of years, with greater emphasis given to the current year. Reference is made to the consolidated entity's earnings in the current year and this is compared and contrasted with earnings in the previous four years to establish patterns and trends, which are then applied as one measure of executive performance over those years. Due recognition is given to that measure in setting executive remuneration but, as the consolidated entity is involved in mineral exploration rather than mineral mining and production, relevant experience, industry standards and the annual exploration outcomes, rather than earnings, are given greatest weight in remuneration considerations.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also drawn on external sources of information to ensure non-executive directors' fees and payments are appropriate and in line with the market.

Directors' fees

The current base remuneration was last reviewed with effect from 1 January 2006.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$100,000 per annum.

(b) Details of remuneration

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing and enhancing the consolidated entity's operations. Remuneration of individual non-executive Directors is determined by the Board and may be varied from time to time but always such that the aggregate (currently \$37,440 per annum) is within the maximum amount (currently \$100,000 per annum) for which prior approval of the shareholders has been received.

Executive directors are entitled to 13 weeks long service leave after 7 years of service with the Company.

Details of the nature and amount of each element of the emoluments of each of the Directors of Malachite Resources NL during the year ended 30 June 2006 are set out below.

2006	Director's Superannuation				
	Salary	Fees	Contributions	Options	Total
	\$	\$	\$	\$	\$
Dr GG Lowder	174,720	-	15,725	-	190,445
Mr RD Meares	161,900	-	14,571	-	176,471
Mr PW Hopkins (resigned 01/09/06)	-	12,480	1,123	-	13,603
Mr D O'Neill	-	12,480	1,123	-	13,603
Mr W Staude	-	12,480	1,123	-	13,603
	336,620	37,440	33,665	-	407,725
2005					
Dr GG Lowder	172,360	-	15,602	-	187,962
Mr RD Meares	154,000	-	13,860	-	167,860
Mr PW Hopkins	-	13,240	1,192	-	14,432
Mr D O'Neill	-	13,240	1,192	-	14,432
Mr W Staude	-	13,240	1,192	-	14,432
	326,360	39,720	33,038	-	399,118

All executive officers of the consolidated entity are directors.

Key management personnel are the same for the group and the company.

MALACHITE RESOURCES NL

DIRECTORS' REPORT (CONTINUED)

(c) Service agreements

Remuneration and other terms of employment for executive directors are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and participation, when eligible, in the Malachite Resources NL Employee & Contractors Option Plan ("ECOP"). Other major provisions of the agreements relating to remuneration are set out below.

All contracts with executives may be terminated early by either party with 3 months notice, subject to termination payments.

Directors' Interests

The relevant interest of each Director (including their associates) in the share capital of the Company as at 30 June 2006 are set out in note 9 to the financial statements.

AUDITORS

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2006	2005
	\$	\$
Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	32,050	25,565

Signed in accordance with a resolution of the directors.

On behalf of the Directors



GG LOWDER
Managing Director

Sydney, 21 September 2006

Auditor's Independence Declaration

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

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the *audit*.

This declaration is in respect of Malachite Resources NL during the period.



Marc Upcroft

Partner
PricewaterhouseCoopers

Sydney

21 September 2006

MALACHITE RESOURCES NL

**INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006**

	Note	Consolidated		Malachite Resources NL	
		2006	2005	2006	2005
		\$	\$	\$	\$
Revenue from ordinary activities	5	55,266	28,120	55,266	28,120
Other income	6	316,962	-	316,962	-
Accounting and audit expense		(50,850)	(39,605)	(50,850)	(39,605)
Corporate expenses		(177,856)	(157,532)	(177,856)	(157,532)
Depreciation and amortisation expense		(17,991)	(22,540)	(17,991)	(22,540)
Employee benefits expense		(351,146)	(462,516)	(351,146)	(462,516)
Exploration expenditure expensed		(190,132)	(418,421)	(190,132)	(418,421)
Occupancy expenses		(71,295)	(56,406)	(71,295)	(56,406)
Write down of current investments to market value		-	(184,943)	-	(184,943)
Other expenses from ordinary activities		(30,794)	(69,389)	(30,794)	(69,389)
Loss before Income Tax Expense	8	(517,836)	(1,383,232)	(517,836)	(1,383,232)
Income tax expense	8	-	-	-	-
Net Loss for the year	25	(517,836)	(1,383,232)	(517,836)	(1,383,232)
Basic and diluted earnings/(loss) per share (cents per share)	11	(0.79)	(2.91)		

The Income Statements are to be read in conjunction with the notes set out on pages 12 to 31.

MALACHITE RESOURCES NL

BALANCE SHEETS AS AT 30 JUNE 2006

	Note	Consolidated		Malachite Resources NL	
		2006	2005	2006	2005
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	12	1,062,900	379,740	1,062,900	379,740
Receivables	13	74,661	140,490	74,661	140,490
Available for sale financial assets	14	50,000	-	50,000	-
Investments at fair value through profit or loss	14	127,500	252,000	127,500	252,000
TOTAL CURRENT ASSETS		1,315,061	772,230	1,315,061	772,230
NON-CURRENT ASSETS					
Receivables	15	195,173	127,500	195,173	127,500
Investments	16	-	117,000	1	117,001
Plant and equipment	18	74,907	84,657	74,907	84,657
Exploration and evaluation expenditure	19	5,548,455	3,889,500	5,548,455	3,889,500
TOTAL NON-CURRENT ASSETS		5,818,535	4,218,657	5,818,536	4,218,658
TOTAL ASSETS		7,133,596	4,990,887	7,133,597	4,990,888
CURRENT LIABILITIES					
Payables	20	429,322	349,051	429,322	349,051
TOTAL CURRENT LIABILITIES		429,322	349,051	429,322	349,051
NON-CURRENT LIABILITIES					
Payables	21	-	-	1	1
TOTAL NON-CURRENT LIABILITIES		-	-	1	1
TOTAL LIABILITIES		429,322	349,051	429,323	349,052
NET ASSETS		6,704,274	4,641,836	6,704,274	4,641,836
EQUITY					
Contributed equity	22	11,461,041	8,886,093	11,461,041	8,886,093
Option Expense Reserve	24	29,272	23,946	29,272	23,946
Accumulated Losses	25	(4,786,039)	(4,268,203)	(4,786,039)	(4,268,203)
TOTAL EQUITY		6,704,274	4,641,836	6,704,274	4,641,836

The Balance Sheets are to be read in conjunction with the notes set out on pages 12 to 31.

MALACHITE RESOURCES NL

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

	Consolidated		Malachite Resources NL	
	2006	2005	2006	2005
	\$	\$	\$	\$
Total equity at the beginning of the financial year	4,641,836	4,815,326	4,641,836	4,815,326
Adjustment on adoption of AASB 132 and 139, to:				
Investments	-	(45,000)	-	(45,000)
Net expenses recognised directly in equity		(45,000)		(45,000)
Loss for the year	(517,836)	(1,383,232)	(517,836)	(1,383,232)
Total recognised income and expense for the year	(517,836)	(1,383,232)	(517,836)	(1,383,232)
Transactions with equity holders in their capacity as equity holders				
Contributions of equity, net of transaction costs	2,580,274	1,209,742	2,580,274	1,209,742
Total equity at the end of the financial year	6,704,274	4,641,836	6,704,274	4,641,836
Total recognised income and expense for the year is attributable to:				
Members of Malachite Resources NL	(517,836)	(1,383,232)	(517,836)	(1,383,232)

The Statements of Changes in Equity are to be read in conjunction with the notes set out on pages 12 to 31.

MALACHITE RESOURCES NL

**CASH FLOWS STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006**

	Note	Consolidated		Malachite Resources NL	
		2006	2005	2006	2005
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees (inclusive of GST)		(353,595)	(600,291)	(353,595)	(600,291)
Exploration and evaluation expenditure (inclusive of GST)		(2,181,088)	(1,104,237)	(2,181,088)	(1,104,237)
Interest received		41,660	19,788	41,660	19,788
Sundry receipts (inclusive of GST)		14,967	9,165	14,967	9,165
Exploration expenditure refunded		133,720	53,663	133,720	53,663
Net cash outflow from operating activities	33 (c)	(2,344,336)	(1,621,912)	(2,344,336)	(1,621,912)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(8,241)	-	(8,241)	-
Proceeds from sale of investments		508,462	230,935	508,462	230,935
Payment for rental bonds		(37,673)	-	(37,673)	-
Tenement security deposits		(10,000)	10,000	(10,000)	10,000
Net cash inflow from investing activities		452,548	240,935	452,548	240,935
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from share issues		2,683,778	1,252,960	2,683,778	1,252,960
Equity raising expenses		(108,830)	(22,164)	(108,830)	(22,164)
Net cash inflow from financing activities		2,574,948	1,230,796	2,574,948	1,230,796
NET INCREASE/(DECREASE) IN CASH HELD		683,160	(150,181)	683,160	(150,181)
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		379,740	529,921	379,740	529,921
CASH AT THE END OF THE FINANCIAL YEAR	33 (a)	1,062,900	379,740	1,062,900	379,740

The Cash Flows Statements are to be read in conjunction with the notes set out on pages 12 to 31.

MALACHITE RESOURCES NL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Malachite Resources NL as an individual entity and the consolidated entity consisting of Malachite Resources NL and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Application of AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Malachite Resources NL financial statements to be prepared in accordance with AIFRSs. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements

Financial statements of Malachite Resources NL until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Malachite Resources NL 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The company has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 35.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Cash and cash equivalents

For the purpose of the cash flows statements, cash and cash equivalents includes:

- cash on hand and at call deposits with banks or financial institutions; and
- investments in money market instruments with less than 90 days to maturity that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

MALACHITE RESOURCES NL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Employee Entitlements

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick 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 and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) 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 currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share based payments

Share based compensation benefits are provided to employees via the Malachite Resources NL Employee Option Plan. Information relating to the plan is set out in note 34.

Options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of the options issued to employees for nil consideration. Shares issued following the exercise of options are recognised at that time and the proceeds received allocated to share capital.

Options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Malachite Resources NL Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(e) Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward where there is current activity and rights of tenure, 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 which permits reasonable assessment of the existence of economically recoverable reserves but nevertheless, active and significant operations in the area of interest are continuing.

Accumulated costs in relation to an abandoned area are written off, in full, in the year in which the decision to abandon the area is made or where it fails to meet the conditions outlined above for the carry-forward of these costs as an asset.

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

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

(f) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

(g) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

MALACHITE RESOURCES NL

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

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(j) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(k) Investments and other financial assets

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under previous AGAAP, interests in listed and unlisted securities, other than associates, are brought to account at cost and dividend income is recognised in the income statement when receivable. The principal amounts of zero coupon bonds are calculated by discounting the cash flow associated with the ultimate redemption of the investment. The discount is amortised over the period to maturity. The discount rate is that implicit in the transaction. Transaction costs are excluded from the carrying amounts.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

For further information concerning the adjustments on transition date reference should be made to the following notes:

- Other financial assets - note 16
- Reserves and accumulated losses - notes 24 and 25
- Explanation of transition to AIFRSs - note 35: section 3 of this note discloses the adjustment to each line item in the financial statements on transition date.

MALACHITE RESOURCES NL

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

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Investments and other financial assets (Continued)

From 1 July 2005

The company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designed as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 13 and 15).

(l) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 26). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(m) Earnings/(loss) per share

Basic and diluted earnings per share is determined by dividing the net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares by the weighted number of ordinary shares outstanding during the financial year. No adjustment has been made to the basic earnings per share for any options issued by the company as outlined in Note 23 as they are not considered potential ordinary shares at reporting date and are therefore not dilutive.

(n) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is provided on plant and equipment.

Depreciation provided on plant and equipment is calculated on a diminishing value basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

- Motor Vehicles	5 - 6 years
- Plant and equipment	4-8 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1 (h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(o) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Malachite Resources NL ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Malachite Resources NL and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Malachite Resources NL.

MALACHITE RESOURCES NL

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

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Joint ventures

Jointly controlled assets

The consolidated entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the General Statements. Details of the consolidated entity's interests in joint ventures are shown in Note 27.

(p) Revenue Recognition

Interest Income

Interest income is recognised on a time proportion basis, taking into account the interest rates applicable to financial assets.

Other Income

Other income is measured at the fair value of the consideration received or receivable.

Dividends

Dividends are recognised as reserve when the right to receive payment is established.

(q) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts as they are due for settlement.

New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) UIG 4 *Determining whether an Asset Contains a Lease*

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is not expected to change the accounting for any of the Group's current arrangements.

(ii) UIG 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

This interpretation will be implemented in 2006-7 and will not affect the Group's financial statements.

(iii) AASB 2005-9 *Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]*

AASB 2005-9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group does not have any financial guarantee contracts. This standard will not affect the Group's financial statements.

(iv) AASB 7 *Financial Instruments: Disclosures* and AASB 2005-10 *Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the Group's financial instruments.

(v) UIG 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

UIG 6 is applicable to annual reporting periods beginning on or after 1 December 2006. The Group has not sold any electronic or electrical equipment on the European market and has not incurred any associated liabilities. This interpretation will not affect the Group's financial statements.

(vi) AASB 2005-6 *Amendments to Australian Accounting Standards [AASB 121]*

AASB 2005-6 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. Malachite Resources NL does not have any monetary items forming part of a net investment in a foreign operation. The amendment to AASB 121 will therefore have no impact on the Group's financial statements.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Given the minimal exposure to foreign currencies, it is the current policy of the consolidated entity not to hedge foreign exchange risk.

(b) Credit risk

There is negligible credit risk on financial assets, excluding investments, of the consolidated entity since there is no exposure to individual customers or countries and the economic entity's exposure is limited to the amount of cash, short term deposits and receivables which have been recognised in the balance sheet and is minimised by using recognised financial intermediaries as counterparties.

MALACHITE RESOURCES NL

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

FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying businesses, the Board aims at maintaining flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's has no interest rate risk.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions made do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4 SIGNIFICANT EVENTS RELATING TO THE CONTINUED VIABILITY OF THE GROUP

Malachite Resources NL and the entities it controlled during the year ended 30 June 2006 (the Group), incurred an operating loss of \$517,836 after tax and had net operating cash outflows of \$2,344,336.

On 25 July Malachite Resources NL raised additional funds by way of placement in the amount of \$260,000 for working capital purposes. In addition since balance date the Group has sold shares and options that it has held in other companies as investment stock. The group continues to hold liquid investment stock which it may elect to sell to assist in funding continuing operations. The group also proposes to raise additional capital by way of a placement in the future to fund ongoing operations.

Until such time that the Group obtains additional funding via share placements or other means of capital raising there remains uncertainty as to whether the group will continue as a going concern and, therefore, whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

	Consolidated		Malachite Resources NL	
	2006	2005	2006	2005
	\$	\$	\$	\$
5 REVENUE				
From continuing Operations				
Interest	41,660	19,788	41,660	19,788
Services	13,606	8,332	13,606	8,332
	55,266	28,120	55,266	28,120
6 OTHER INCOME				
Profit from disposal of other investments	203,462	-	203,462	-
Gain on revaluation of investments	113,500	-	113,500	-
Total other income	316,962	0	316,962	0
7 EXPENSES				
The loss before income tax includes the following expenses:				
Loss on sale of assets	-	43,122	-	43,122
Write down of current investments to market value	-	229,943	-	229,943
Depreciation of non-current assets:				
- Plant & equipment	11,726	14,432	11,726	14,432
- Motor vehicles	6,265	8,108	6,265	8,108
Total Depreciation	17,991	22,540	17,991	22,540
Transfers to provisions:				
- Employee entitlements	13,119	85,410	13,119	85,410
- Employee share based payments	5,326	23,946	5,326	23,946
Operating lease rental expenses	66,608	51,722	66,608	51,722
Write off of exploration expenditure	190,132	418,421	190,132	418,421

MALACHITE RESOURCES NL

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

	Consolidated		Malachite Resources NL	
	2006	2005	2006	2005
	\$	\$	\$	\$
8 INCOME TAX				
a) The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax amount in the financial statements as follows:				
Loss from ordinary activities	(517,836)	(1,383,232)	(517,836)	(1,383,232)
Prima facie income tax benefit calculated at 30% (2005 30%) of operating loss	(155,351)	(414,970)	(155,351)	(414,970)
Permanent differences:				
Non allowable items	2,070	366	2,070	366
Future income tax benefits not recognised	153,281	414,604	153,281	414,604
Income tax benefit attributable to operating loss	-	-	-	-
b) Franking account balance	230	230	230	230
c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised.	1,461,375	1,202,414	1,461,375	1,202,414

MALACHITE RESOURCES NL

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

9 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The directors of Malachite Resources NL during the year were:

Dr Garry G Lowder	- Chairman and Managing Director
Mr Russell MD Meares	- Executive Director
Mr Peter W Hopkins	- Non-Executive Director
Mr Warren J Staude	- Non-Executive Director
Mr Dennis M O'Neill	- Non-Executive Director

(b) Other key management personnel

All key management personnel of the consolidated entity are directors of Malachite Resources NL.

All of the above persons were also key management personnel during the year ended 30 June 2005.

(c) Key Management Personnel compensation

	Consolidated		Malachite Resources NL	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short-term employee benefits	374,060	366,080	374,060	366,080
Post-employment benefits	33,665	33,038	33,665	33,038
Share-based payments	-	-	-	-
	407,725	399,118	407,725	399,118

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections (a) - (c) of the remuneration report on pages 4 to 6.

(d) Equity instrument disclosures relating to Key Management Personnel

(i) Share holdings

The number of shares in the company held during the financial year by each director of Malachite Resources NL and other key management personnel or the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

Shares	Number held	Purchased during	Sold during	Issued on exercise of	Number held
2006	1 July 2005	year	year	options	30 June 2006
Dr GG Lowder	3,710,006	402,494	-	-	4,112,500
Mr RD Meares	417,500	271,250	-	-	688,750
Mr PW Hopkins	-	-	-	-	-
Mr D O'Neill	-	-	-	-	-
Mr W Staude	25,000	15,000	-	-	40,000
	Number held	Purchased during	Sold during	Issued on exercise of	Number held
2005	1 July 2004	year	year	options	30 June 2005
Dr GG Lowder	3,615,006	95,000	-	-	3,710,006
Mr RD Meares	377,500	40,000	-	-	417,500
Mr PW Hopkins	-	-	-	-	-
Mr D O'Neill	-	-	-	-	-
Mr W Staude	25,000	-	-	-	25,000

MALACHITE RESOURCES NL

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

KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Malachite Resources NL and the other key management personnel of the Group, including their personally related parties, are set out below.

			Consolidated		Malachite Resources NL	
			2006	2005	2006	2005
			\$	\$	\$	\$
Options						
2006	Number held 1 July 2005	Converted from unlisted during year	Purchased during year	Lapsed during year	Exercised during year	Number held 30 June 2006
Listed						
Dr GG Lowder	2,993,604	-	239,994	(2,993,604)	-	239,994
Mr RD Meares	400,000	-	140,000	(400,000)	-	140,000
Mr PW Hopkins	150,000	-	-	(150,000)	-	-
Mr D O'Neill	0	-	-	-	-	-
Mr W Staude	162,500	-	15,000	(162,500)	-	15,000

No options are vested and unexercisable at the end of the year.

	Number held 1 July 2004	Converted from unlisted during year	Purchased during year	Lapsed during year	Exercised during year	Number held 30 June 2005
2005						
Listed						
Dr GG Lowder	117,500	2,685,504	190,600	-	-	2,993,604
Mr RD Meares	-	400,000	-	-	-	400,000
Mr PW Hopkins	-	150,000	-	-	-	150,000
Mr D O'Neill	-	-	-	-	-	-
Mr W Staude	12,500	150,000	-	-	-	162,500

(e) Other transactions with key management personnel	Consolidated		Malachite Resources NL	
	2006	2005	2006	2005
	\$	\$	\$	\$
Mrs ML Lowder, the spouse of director Dr GG Lowder, was employed as an accountant during the year for which services she was paid a salary.	20,000	40,809	20,000	40,809

10 AUDITORS' REMUNERATION

Remuneration of the auditor of the consolidated entity for:

Audit services

Fees paid to PricewaterhouseCoopers Australian firm

Audit and review of financial reports and other audit work under the Corporations Act 2001

	32,050	25,565	32,050	25,565
	<u>32,050</u>	<u>25,565</u>	<u>32,050</u>	<u>25,565</u>

11 EARNINGS/(LOSS) PER SHARE

	2006	2005
Basic and diluted earnings/(loss) per share (cents per share)	<u>(0.79)</u>	<u>(2.91)</u>
Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings/ (loss) per share	<u>65,940,071</u>	<u>47,466,554</u>

The options outlined in Note 23 are not considered potential ordinary shares at reporting date and are not therefore dilutive.

MALACHITE RESOURCES NL

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

PLANT AND EQUIPMENT (CONTINUED)

Movement in property, plant and equipment

Consolidated and Parent	Motor Vehicles	Plant & Equipment	Total
Current Year	\$	\$	\$
Balance at 1 July 2005	62,539	22,118	84,657
Additions	-	8,241	8,241
Depreciation Expense	(11,726)	(6,265)	(17,991)
Disposals	-	-	-
Balance at 30 June 2006	<u>50,813</u>	<u>24,094</u>	<u>74,907</u>
Previous Year			
Balance at 1 July 2004	76,971	30,226	107,197
Additions	-	-	-
Depreciation Expense	(14,432)	(8,108)	(22,540)
Disposals	-	-	-
Balance at 30 June 2005	<u>62,539</u>	<u>22,118</u>	<u>84,657</u>

Consolidated		Malachite Resources NL	
2006	2005	2006	2005
\$	\$	\$	\$

19 EXPLORATION AND EVALUATION EXPENDITURE

Costs carried forward in respect of areas of interest in exploration and evaluation phases

5,548,455	3,889,500	5,548,455	3,889,500
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Movement for year

Balance at beginning of year	3,889,500	3,830,347	3,889,500	3,830,347
Expenditure during year	1,982,807	1,104,237	1,982,807	1,104,237
Expenditure reimbursed during year	(133,720)	(626,663)	(133,720)	(626,663)
Amounts written off	(190,132)	(418,421)	(190,132)	(418,421)
Balance at end of year	<u>5,548,455</u>	<u>3,889,500</u>	<u>5,548,455</u>	<u>3,889,500</u>

20 CURRENT LIABILITIES - PAYABLES

Trade creditors	210,112	-	210,112	-
Other creditors	52,429	195,389	52,429	195,389
Employee entitlements	166,781	153,662	166,781	153,662
	<u>429,322</u>	<u>349,051</u>	<u>429,322</u>	<u>349,051</u>

The consolidated entity had 8 employees (2005: 5 employees) at 30 June 2006

21 NON CURRENT LIABILITIES - PAYABLES

Amounts due to controlled entities	-	-	1	1
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22 CONTRIBUTED EQUITY

78,635,065 fully paid ordinary shares (2005: 54,078,480)	11,461,041	8,886,093	11,461,041	8,886,093
	<u>11,461,041</u>	<u>8,886,093</u>	<u>11,461,041</u>	<u>8,886,093</u>

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

MALACHITE RESOURCES NL

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

CONTRIBUTED EQUITY (CONTINUED)

Movement in ordinary share capital

Balance at beginning of year	8,886,093	7,655,297	8,886,093	7,655,297
Shares issued during year				
13,114,000 (2005: 1,693,715) issued at 10 cents per share pursuant to share placement agreements	1,311,400	169,372	1,311,400	169,372
7,640,585 (2005: nil) issued at 10 cents per share pursuant to rights issue	764,058	-	764,058	-
3,802,000 (2005:nil) issued at 16 cents per share pursuant to share purchase plan	608,320		608,320	
Nil (2005:2,460,000) issued at 12.5 cents per share pursuant to share placement agreements	-	307,500	-	307,500
Nil (2005: 2,960,700) issued at 12.5 cents per share pursuant to a shareholder share purchase plan	-	370,088	-	370,088
Nil (2005: 2,900,000) issued at 14 cents per share pursuant to share placement agreements	-	406,000	-	406,000
Transaction costs relating to share issues	(108,830)	(22,164)	(108,830)	(22,164)
Balance at end of year	11,461,041	8,886,093	11,461,041	8,886,093

23 OPTIONS

Expiry Date	Exercise Price	Number on issue 30 June 2005	Granted during year	Transferred during year	Lapsed during year	Exercised during year	Number on issue 30 June 2006
Listed							
28.2.2006	0.20	28,830,095	-	-	(28,830,095)	-	-
31.08.2008	0.20	-	13,169,585	-	-	-	13,169,585
31.08.2009	0.20	-	7,585,000	-	-	-	7,585,000
		<u>28,830,095</u>	<u>20,754,585</u>	<u>-</u>	<u>(28,830,095)</u>	<u>-</u>	<u>20,754,585</u>
Unlisted							
23.11.2009	0.20	300,000	-	-	-	-	300,000
23.11.2009	0.20	-	175,000	-	(100,000)	-	75,000
		<u>300,000</u>	<u>175,000</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>375,000</u>
Total Options on issue		<u>29,130,095</u>	<u>20,929,585</u>	<u>-</u>	<u>(28,930,095)</u>	<u>-</u>	<u>21,129,585</u>

Consolidated		Malachite Resources NL	
2006	2005	2006	2005
\$	\$	\$	\$

24 RESERVES

Option expense reserve				
Balance at beginning of year	23,946	-	23,946	-
Option Expenses	5,326	23,946	5,326	23,946
Balance at end of year	29,272	23,946	29,272	23,946

Nature and purpose of reserves

Share based payments reserve

The share based payments reserve is used to recognise the fair value of options issued but not exercised.

25 ACCUMULATED LOSSES

Accumulated losses at beginning of financial year	(4,268,203)	(2,884,971)	(4,268,203)	(2,884,971)
Net loss for year	(517,836)	(1,383,232)	(517,836)	(1,383,232)
Accumulated losses at end of financial year	(4,786,039)	(4,268,203)	(4,786,039)	(4,268,203)

MALACHITE RESOURCES NL

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

26 COMMITMENTS FOR EXPENDITURE

(a) Capital Expenditure Commitments

There are no capital commitments at the end of the financial year (2005:nil).

(b) Lease Commitments

Operating leases relate to office facilities. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

	Consolidated		Malachite Resources NL	
	2006	2005	2006	2005
	\$	\$	\$	\$
<u>Operating leases</u>				
Not later than one year	113,922	63,372	113,922	63,373
Later than 1 year but not later than 5 years	335,214	21,124	335,214	21,125
	449,136	84,496	449,136	84,498

(c) Tenement Expenditure

Not later than one year	199,000	773,000	199,000	773,000
Later than 1 year but not later than 2 years	426,000	-	426,000	-
Later than 2 years	-	-	-	-
	625,000	773,000	625,000	773,000

27 INTERESTS IN JOINT VENTURES

The consolidated entity may earn a minimum 30% interest in the Mt Ramsay joint venture, whose principal activity is exploration for base metals.

Interests were shown in the balance sheet as Non-current assets

Exploration and evaluation expenditure	241,249	92,250	241,249	92,250
Total non-current assets	241,249	92,250	241,249	92,250

28 CONTINGENT LIABILITIES

There are no contingent liabilities (2005:nil).

29 SEGMENT INFORMATION

The economic entity operates in one segment only being mineral exploration and development in Australia.

30 EVENTS SUBSEQUENT TO REPORTING DATE

On 20 June 2006 Malachite Resources NL announced that it had entered into an agreement with Newmont Australia Ltd pursuant to which Newmont has agreed to farm in to the Tooloom Gold Project in northeastern NSW. Under this agreement Newmont can earn an initial 51% interest at Tooloom by spending \$5 million on exploration within 5 years from 1 July 2006, with a minimum expenditure in the first year of \$1 million. Newmont can earn an additional 24% interest by electing to sole fund exploration to completion of a Bankable Feasibility Study.

On 25 July 2006 Malachite Resources NL allotted 1,625,000 ordinary fully paid shares in a placement which raised \$260,000. Except as described above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

With the exception of the above there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

MALACHITE RESOURCES NL

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

31 FINANCIAL INSTRUMENTS

a) Significant Accounting Policies

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

b) Interest Rate Risk

The consolidated entity has not entered into interest rate hedging transactions. The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below :-

2006		WEIGHTED AVERAGE INTEREST RATES	FLOATING INTEREST RATES	FIXED INTEREST MATURING in 1 YEAR or LESS	NON- INTEREST BEARING	TOTAL
	NOTE					
Financial Assets						
Cash	12	4.80%	1,062,900	-	-	1,062,900
Security Deposits	15	5.50%	50,000	-	62,500	112,500
Rental Bond	13	5.50%	37,673	-	-	37,673
Receivables	13,15	-	-	-	95,138	95,138
Investments	14,16	-	-	-	177,500	177,500
Total Assets			1,150,573	-	335,138	1,485,711
Financial Liabilities						
Payables	20	-	-	-	52,429	52,429
Total Liabilities			-	-	52,429	52,429

Net financial assets	1,150,573	-	282,709	1,433,282
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2005		WEIGHTED AVERAGE INTEREST RATES	FLOATING INTEREST RATES	FIXED INTEREST MATURING in 1 YEAR or LESS	NON- INTEREST BEARING	TOTAL
	NOTE					
Financial Assets						
Cash	12	4.60%	379,740	-	-	379,740
Security Deposits	15	3.62%	-	102,500	-	102,500
Receivables	13,15	-	-	-	165,490	165,490
Investments	14,16	-	-	-	524,000	524,000
Total Assets			379,740	102,500	689,490	1,171,730
Financial Liabilities						
Payables	20	-	-	-	195,389	195,389
Total Liabilities			-	-	195,389	195,389

Net financial assets (liabilities)	379,740	102,500	494,101	976,341
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c) Foreign Exchange Risk

Given the minimal exposure to foreign currencies, it is the current policy of the consolidated entity not to hedge foreign exchange risk.

d) Credit Risk

There is negligible credit risk on financial assets, excluding investments, of the consolidated entity since there is no exposure to individual customers or countries and the consolidated entity's exposure is limited to the amount of cash, short term deposits and receivables which have been recognised in the balance sheet and is minimised by using recognised financial intermediaries as counterparties.

MALACHITE RESOURCES NL

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

32 NET FAIR VALUE OF FINANCIAL INSTRUMENTS

Listed shares included in "Investments" are traded in an organised financial market. The net fair values of listed shares are determined by valuing them at the current quoted market bid price adjusted for transaction costs.

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. The carrying amounts of cash, accounts receivable, accounts payable approximate net fair value.

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are set out below:

	2006		2005	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
Financial Assets				
Cash	1,062,900	1,062,900	379,740	379,740
Receivables	74,661	74,661	140,490	140,490
Term Deposits	195,173	195,173	127,500	127,500
Investments				
Shares in other corporations - listed - current	127,500	127,500	252,000	240,000
Shares in other corporations - listed - noncurrent	-	-	117,000	162,000
Financial Liabilities				
Payables	429,322	429,322	195,389	195,389

33 NOTES TO STATEMENTS OF CASH FLOWS

33 (a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the balance sheet as follows:-

	Consolidated		Malachite Resources NL	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash	1,062,900	379,740	1,062,900	379,740
	<u>1,062,900</u>	<u>379,740</u>	<u>1,062,900</u>	<u>379,740</u>

33 (b) Non-cash financing and investing activities

Reimbursement of exploration expenditure by issue of shares in listed entity

	-	573,000	-	573,000
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33 (c) Reconciliation of operating profit after income tax to net cash flows from operating activities

Operating loss after income tax	(517,836)	(1,383,232)	(517,836)	(1,383,232)
Non cash				
Depreciation	17,991	22,540	17,991	22,540
Employee entitlements expense	13,119	85,410	13,119	85,410
Employee share-based payments	5,326	23,946	5,326	23,946
Exploration expenditure written off	190,132	418,421	190,132	418,421
Revaluation of investments to market value	(113,500)	184,943	(113,500)	184,943
Exploration expenditure refunded	133,720	53,663	133,720	53,663
Net (profit) loss on sale of assets	(203,462)	43,122	(203,462)	43,122
	<u>(474,510)</u>	<u>(551,187)</u>	<u>(474,510)</u>	<u>(551,187)</u>
Changes in assets and liabilities				
Decrease/(Increase) in receivables	44,952	(42,057)	45,829	(42,057)
Decrease/(Increase) in prepayments	877	(7,005)	877	(7,005)
(Increase) in exploration and evaluation expenditure	(1,982,807)	(1,104,237)	(1,982,807)	(1,104,237)
Increase/(decrease) in payables	67,152	82,574	67,152	82,574
Net cash inflow/(outflow) from operating activities	<u>(2,344,336)</u>	<u>(1,621,912)</u>	<u>(2,343,459)</u>	<u>(1,621,912)</u>

MALACHITE RESOURCES NL

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

34 SHARE-BASED PAYMENTS

34 (a) Employee Option Plan

The Company operates an Employees and Contractors Option Plan ("Plan") which was approved by the Board on 9 August 2004. The Plan is administered by the Board. Only eligible persons (and their associates) may be invited to participate in the Plan. Eligible persons include full time employees of the Company, permanent part-time employees, qualifying contractors and persons who may be a director, alternate director or company secretary of the Company or an entity in the Group.

Options are granted under the plan for no consideration. The options granted to date are all for a five year period and fully vested on the date of grant.

Options granted under the Plan carry no dividend or voting rights. Each option entitles the holder to subscribe for and be allotted one ordinary fully paid share in the capital of the Company. The exercise price is determined by the Directors at the time of issuing an invitation to participate in the Plan. All of the options granted under the Plan to date have had an exercise price of 20 cents, and accordingly, have been granted at a premium to the price at which the Company's shares were traded on the Australian Stock Exchange at the time of granting.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry Date	Exercise Price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent entity - 2006								
23 Nov 2004	23 Nov 2009	\$0.20	225,000	-	-	(50,000)	175,000	-
6 May 2005	23 Nov 2009	\$0.20	75,000	-	-	-	75,000	-
25 Nov 2005	23 Nov 2009	\$0.20	-	100,000	-	-	100,000	-
24 Feb 2006	23 Nov 2009	\$0.20	-	75,000	-	(50,000)	25,000	-
Total			300,000	175,000	-	(100,000)	375,000	-
Weighted average exercise price			\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	
Consolidated and parent entity - 2005								
23 Nov 2004	23 Nov 2009	\$0.20	-	325,000	-	(100,000)	225,000	-
6 May 2005	23 Nov 2009	\$0.20	-	75,000	-	-	75,000	-
Total			0	400,000	-	(100,000)	300,000	-
Weighted average exercise price			\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	

No options were forfeited during the period covered by the above tables.

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2006 was, the options issued on: 23/11/05 were valued at 4.242 cents per option, 24/02/06 were valued at 4.339 cents per option and 06/05/06 were valued at 6.342 cents per option (2005 - options issued on 23/11/04 at 8.162 cents per share). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

- (a) options are granted for no consideration and have a five year life, vesting five years from the date of grant.
- (b) exercise price: \$0.20 (2005 - \$0.20)
- (c) grant date: 25 November 2005 & 24 February 2006 (2005 – 23 November 2004 & 6 May 2005)
- (d) expiry date: 23 November 2009 (2005 – 23 November 2009)
- (e) share price at grant date: 25 November 2005 - \$0.09 & 24 February 2006 - \$0.10 (2005 - 23 November 2004 - \$0.14 & 6 May 2005 - \$0.12)
- (f) expected price volatility of the company's shares: 123.15% (2005 –60 %)
- (g) expected dividend yield: 0.00% (2005 –0.00%)
- (h) risk-free interest rate: 5.55% (2005 –5.55 %)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

MALACHITE RESOURCES NL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

35 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

1. Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS).

The below reconciliation covers both the company and the group

	Previous AGAAP	Effect of transition to AIFRS	AIFRS
Note	\$	\$	\$
(i) At the date of transition to AIFRS: 1 July 2004			
CURRENT ASSETS			
Cash and cash equivalents	529,921	-	529,921
Receivables	73,033	-	73,033
Other current assets	18,395	-	18,395
Investments	-	-	-
TOTAL CURRENT ASSETS	<u>621,349</u>	<u>-</u>	<u>621,349</u>
NON-CURRENT ASSETS			
Receivables	137,500	-	137,500
Investments	(b) 300,000	(45,000)	255,000
Property, plant and equipment	107,197	-	107,197
Deferred exploration and evaluation expenditure	3,830,347	-	3,830,347
TOTAL NON-CURRENT ASSETS	<u>4,375,044</u>	<u>(45,000)</u>	<u>4,330,044</u>
TOTAL ASSETS	<u>4,996,393</u>	<u>(45,000)</u>	<u>4,951,393</u>
CURRENT LIABILITIES			
Payables	112,815	-	112,815
Provisions	68,252	-	68,252
TOTAL CURRENT LIABILITIES	<u>181,067</u>	<u>-</u>	<u>181,067</u>
TOTAL LIABILITIES	<u>181,067</u>	<u>-</u>	<u>181,067</u>
NET ASSETS	<u>4,815,326</u>	<u>(45,000)</u>	<u>4,770,326</u>
EQUITY			
Contributed equity	7,655,297	-	7,655,297
Retained earnings	(c) (2,839,971)	(45,000)	(2,884,971)
TOTAL EQUITY	<u>4,815,326</u>	<u>(45,000)</u>	<u>4,770,326</u>

MALACHITE RESOURCES NL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

35 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

(ii) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Previous AGAAP	Effect of transition to AIFRS	AIFRS
Note	\$	\$	\$
CURRENT ASSETS			
Cash and cash equivalents	379,740	-	379,740
Receivables	115,090	-	115,090
Other current assets	25,400	-	25,400
Investments	264,000	(12,000)	252,000
TOTAL CURRENT ASSETS	<u>784,230</u>	<u>(12,000)</u>	<u>772,230</u>
NON-CURRENT ASSETS			
Receivables	127,500	-	127,500
Investments	260,000	(143,000)	117,000
Property, plant and equipment	84,657	-	84,657
Deferred exploration and evaluation expenditure	3,889,500	-	3,889,500
TOTAL NON-CURRENT ASSETS	<u>4,361,657</u>	<u>(143,000)</u>	<u>4,218,657</u>
TOTAL ASSETS	<u>5,145,887</u>	<u>(155,000)</u>	<u>4,990,887</u>
CURRENT LIABILITIES			
Payables	195,389	153,662	349,051
Provisions	55,671	(55,671)	-
TOTAL CURRENT LIABILITIES	<u>251,060</u>	<u>97,991</u>	<u>349,051</u>
NON-CURRENT LIABILITIES			
Provisions	97,991	(97,991)	-
TOTAL NON-CURRENT LIABILITIES	<u>97,991</u>	<u>(97,991)</u>	<u>-</u>
TOTAL LIABILITIES	<u>349,051</u>	<u>-</u>	<u>349,051</u>
NET ASSETS	<u>4,796,836</u>	<u>(155,000)</u>	<u>4,641,836</u>
EQUITY			
Contributed equity	8,886,093	-	8,886,093
Option Expense Reserve	-	23,946	23,946
Retained earnings	(4,089,257)	(178,946)	(4,268,203)
TOTAL EQUITY	<u>4,796,836</u>	<u>(155,000)</u>	<u>4,641,836</u>

MALACHITE RESOURCES NL

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

35 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

2. Reconciliation of profit/(loss) for year ended 30 June 2005

	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		\$	\$	\$
Revenue from ordinary activities		28,120	-	28,120
Accounting and audit expense		(39,605)	-	(39,605)
Corporate expenses		(157,532)	-	(157,532)
Depreciation and amortisation expense		(22,540)	-	(22,540)
Employee benefits expense	(a)	(438,570)	(23,946)	(462,516)
Exploration expenditure expensed		(418,421)	-	(418,421)
Occupancy expenses		(56,406)	-	(56,406)
Write down of current investments to market value	(b)	(74,943)	(110,000)	(184,943)
Other expenses from ordinary activities		(69,389)	-	(69,389)
Loss from Ordinary Activities before Income Tax Expense		(1,249,286)	(133,946)	(1,383,232)
Income tax expense relating to ordinary activities		-	-	-
Net Loss for the year		(1,249,286)	(133,946)	(1,383,232)

3. Notes to the reconciliation

(a) Share-based payments

Under AASB 2 *Share-based Payments* from 1 July 2004 the Group is required to recognise an expense for those options that were issued to employees under the Malachite Resources NL Option Plan after November 2002 but that had not vested by 1 January 2005. The effect is:

- (i) At 1 July 2004
For the group there has been no change to retained earnings
- (ii) At 30 June 2005
For the group there has been a decrease in retained earnings of \$23,946 and a corresponding increase in reserves
- (iii) For year ended 30 June 2005
For the group there has been an increase in employee benefits expense of \$23,946.

(b) Investments

Investments were previously held at cost less permanent diminution in value under AGAAP. As a result of applying AASB 136 *Impairment of Assets*, investments must be tested for impairment when there are indicators of impairment. The impairment loss is the amount by which the carrying amount of the asset exceeds its recoverable amount, where its recoverable amount is its fair value. Impairment losses have been recognised as follows:

- (i) At 1 July 2004
For the group there has been a decrease in retained earnings of \$45,000 and a corresponding decrease in investments.
- (ii) At 30 June 2005
For the group there has been an increase in retained earnings of \$155,000 and a corresponding decrease in investments.
- (iii) For the year ended 30 June 2005
For the group there has been a writedown of \$110,000.

(c) Retained earnings

The effect on retained earnings of the changes set out above are as follows:

	Note	1 July 2004	30 June 2005
Share-based payments	(a)	-	(23,946)
Investments	(b)	(45,000)	(155,000)
Total Adjustments		(45,000)	(178,946)

(d) Provisions

As a result of transition to AIFRS, provisions for employee benefits are now classed as payables.

MALACHITE RESOURCES NL

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

35 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

4. Adjustments on transition to AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement: 1 July 2005

There has been no adjustment on transition to AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement at 1 July 2005.

MALACHITE RESOURCES NL

DIRECTORS' DECLARATION

The directors declare that:

- (a) the attached financial statements and notes thereto comply with Accounting Standards and the Corporations Regulations;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the consolidated entity.

In the directors' opinion,

- (c) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; including
 - (i) complying with Accounting Standards, the *Corporation Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of its performance, as requested by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date: and
- (d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Managing Director (who also carries out the function of Chief Financial Officer) pursuant to section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors .

On behalf of the Directors



GG Lowder
Managing Director

Sydney, 21 September 2006

Independent audit report to the members of Malachite Resources NL

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of Malachite Resources NL (the Company) and the Malachite Resources NL Group (defined below) for the financial year ended 30 June 2006 included on Malachite Resources NL's web site. The Company's directors are responsible for the integrity of the Malachite Resources NL web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

Audit opinion

In our opinion:

1. the financial report of Malachite Resources NL:
 - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Malachite Resources NL and the Malachite Resources NL Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
 - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*;and
2. the remuneration disclosures that are contained on pages 4 to 6 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remunerations disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Malachite Resources NL (the company) and the Malachite Resources NL Group (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 company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 4 to 6 of the directors' report, as permitted by the *Corporations Regulations 2001*.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with 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. The directors are also responsible for the remuneration disclosures contained in the directors' 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 and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. 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. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, 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, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

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 remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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


PricewaterhouseCoopers


Marc Upcroft
Partner

Sydney

21 September 2006