



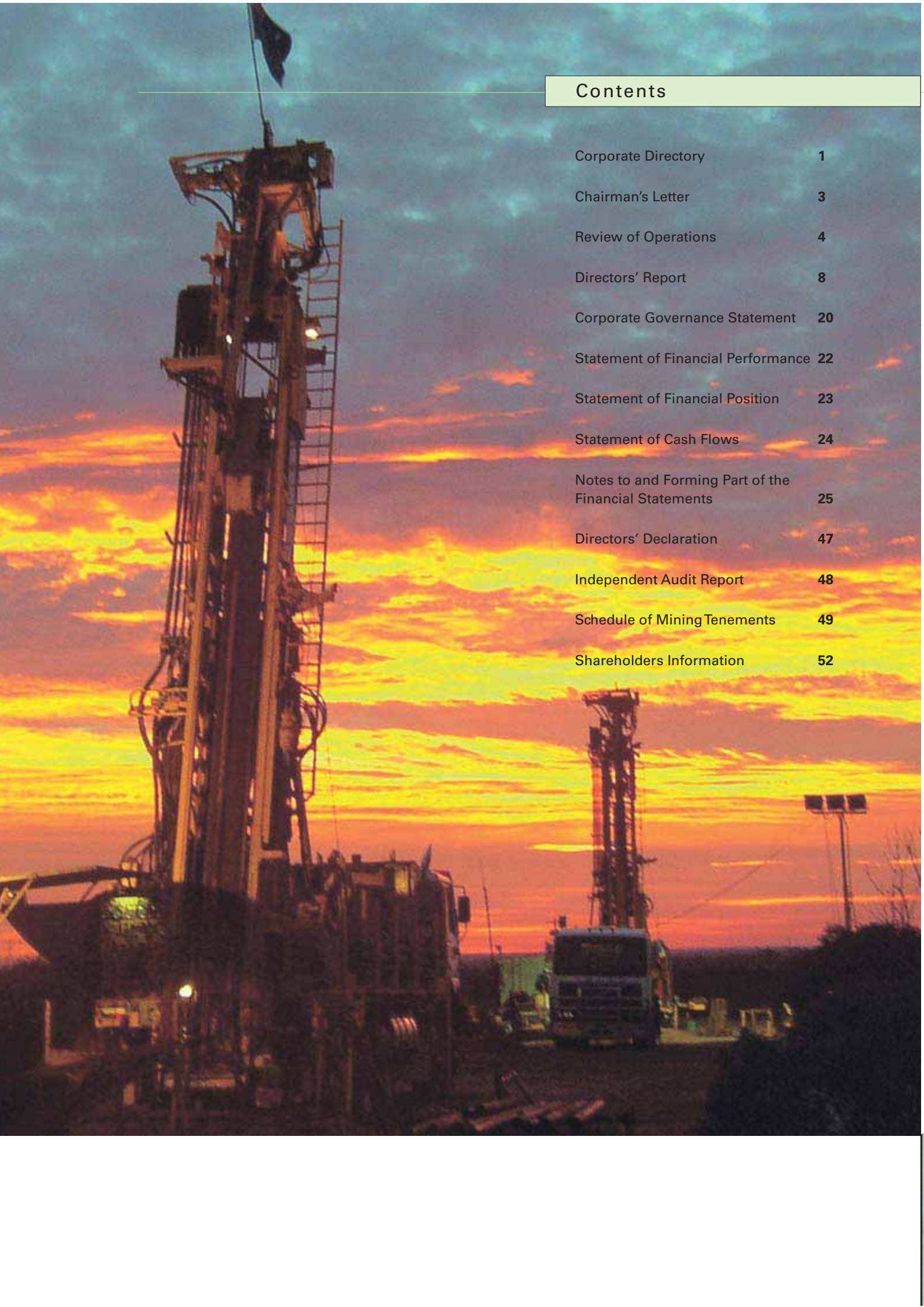
# A N N U A L   R E P O R T   2 0 0 5



ABN 68 091 049 357



# W E S T E R N   A R E A S   N L

A large-scale mining operation is depicted against a dramatic sunset sky. In the foreground, a massive drilling rig stands tall, its structure silhouetted against the bright orange and yellow clouds. A flag flies from the top of the rig. In the background, another similar rig is visible, along with a large truck and some industrial equipment. The overall scene conveys a sense of industrial activity and scale.

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## Corporate Directory

### **Directors**

Don Boyer  
David Cooper  
Julian Hanna  
Terry Streeter

### **Company Secretary**

Tim Manners

### **Auditors**

Grant Thornton  
256 St George's Terrace  
Perth WA 6000

### **Bankers**

Commonwealth Bank of Australia  
Level 3  
150 St George's Terrace  
Perth WA 6000

### **Share Registry**

Security Transfer Registrars Pty Ltd  
PO Box 535  
Applecross WA 6953  
Phone (08) 9315 2333  
Fax (08) 9315 2233

### **Stock Exchange**

Australian Stock Exchange Limited  
Code : WSA

### **Solicitors**

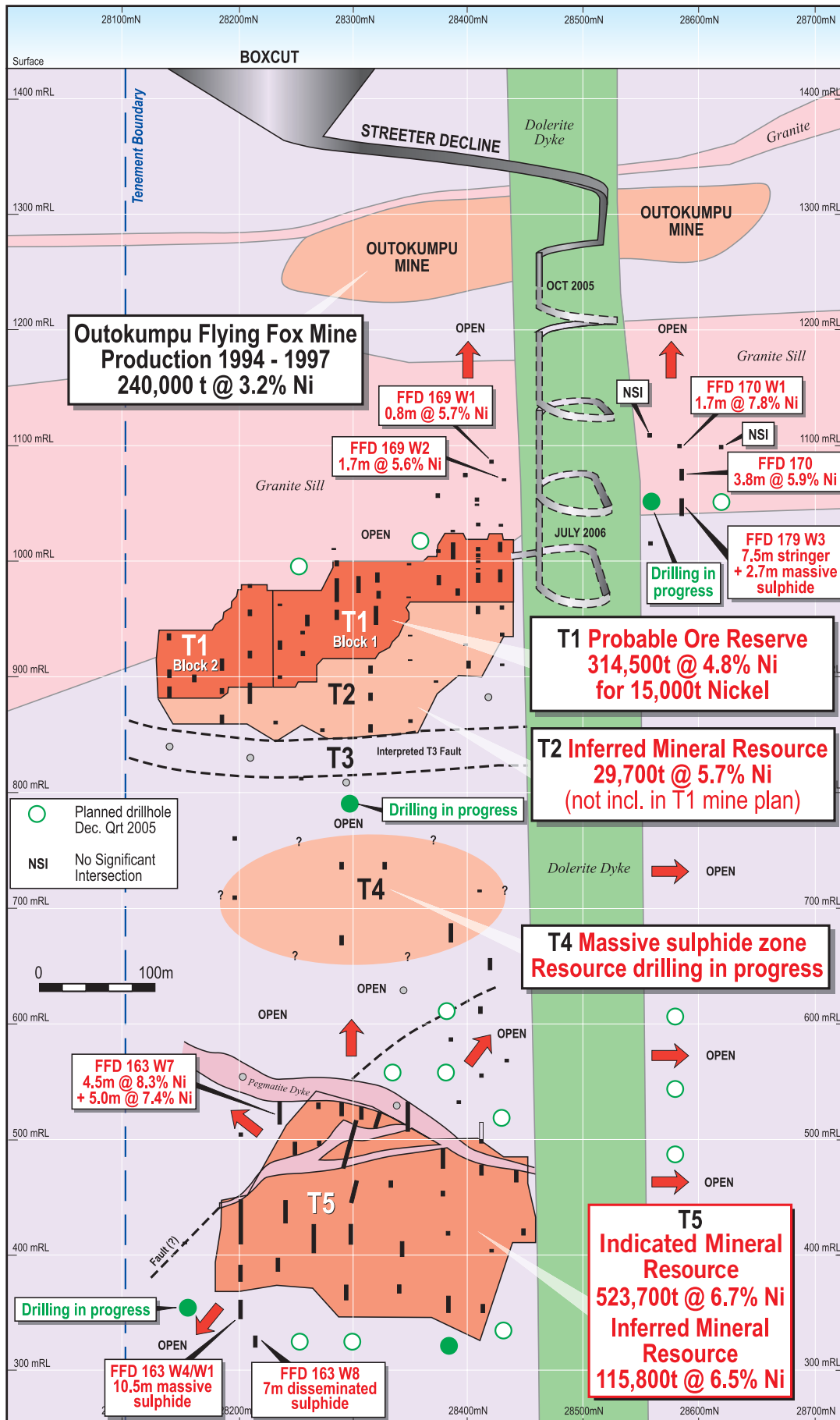
Steinepreis Paganin  
Level 4, Next Building  
16 Milligan Street  
Perth WA 6000

### **Registered Office**

Suite 3, Level 1  
11 Ventnor Avenue  
West Perth WA 6005  
Phone (08) 9486 7855  
Fax (08) 9486 7866  
Website [www.westernareas.com.au](http://www.westernareas.com.au)



# Flying Fox Mine



## Chairman's Letter

Dear Fellow Shareholders

It gives me great pleasure to present this annual report on Western Areas for the year ending 30 June 2005.

Western Areas had an outstandingly successful and busy year. Major progress has been made towards becoming a significant, low cost nickel producer and the Company has maintained its position as one of Australia's most active and successful mineral explorers. This has been achieved at a time of strong interest in the resources sector which is reflected in the substantial increase in the market capitalisation of the Company during the past 12 months.

I have listed below just some of the milestones that have been achieved at Western Areas up to the date of this report.

- September 2004 – discovery of the high grade Flying Fox T5 deposit.
- September 2004 – project financing secured for Flying Fox Stage 1 mine.
- November 2004 – Barminto appointed as Flying Fox mining contractor.
- December 2004 – mine development commenced at Flying Fox Stage 1.
- May 2005 – official mine opening of the Flying Fox mine.
- June 2005 – bankable feasibility study commenced for Flying Fox Stage 2.
- August 2005 – sulphide flotation plant acquired to relocate to Forrestania.
- September 2005 – announced intention to list on the Toronto Stock Exchange

A further milestone during the past 12 months has been the establishment of a first rate mining and development team at the Forrestania mine site.

Flying Fox is an exceptionally high grade nickel deposit which is expected to develop into a long term and highly profitable mining operation. Progress on the mine development at Flying Fox to date has been particularly pleasing. Despite early delays encountered in commencing operations at the end of 2004, the mine development has advanced at the forecast rate which should result in first ore production in the September quarter 2006.

The discovery of the Flying Fox T5 deposit was probably the most significant event for the Company during the past 12 months. It provides not only the potential for a significant expansion of nickel production and mine life at Flying Fox but also provides great encouragement that further discoveries will be made at Flying Fox and in the wider Forrestania area.

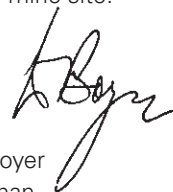
The current level of drilling expenditure is planned to be continued for the next 12 months to maintain the momentum that has resulted in the discovery of three deposits at Forrestania (Daybreak, Flying Fox T1 and Flying Fox T5) within the space of only two years. Drilling is directed to defining additional resources at Flying Fox as well as testing quality exploration targets elsewhere at Forrestania.

The Forrestania Nickel Project has generated considerable interest from investors in Australia, London (where approximately 10% of the Company's shares are currently held) and in Canada. For this reason, and because Canada is the second largest nickel producing country in the world, Western Areas is planning a secondary listing on the Toronto Stock Exchange in November 2005.

Your board believes that a Canadian listing will increase the potential for offshore investors to trade in the Company's securities. At the same time, an active presence in Canada is expected to generate new opportunities for Western Areas to expand its nickel exploration and mining operations outside Australia.

We look forward to an exciting year ahead with first production from Flying Fox, further exploration success, the listing on the Toronto Stock Exchange and a decision to construct a treatment plant at Cosmic Boy.

I would like to thank Western Areas shareholders for their ongoing support during the past 12 months. I would also like to acknowledge the efforts and enthusiasm demonstrated by the Western Areas Board and management team and also by the staff, consultants and contractors based in Perth office and on the mine site.



Don Boyer  
Chairman







## Review Of Operations

The past 12 months have been the most exciting and progressive since Western Areas listed on the Australian Stock Exchange five years ago. In a relatively short period of time, the Company has been fortunate to be able to move from grass roots nickel exploration into developing one of the highest grade nickel deposits in Australia.

This has been in no small part due to the considerable efforts put in by our dedicated team of staff, technical consultants and contractors who have been strongly supported by Western Areas shareholders throughout the year.

The most significant event was the discovery of the Flying Fox T5 nickel deposit at the end of September 2004. T5 has rapidly grown into a large, high grade nickel deposit which we are optimistic will increase the mine life of Flying Fox well beyond the T1 orebody which is currently being developed. After two years of intensive drilling at Flying Fox, excellent potential still remains to increase the current resources and discover new deposits in the immediate mine area.

There has also been major progress in developing Stage 1 of the Flying Fox mine. This was despite a three month delay while we waited for environmental approvals to commence the mine development. At the same time continual improvements have been made to the infrastructure at Forrestania. Grid power, site offices and work shop facilities have been installed at the Flying Fox mine site, the accommodation village at Cosmic Boy is now fully operational and the airstrip has been upgraded to a high standard.

### Mine Development

Mine development at Flying Fox has been progressing at the forecast rates and ore production from the T1 ore body is scheduled to start in the September quarter 2006. At the date of this report (mid October 2005), the ventilation decline is effectively complete and the Streeter Decline (the main access decline) has advanced approximately 750m from the boxcut.

During the December quarter 2005, mining contractor Barmenco will trial in-cycle fibrecrete ground support to replace the mesh and bolt system currently in use. If successful, this is expected to improve the overall rate

of advance of the Streeter Decline which should result in reaching the T1 ore body ahead of schedule.

At the same time, drilling is in progress to test the potential for resource extensions above T1 which could also support earlier mine production. Results from this drilling are encouraging with intersections of 1.7m @ 7.8% nickel and 3.8m @ 5.9% nickel up to 80m above T1 and north of the dolerite dyke.

The feasibility study for the Stage 2 expansion at Flying Fox including evaluating mining the T5 deposit and building a nickel concentrate plant at Cosmic Boy, is expected to be completed by December 2005.

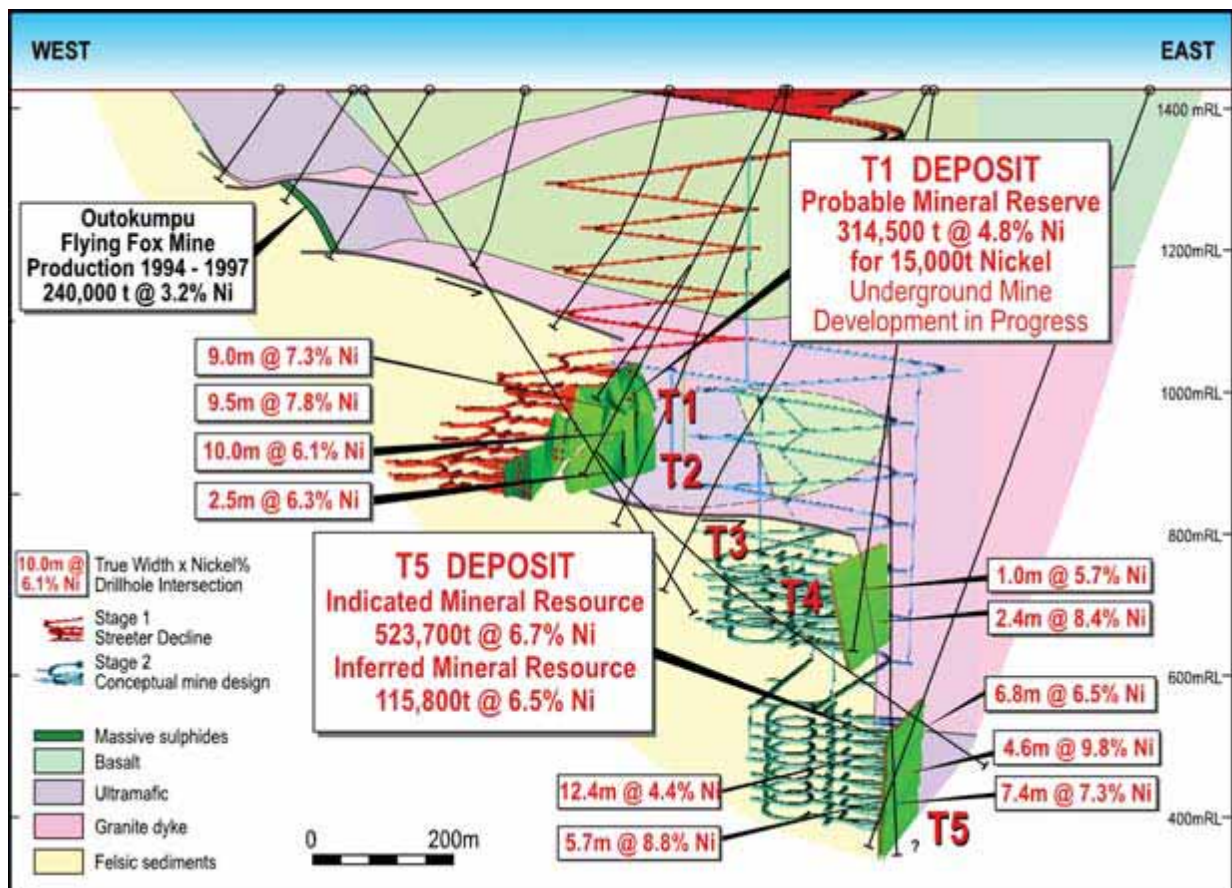
Assuming a positive outcome to the T5 component of the feasibility study, a second internal decline to access T5 will be developed from the Streeter decline at about 400m depth, starting in mid 2006. A decision regarding construction of a nickel concentrate plant at Cosmic Boy is expected to be made in early 2006.

Western Areas has purchased a 250,000 tonnes per annum second hand flotation plant which has been placed in storage pending a decision to construct the Cosmic Boy plant. The flotation plant was acquired at a major saving to its replacement cost and is intended to form the key component for the nickel plant.

An expansion of the Cosmic Boy village and infrastructure has been scheduled to cater for the anticipated increase in site activities through 2006.







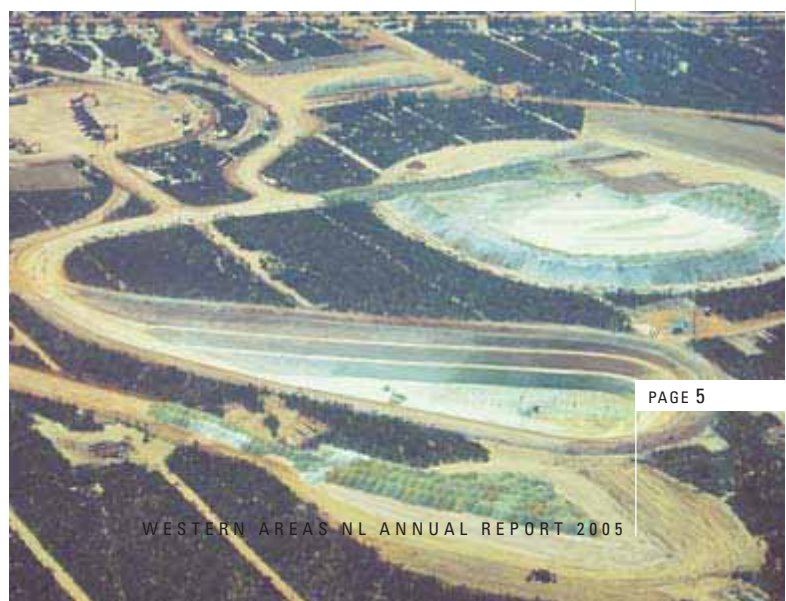
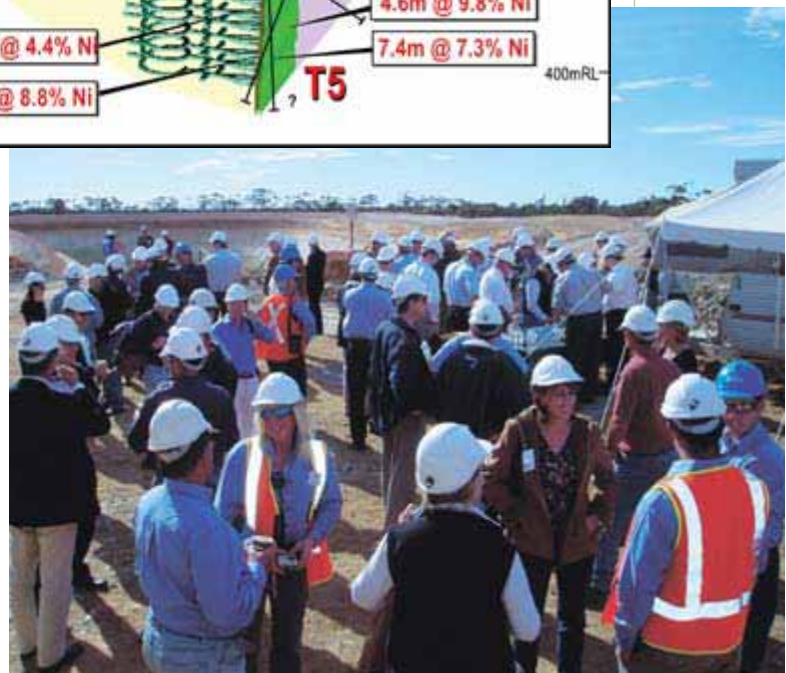
### Exploration and Resource Development

The Company has announced a goal to define sufficient mineral resources and ore reserves at Flying Fox to support a 10 year mining operation and produce an average of 10,000 tonnes of nickel in concentrate per annum

To achieve this goal, the high rate of drilling at Flying Fox will continue for the next 12 months. Drilling is now focused on testing for possible extensions to the existing Flying Fox resources, to define the extent of the T4 mineralisation and to test for new deposits north of the dolerite dyke. This program has met with immediate success. Significant massive sulphides have been intersected in drill holes south and below T5 as well as above T1, north of the dolerite dyke.

Diggers South is the second largest resource at Forrestania with approximately 30,000 tonnes of contained nickel, mostly in the Indicated Mineral Resource category. The deposit is open at depth and drilling is scheduled to commence in early 2006 to test for potential extensions to this resource.

A review is also underway to determine the best way to progress the mine development of Diggers South as soon as possible. One of the options for treating ore from Diggers South involves expanding the Cosmic Boy concentrate plant, which is being considered in the Stage 2 feasibility study.



## Summary – Forrestania Mineral Resources and Ore Reserves

Deposit	Zone	Category	Tonnes	Grade % Ni	Contained Nickel tonnes
Flying Fox	T1	Indicated Resource	285,900	5.90	16,900
<i>includes:</i>	<i>T1</i>	<i>Ore Reserve</i>	<i>314,500</i>	<i>4.80</i>	<i>15,000</i>
	T2	Inferred Resource	29,700	5.70	1,700
	T5	Indicated Resource	523,700	6.70	35,100
	T5	Inferred Resource	115,800	6.50	7,500
Diggers South		Indicated Resource	1,457,000	1.60	22,700
		Inferred Resource	530,000	1.50	7,800
New Morning		Indicated Resource	117,900	3.60	4,200
		Inferred Resource	37,100	4.40	1,600
Daybreak		Indicated Resource	87,800	3.60	3,200
		Inferred Resource	84,200	4.10	3,500
Cosmic Boy		Inferred Resource	181,000	2.80	5,000

In addition to Flying Fox, there are many other targets to be tested at Forrestania. Over the next six months, we plan to step up the drilling program to test some of the backlog of excellent nickel targets elsewhere along the Forrestania belt.

Regional targets to be drilled include two surface EM anomalies at Mt Hope, a down hole EM anomaly below the high grade Daybreak resource and a number of targets in the Cosmic Boy mine area, which extend from North Endeavour 8km along strike to the Liquid Acrobat disseminated nickel deposit.

### Other Exploration Projects

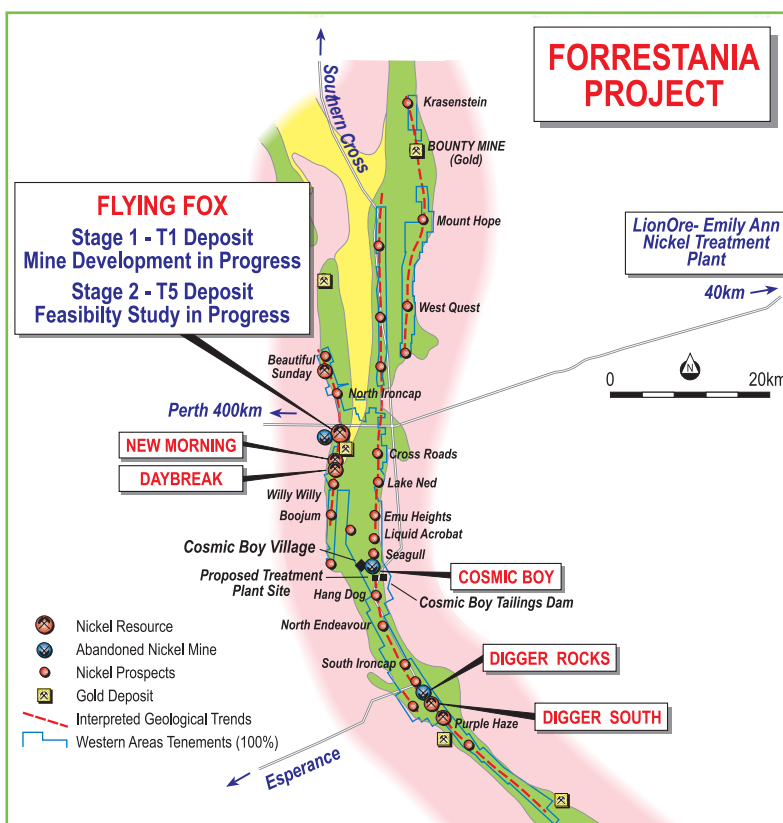
The past 12 months has also seen considerable progress with several of Western Areas other nickel and Platinum Group Element (PGE) projects in Western Australia. Exploration programs are ongoing at Copper Hills, Koolyanobbing and Plumridge with the aim of identifying drilling targets. Highlights are:

Copper Hills – Three EM and IP anomalies identified at the Gazza sulphide gossan with preliminary drilling completed in September 2005. The Harbutt Range tenements are still awaiting granting.

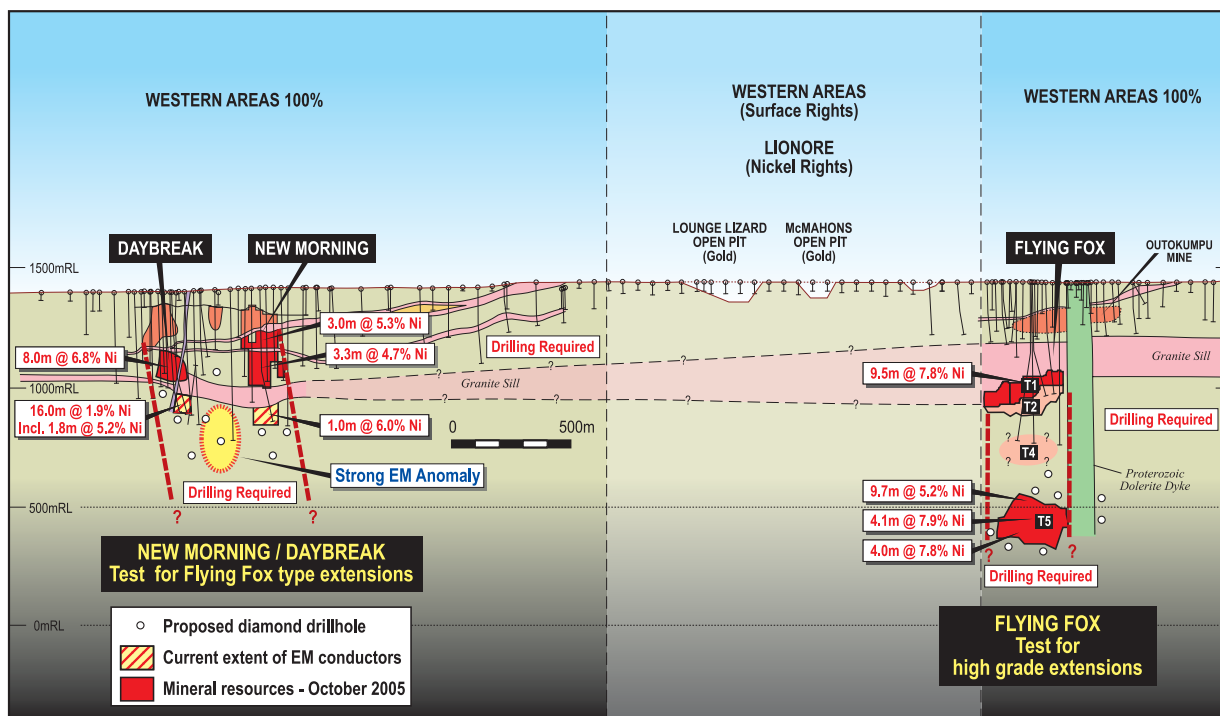
Koolyanobbing – Exploration is focused on three nickel targets and the IP surveys are in progress (October 2005) on two. The third target, Deborah (possibly

the best based on previous drilling) is awaiting access approval.

Plumridge – Exploration focused on the western ultramafic belt which hosts chromite mineralisation with anomalous platinum assays. Regional soil survey completed in October 2005 and assays are awaited.







### Secondary listing on Toronto Stock Exchange

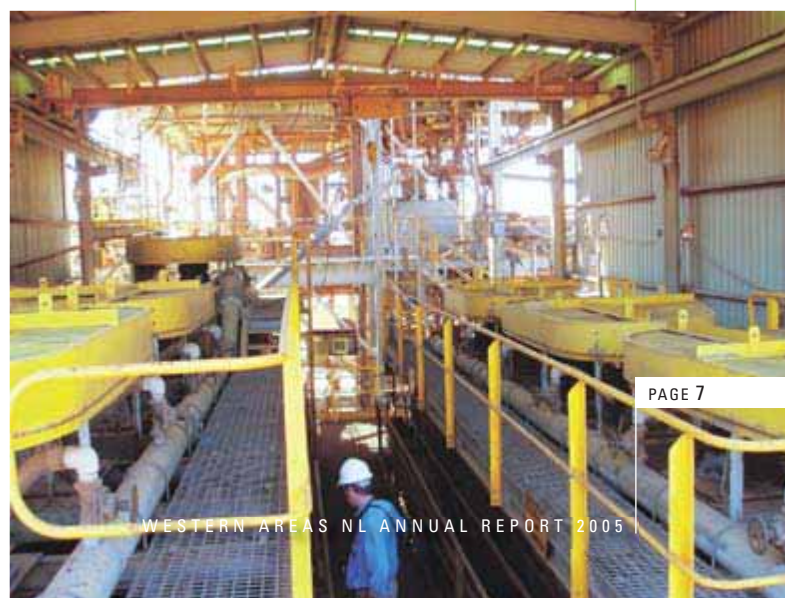
The Company is proceeding with an application for a secondary listing of Western Areas' securities on the Toronto Stock Exchange ("TSX") and a preliminary prospectus was lodged with the TSX in October. Western Areas is seeking to appoint a Canadian director and a senior consultant to represent the Company's interests and identify advanced nickel opportunities in Canada. Western Areas has also opened a small office in Toronto which will be the base of these activities.

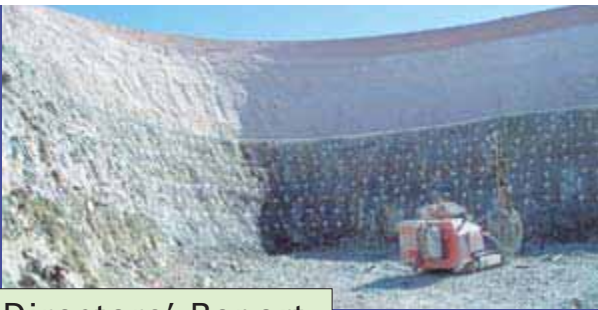
The TSX is the world's largest stock exchange for trading mineral resource securities and Canada is the second largest nickel producing country after Russia. The Board considers that a Canadian listing will provide Western Areas with a new range of opportunities for growth outside of the Forrestania project.

Finally, I am happy to be able to report to shareholders that Western Areas has a team of highly experienced and enthusiastic staff, consultants and mining contractors second to none. This team, together with the Board and the numerous company supporters and shareholders is committed to building Western Areas into a substantial and highly profitable, long term nickel producer.

We look forward to exciting times ahead.

Julian Hanna  
Managing Director





## Directors' Report

The directors of Western Areas NL ("the parent entity") and its controlled entities, present their report together with the financial statements for the year ended 30 June 2005.

### DIRECTORS

The directors of Western Areas NL during the financial year and up to the date of this report are:

#### Names, qualifications, experience and special responsibilities.



**Don Boyer,**  
*BSc(Hons), CPGeo*  
*(Independent, Non Executive Chairman)*

Mr Boyer is a professional geologist with over 34 years experience in the exploration and mining business and extensive corporate experience within the Australian resources industry. Mr Boyer holds a BSc(Hons) degree from the University of Wales and prior to joining the company his career included 13 years in various senior exploration management roles in MIM's exploration subsidiary and 5 years with COGEMA's Australian gold subsidiary.

Mr Boyer is the Chairman of the Nomination Committee and a member of the Audit and Risk Management Committee and the Remuneration Committee.

During the past three years Mr Boyer has also served as a director of the following other listed companies:

- Midas Resources Limited (\*) (since November 2000)
- Australian Mines Limited (from September 2000 to May 2004)



**Julian Hanna**  
*B.Sc, MAusIMM*  
*(Managing Director & Chief Executive Officer)*

Mr Hanna is a geologist with 30 years experience in gold and base metal exploration and mine development. He has B.Sc in geology, is a member of AusIMM and has previously held senior management positions with Forrest Gold Pty Ltd (CRA Gold division) and North Ltd. He has been involved in the discovery, development and mining of several gold, nickel and base metal deposits in Australia.



**David Cooper,**  
*CPA (Independent, Non Executive Director)*

Mr Cooper is a Certified Practicing Accountant with over 20 years experience in the area of taxation and business administration, including as Practice Manager for TA Mairs and Co Pty Ltd. Mr Cooper also holds directorships in several active private companies. Mr Cooper is the Chairman of both the Audit and Risk Management Committee and Remuneration Committee and is a member of the Nomination Committee.



**Terence Streeter**  
*(Non Executive Director)*

Mr Streeter is a Perth based businessman with extensive experience in exploration and mining companies and has held various interests in the nickel sulphide industry for over 30 years.

Mr Streeter serves on the Remuneration, Nomination and Audit & Risk Management Committees.

During the past three years Mr Streeter has also served as a director of the following other listed companies:

- Midas Resources Limited (\*) (since February 2003)
- Fox Resources Limited (\*) (since June 2005)
- Jubilee Mines NL (from 1993 to May 2004)

**Timothy King**  
*(Non Executive Director) – Resigned 28 April 2005*

(\*) denotes current directorship

### COMPANY SECRETARY

**Timothy Manners**  
*B.Bus, ACA, ACIS*

Mr Manners has been the Company Secretary since 28 April 2005 and the Chief Financial Officer since 1 June 2004. Mr Manners has over 10 years of resources experience in senior financial and corporate roles and is a qualified Chartered Accountant and Company Secretary.



## Interests in Shares and Options of the Company

As at the date of this report, the interest of the Directors in the shares and options of the Company are:

	Ordinary Shares	Options	
		\$0.40 (*)	\$2.30 (**)
D Boyer	1,202,850	400,000	200,000
J Hanna	1,325,765	400,000	200,000
D Cooper	697,100	400,000	200,000
T Streeter	28,105,651	-	200,000

\* Options are exercisable at 40 cents on or before 31 March 2006.

\*\* Options are exercisable at \$2.30 on or before 31 March 2006.

## Results

The net loss after tax of the Consolidated Entity for the year ended 30 June 2005 was \$3.8 million (2004:\$2.7 million).

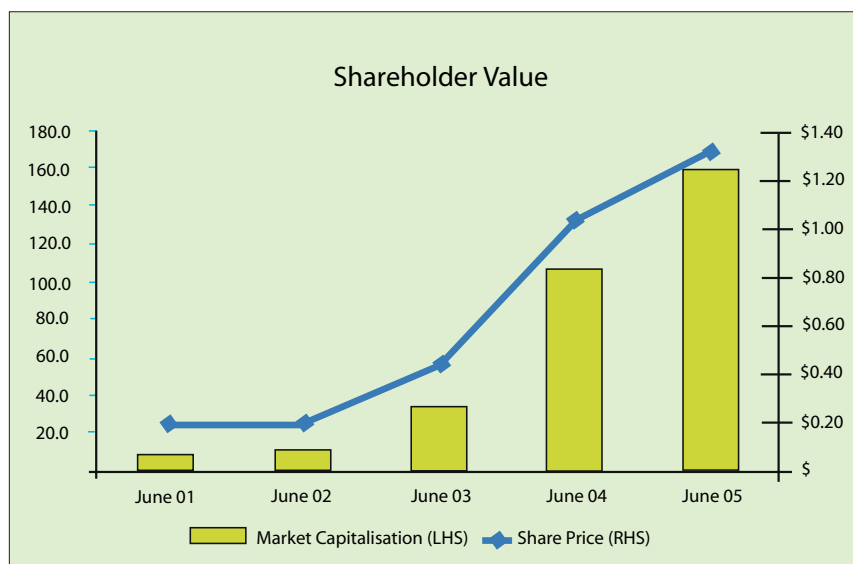
## Loss Per Share

Basic loss per share 3.29 cents

## Shareholder Returns

The Board are pleased to report that the ongoing exploration success at Forresteria and the commencement of development at Flying Fox has led to a 28% increase in share price during 2005 and a 50% increase in market capitalisation. Since the end of the financial year both share price and market capitalisation have continued to grow.

As the company is not yet generating earnings nor paying dividends, the share price and market capitalisation are the key indicators of shareholder value. The chart illustrates these 2 key indicators over the past 4 years.



## Principal Activities

The principal activities of the Consolidated Entity during the year consisted of the development of the Flying Fox Nickel mine and the exploration for nickel sulphides, platinum group metals and gold.

## Employees

The Consolidated Entity employed 14 employees as at 30 June 2005 (2004 : 7 employees).

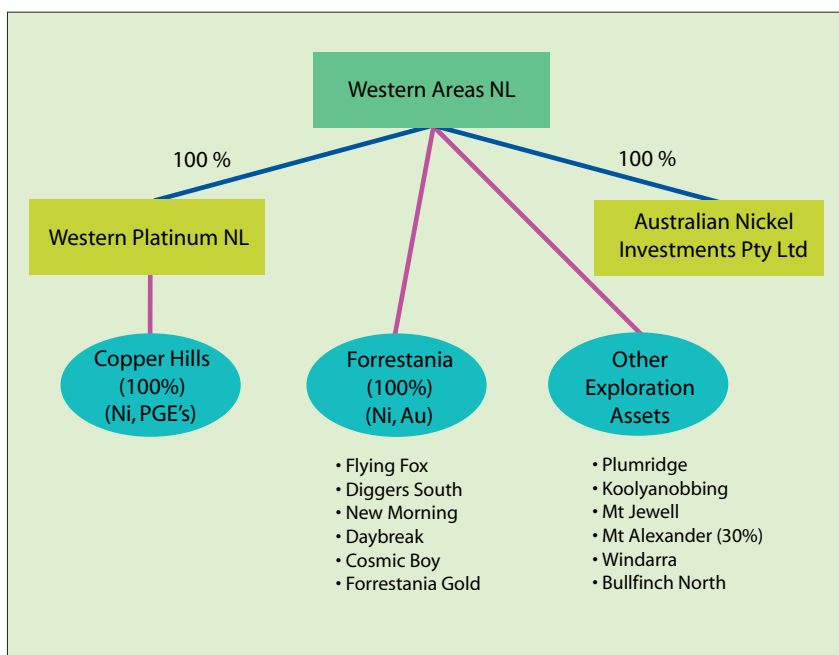
## Dividends

There were no dividends paid or recommended during the year and the directors do not recommend the payment of a dividend.

## CORPORATE INFORMATION

### Structure

Western Areas NL is a company limited by shares that is incorporated and domiciled in Australia. Western Areas NL has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are shown here along with the principal assets of each:



## OPERATING AND FINANCIAL REVIEW

### Group Overview

Western Areas NL was formed in 1999 and listed on the Australian Stock Exchange in July 2000. The objective of the Company has always been to create shareholder value through the discovery and development of valuable mineral deposits in Western Australia, notably nickel sulphide, gold and platinum group elements deposits.

### Flying Fox – T1

Western Areas is currently developing the high grade Flying Fox T1 nickel orebody at Forresteria. Mine development commenced in December 2004 and consists of twin underground declines to access T1 which has a Probable Ore Reserve of 314,500 tonnes @ 4.8% nickel containing approximately 15,000 tonnes of nickel. The first mine production from T1 is due to commence in August 2006 at an initial annualised production rate of approximately 6,000 tonnes of nickel in concentrate per annum.

The Company has secured a A\$37.2 million funding facility with the Commonwealth Bank of Australia and NM Rothschild & Sons (Australia) Ltd for the development of T1. A nickel offtake agreement has also been executed with LionOre (Australia) Nickel Ltd to sell the first 75,000 tonnes of nickel either in ore or in concentrate from Forresteria to LionOre.

### Flying Fox – T5

The Company is also conducting a bankable feasibility study ("BFS") for the proposed Stage Two expansion of the Forresteria Nickel Project. The BFS is due for completion in early 2006 when a decision to proceed with Stage Two is expected to be made. The BFS is evaluating the development of the high grade Flying

Fox T5 nickel deposit which has an Inferred Mineral Resource of 630,000 tonnes @ 6.9% nickel containing approximately 43,400 tonnes of nickel.

Assuming a positive outcome to the BFS, the T5 mine development is expected to commence in mid 2006. Given the outstanding widths and continuity of high nickel grades in T5, a mining rate of 200,000 tonnes per annum ("tpa") ore is considered to be achievable to produce approximately 10,000 tpa of nickel in concentrate. Western Areas has acquired a sulphide flotation plant which is planned to form the main component of a 250,000 tpa nickel concentrate plant to be constructed at Cosmic Boy in the centre of the Forresteria Nickel Project, 20km south of Flying Fox. Cosmic Boy has substantial existing infrastructure including roads, grid power, borefields, airstrip, tailings storage and Western Areas village with high quality accommodation for 95 people.

### Diggers South

Western Areas is also evaluating the development of a second mine, Diggers South, located 40km south of Flying Fox. Diggers South has a combined Indicated and Inferred Resource of 1,987,000 tonnes @ 1.5% nickel containing approximately 30,500 tonnes of nickel and is 500m south of the Digger Rocks mine where Outokumpu produced approximately 28,500 tonnes of nickel in concentrate between 1992 and 1999.

### Forresteria Exploration Activities

Drilling with three diamond drill rigs is continuing at Flying Fox with the main objectives of expanding high grade resources above the T1 orebody, at T4 and around the area of the current T5 resource. The Company



has announced a goal to increase resources at Flying Fox by 50% during the next 12 months. If this goal is achieved this would result in a total resource for Flying Fox containing approximately 100,000 tonnes of nickel.

The active exploration campaign that has been in progress at Forrestania during the past 12 months is expected to continue for an extended period. Exploration expenditure is approximately \$1.0 million per month with the majority directed towards drilling and geophysical surveys at Flying Fox and around other areas of known nickel mineralisation.

Several high priority targets have been identified for drilling in the September and December 2005 quarters, as soon as drill rigs become available. These targets include a large down hole EM conductor below the Daybreak nickel deposit 3km south of Flying Fox, two strong surface EM anomalies at Mt Hope 35km north of Flying Fox and a number of geochemical and structural targets along strike from the Cosmic Boy mine.

In addition, Western Areas is earning a 100% interest in the precious metals (gold) rights to the Forrestania tenements, previously held by Sons of Gwalia.

### **Regional Exploration Activities**

Although the main exploration effort is focussed on Forrestania, a number of exciting targets have also been identified at Western Areas' other regional exploration projects during the past 12 months. The following section highlights three base metals, nickel, platinum group elements targets:

#### **Copper Hills Project - (WSA 100%)**

*Gazza Prospect – base metals, nickel*

A geophysical survey of the Gazza Prospect in the Rudall Metamorphic Complex has identified three coincident EM and IP anomalies in an area of highly anomalous copper/lead/zinc and silver surface assays. The highest assays from previous sulphide gossan samples are: 7.8% copper, 9.3% lead, 3.8% zinc, 170 ppm (parts per million) silver and 0.6% nickel. The geology is dominated by a major east – west fault cutting a high grade metamorphic sequence. There has been no previous drilling in the Gazza area.

Drilling of the three EM/IP targets to 150m depth is scheduled to commence in September, 2005.

*Harbutt Range - PGE*

Harbutt Range is an intrusive complex 40km west of Gazza and was previously explored by CRA for uranium

in the 1980's. CRA intersected anomalous platinum and palladium in widely spaced drilling with intersections of 48m @ 0.25 ppm PGE, 21m @ 0.33ppm PGE and 10m @ 0.34 ppm PGE. (PGE = platinum plus palladium). The Harbutt Range tenements are awaiting granting.

Drilling is planned to test the potential for PGE accumulations along the mineralised intrusive contact when the tenements are granted and access is available. This is expected during the December 2005 quarter.

#### **Koolyanobbing East JV (WSA ~66%)**

*Deborah Prospect - nickel*

In the late 1960's, BHP conducted nickel exploration over a wide ultramafic sequence now included in a JV between Western Areas and Portman. BHP completed shallow drilling and six diamond drill holes to test several IP targets. Anomalous nickel (up to 1.4% Ni) was intersected at shallow depth and disseminated sulphide with trace pentlandite (nickel sulphide) was reported in the diamond drill holes. No work has been carried out since and the basal contact of the sequence is untested.

This is regarded as a high priority nickel target. A detailed EM survey is planned to test 3km strike length of the prospective contact to generate drilling targets as soon as access is available.

### **Review of Financial Position**

*Profitability*

The company's net loss this year was \$3.8 million, a 38% increase over that of 2004. The main reasons were higher employee expenses, due to an increase in company staff, and higher corporate and administration expenses.

*Capital Structure*

During the year 9.4 million shares were issued via two placements and 5.2 million shares via a non-renounceable rights issue. Combined, these raisings injected \$19.7 million into the Company.

As at 30 June 2005 the company had approximately 120 million shares on issue, with total shareholders equity standing at \$41.0 million. The company's debt/equity ratio at the end of the financial year was 20.2%. This is expected to rise over the next 12 months as the Flying Fox development continues, however the directors will continue to monitor the ratio to ensure it remains within optimal levels.

### *Liquidity & Funding*

At the end of the financial year the company had \$3.0 million in cash and cash equivalents.

Subsequent to the end of the financial year the company raised over \$7 million via a placement to a small number of Australian and UK institutions.

As at 30 June, 2005 the company had drawn a total of \$10.2 million of the LionOre debt facility. Subsequent to the end of the financial year the company entered into a new project funding facility with the Commonwealth Bank of Australia and NM Rothschild & Sons (Australia) Ltd. The facility totals \$37.2 million and replaces the existing facility with the Commonwealth Bank and the LionOre Funding Agreement. It will be used to repay the balance owing on the LionOre facility and to complete the development of the Flying Fox T1 nickel mine.

### *Treasury Policy*

The company has established a Treasury Risk Management policy and a set of procedures for managing the company's currency, commodity and credit risks as well as its debt facilities. A Treasury Committee has been formed which comprises the CEO, the CFO and Mr David Cooper, an independent, non executive director.

The Treasury Committee operates within policies set by the Board.

The aim of the Treasury Risk Management policy is to ensure that the company establishes any hedging that may be required under its finance facilities from time to time in a balanced and measured way yet maintain exposure to the spot A\$ nickel price.

### *Risk Management*

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives and activities are aligned with those risks and opportunities.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include:

- Board approval of a strategic plan, which encompasses the Board's objectives and strategies along with identifying risks and plans to manage such;
- Implementation of Board approved operating budgets and plans and monitoring the actual progress against these;
- Establishment of an Audit & Risk Management Committee and a Treasury Risk Management

Committee to report on specific business risks; and

- Dissemination of a Risk Management Policy guide to be used throughout the company in identifying and communicating business risks.

### **Significant Changes in the State of Affairs**

Significant developments for the Consolidated Entity during the year ended 30 June 2005 were as follows:

- a) The parent entity made 2 placements during the financial year issuing a total of 9,365,000 fully paid ordinary shares and raising a total of \$13,829,116 (net of expenses). A total of 890,000 unlisted options were also exercised during the financial year at various exercise prices, raising a total of \$685,100.
- b) In accordance with the prospectus lodged with the ASX and the ASIC on 13 July, 2004, the company successfully completed a 1 for 20 rights issue, raising \$4,962,110 from the issue of 5,223,326 shares at \$0.95 per share.
- c) The Company issued 2,049,500 shares in September 2004 to Jungle Creek Gold Mines Pty Ltd, an associated entity of Mr Terence Streeter, as repayment of the principal and interest owing from a \$2,000,000 loan made to the company in June 2004. The shares were issued at \$1.00 each and were approved by shareholders in general meeting.
- d) In December 2004 the Company commenced development of the first stage of the Forrestania Nickel project, being the high grade Flying Fox T1 ore zone. The T1 zone contains a JORC compliant Ore Reserve of 314,500 tonnes @ 4.77% nickel. Development of Flying Fox T1 is scheduled to reach the ore zone in the September quarter 2006.
- e) On 4 August, 2004 the company announced the discovery of what became the T4 and T5 mineralised zones of Flying Fox. Over the year continued exploration success has enabled the company to produce an Inferred Resource on the T5 zone of 630,000 tonnes at 6.9% nickel for 43,400 tonnes of nickel.
- f) In February 2005 the Company entered into a \$20 million Project Finance Facility with the Commonwealth Bank of Australia ("Commbank"). This facility, in conjunction with the \$20 million facility provided by LionOre Australia (Nickel) Ltd in June 2004 is to be used to fund the development of the Flying Fox T1 ore body. Both facilities were refinanced subsequent to the end of the financial year.



## Matters Subsequent to the end of the Financial Year

Subsequent to the end of the Financial Year:

- (a) An initial resource on the company's T5 deposit at Flying Fox of 630,000 tonnes at 6.9% nickel for 43,400 tonnes of nickel was announced on 4 July 2005. The company has commenced a feasibility study into the development of the T5 resource as part of Stage 2 of the Forrestania Nickel Project. The feasibility study will include resource infill and geotechnical drilling, mining and hydrological studies, evaluation of constructing a treatment plant at Cosmic Boy and environmental studies.
- (b) On 25 July, 2005 the company entered into a project funding facility with the Commonwealth Bank of Australia and NM Rothschild & Sons (Australia) Ltd. The facility totals \$37.2 million and replaces the existing facility with the Commonwealth Bank and the LionOre Funding Agreement. It will be used to repay the balance owing on the LionOre facility and to complete the development of the Flying Fox T1 nickel mine.

## Likely Developments

The directors foresee that the 2005/6 financial year will be one of development and growth for the consolidated entity. The most significant areas of development and change will be:

- Continuation of the mine development of the Group's flagship Flying Fox mine with first production of ore scheduled for early in the September quarter, 2006;
- The entity will undertake a full feasibility study on Stage 2 of the Flying Fox mine, being the deeper T5 resource and the construction of a processing plant at the Cosmic Boy site; and
- The entity will aim to expand and grow its asset base through the identification of base and precious metal opportunities in Australia and overseas.

## Environmental Regulation and Performance

The Consolidated Entity has conducted exploration and development activities on mineral tenements. The right to conduct these activities is granted subject to environmental conditions and requirements. The Consolidated Entity aims to ensure a high standard of environmental care is achieved and, as a minimum, to comply with relevant environmental regulations. There have been no known breaches of any of the environmental conditions.

## Share Options

### *Unissued Shares*

As at the date of this report there were 4,568,000 options over unissued ordinary shares in the parent entity. Refer to note 16(c) of the financial statements for further details of the options outstanding. 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 issue of any other registered scheme.

### *Shares issued as a result of the exercise of options*

During the financial year options have been exercised to acquire 890,000 fully paid ordinary shares in Western Areas NL at a weighted average exercise price of \$0.77.

## Directors' benefits

No directors of the Consolidated Entity have, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in Note 26 to the accounts) by reason of a contract made by the parent entity or a related body corporate with the director or with any entity in which the director has a substantial financial interest, with the exception of benefits that may be deemed to have arisen in relation to the transactions entered into in the ordinary course of business as disclosed in Note 27 to the accounts.

## Insurance of Officers

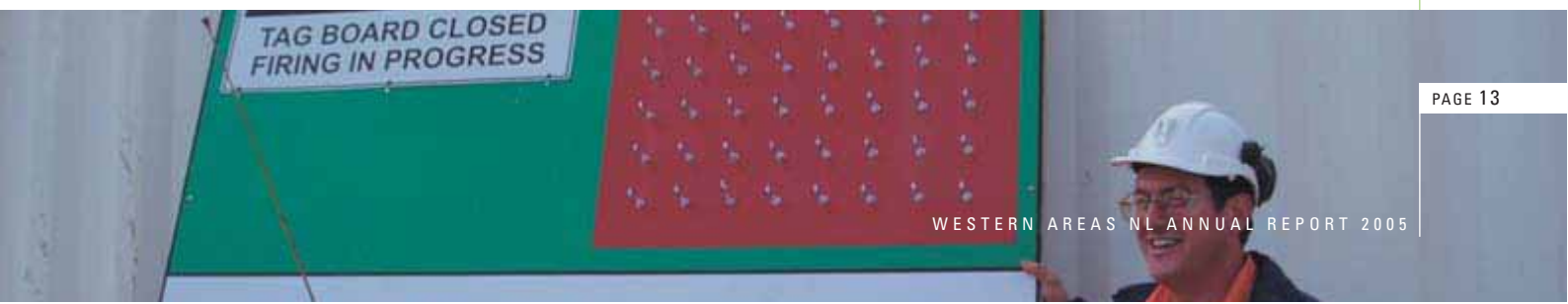
During the financial period, the parent entity paid a premium under a contract insuring all Directors and Officers of the Consolidated Entity against liability incurred in that capacity. Disclosure of the nature of liabilities insured and the premium is subject to a confidentiality clause under the contract of insurance.

## Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

## Auditor's Independence Declaration

The Auditor's Independence Declaration to the directors of Western Areas NL on page 19 forms part of the Director's Report for the year ended 30 June 2005.



### Non Audit Services

The following non-audit services were provided by the entity's auditor, Grant Thornton. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised for the following reasons:

- all non audit services are reviewed and approved by the Board and the Audit & Risk Management Committee prior to commencement to ensure they do no adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following amounts were received by Grant Thornton for non-audit services:

Accounting Advice (IFRS)	\$8,000
Due Diligence Services	\$5,350
	<hr/>
	\$13,350

### REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Western Areas NL.

#### Remuneration Committee

The Remuneration Committee of the Board of Directors of Western Areas is responsible for determining compensation arrangements for the directors and the senior management team.

Remuneration levels and other terms of employment for the directors and the senior management team are reviewed at least annually by the committee, having regard to qualifications and experience, relevant market conditions, and performance against goals set each year.

The committee assesses the appropriateness of the remuneration levels to ensure the Company is able to attract and retain high quality executives.

#### Remuneration Philosophy

The company recognises that Western Areas operates in a global environment and to prosper in such it must

attract, motivate and retain personnel of the highest calibre.

The principles supporting the Company's remuneration policy are that:

- Reward reflects the competitive global market in which we operate;
- Individual reward is based on performance across a range of disciplines that apply to delivering results for the company;
- Executive remuneration is linked to the creation of shareholder value; and
- Remuneration arrangements are equitable and fair and facilitate the deployment of senior management across the company.

### Remuneration Structure

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

#### Non Executive Director Remuneration

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

The aggregate remuneration of non-executive directors is determined from time to time by shareholders in a general meeting. An amount not exceeding the approved amount is then divided between the directors as determined by the Remuneration Committee. The latest approval was at the general meeting held on 7 September 2005 when shareholders approved an aggregate remuneration of \$400,000 per year.

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

It is an objective of the company to encourage directors to own shares in Western Areas. To facilitate this, the company has created a Director Option Incentive Program which is structured to align director rewards directly with the creation of shareholder value. Each option issue must be approved by the company's shareholders in a general meeting.

During the 2005 Financial Year 1,000,000 options were issued to the directors of the company under this program. This issue was approved by the shareholders at the 2004 Annual General Meeting.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The remuneration of non executive directors for the period ending 30 June 2005 is detailed in note 26 to the Financial Statements.

### **Executive Director and Senior Management Remuneration**

The company aims to reward executives with a level and mix of remuneration commensurate with their position, experience and responsibilities within the company. The objective is to:

- Reward executives for their individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of the shareholders; and
- Ensure the total remuneration is competitive by market standards.

The company's reward structure combines fixed remuneration, short and long term incentives.

#### *Fixed*

The fixed remuneration component is reviewed annually by the Remuneration Committee. The committee has access to external independent advice to ensure that the remuneration levels set meet the objects of the company.

#### *Short Term Incentive (STI)*

The objective of STI's is to link the achievement of key company operational targets with the remuneration received by those executives charged with meeting those targets.

At this stage in the Company's growth it is considered inappropriate to establish too many STI programs. The only one in existence at the moment relates to the development targets set for the Flying Fox decline. The General Manager – Operations is the only senior executive able to participate in this reward program.

To date no payments under an STI have been made.

#### *Long Term Incentive (LTI)*

The objective of the LTI plan is to reward senior management in a manner that aligns this element of remuneration with the creation of shareholder wealth.

The structure of the company's LTI program is an Employee Share Option Incentive Scheme which was

established and approved by shareholders on 26 August, 2004. At the discretion of the Board, participation in the scheme is offered to all key executives of the group, except the Managing Director. The Managing Director participates in the Director Option Incentive Program.

Details of all of the remuneration components for the executive director and senior managers are provided in Note 26 to the Financial Statements.

#### *Employment Contracts*

The CEO, Mr Hanna, is employed under contract. The contract commenced in March 2000 and expires on termination of employment. Under the terms of the contract:

- Mr Hanna may resign from his position and thus terminate the contract by giving 6 weeks written notice. On resignation any options will remain in existence under the terms they were issued.
- The company may terminate the employment contract by giving 3 months written notice. This notice period is reduced to 6 weeks in the event the termination is due to serious misconduct or wilful neglect in the discharge of his duties. Any options will remain in existence under the terms they were issued.
- The Company may terminate the employment of the CEO by giving 3 months notice if the CEO's position becomes redundant or there is a change to the core activity of the Company or if the CEO is removed from his position without his consent. In this case, the CEO is entitled to a termination payment equal to 12 months pay. Any options will remain in existence under the terms they were issued.

There are also employment contracts in place for the Chief Financial Officer and the General Manager – Operations. These contracts will be in place until termination of employment. Termination can occur by either the employee or the company having given 6 weeks written notice. The CFO and the General Manager – Operations are not entitled to any termination payments over and above the statutory amounts owing at that time.





## Directors' Report continued

Details of the nature and amount of each element of the emoluments of directors and executives of the parent entity are set out in the following tables.

### Director Remuneration for the Year Ended 30 June 2005

		Primary Benefits		Post Employment	Equity	TOTAL
		Base Salary	Non Monetary	Superannuation	Options	
		\$	\$	\$	\$	\$
D Boyer	2005	70,000	775	6,300	30,422	107,497
	2004	43,336	-	3,900	-	47,236
J Hanna	2005	220,000	2,074	19,800	30,422	272,296
	2004	164,000	3,835	14,760	-	182,595
D Cooper	2005	50,000	775	4,500	30,422	85,697
	2004	24,664	-	2,220	-	26,884
T King (*)	2005	41,666	611	3,750	30,422	76,449
	2004	24,664	-	2,220	-	26,884
T Streeter	2005	50,000	775	4,500	30,422	85,697
	2004	24,664	-	2,220	-	26,884

(\*) Mr King resigned from the company on 28 April, 2005.

### Remuneration for Company's Executive Officers who received the highest remuneration for the Year Ended 30 June 2005

		Primary Benefits		Post Employment	Equity	TOTAL
		Base Salary	Non Monetary	Superannuation	Options	
		\$	\$	\$	\$	\$
T Manners	2005	178,416	1,393	17,842	33,774	231,425
	2004	14,752	-	1,475	-	16,227
B Dawes	2005	180,000	1,393	16,200	33,774	231,367

Notes:

- There are no other executives of Western Areas NL or related bodies corporate. Executive Officers are those directly accountable and responsible for the operational management and strategic direction of the company and the Consolidated Entity.
- T Manners and B Dawes commenced employment with the Company on 1 June 2004 and 1 July 2004 respectively.
- The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.
- The elements of emoluments have been determined on the basis of the cost to the company and the Consolidated Entity.

### Options Granted as part of remuneration for the Year Ended 30 June 2005.

	Grant Date	Grant Number	Vest	Value per option at grant date	Number exercised	Value per option at exercise date	Value at date option lapsed	% of remuneration
D Boyer	26 Nov 04	200,000	26 Nov 04	\$0.152	nil	n/a	n/a	28.5%
J Hanna	26 Nov 04	200,000	26 Nov 04	\$0.152	nil	n/a	n/a	11.2%
D Cooper	26 Nov 04	200,000	26 Nov 04	\$0.152	nil	n/a	n/a	35.8%
T King	26 Nov 04	200,000	26 Nov 04	\$0.152	nil	n/a	n/a	40.1%
T Streeter	26 Nov 04	200,000	26 Nov 04	\$0.152	nil	n/a	n/a	35.8%
T Manners	1 Aug 04	300,000	(*)	\$0.338	nil	n/a	n/a	14.6%
B Dawes	1 Aug 04	300,000	(*)	\$0.338	nil	n/a	n/a	14.6%

(\*) In accordance with the Employee Share Option Incentive Scheme, 1/3 of the options granted vest on the grant date itself, a further 1/3 12 months after the grant date and the final 1/3 24 months after the grant date.

## Fair Value of Options

The fair value of each option is estimated on the date of granting using the Black & Scholes option pricing model. The following assumptions were applied in each case:

<i>Issued under :</i>	Employee Share Option Incentive Scheme	Director Incentive Options
Grant Date	1 August 2004	26 November 2004
Ave share price over 12 months prior to grant	\$1.10	\$1.22
Dividend Yield	0 %	0 %
Expected & Historical Volatility	74.5%	74.5%
Risk Free Interest Rate	5.41 %	5.41 %
Expected Life of the Option	4 years	1.5 years

The fair values of the options issued have not been expensed. If they had been, there would be an increase in the employee benefits expense of \$322,153 in the 2005 financial year.

## Meetings of Directors

The following table sets out the number of meetings of the parent entity's directors and meetings of the sub-committees of the Board held during the year ended 30 June 2005 and the number of meetings attended by each director.

	Directors Meetings	Meetings of Committees		
		Audit & Risk Management	Remuneration	Nomination
<b>Number of Meetings held :</b>	12	4	3	2
<b>Number of Meetings attended :</b>				
D Boyer	10	4	3	2
J Hanna	12	-	-	-
D Cooper	11	4	3	2
T King (*)	10	3	-	-
T Streeter	12	1 (^)	3	2

(\*) Mr King attended all Board & Committee meetings prior to his resignation on 28 April 2005

(^) Mr Streeter attended the only Audit & Risk Management Committee meeting held whilst he was a member of that committee.

## Committee Membership

As at the date of this report, the company had an Audit & Risk Management Committee, a Remuneration Committee, and a Nomination Committee of the board of directors. Members acting on the committees of the board during the year were:

<b>Audit &amp; Risk Management</b>	<b>Remuneration</b>	<b>Nomination</b>
D Cooper ©	D Cooper ©	D Boyer ©
D Boyer	D Boyer	D Cooper
T Streeter (^)	T Streeter	T Streeter

© denotes the chairman of the committee

(^) Mr Streeter was appointed to the committee upon the resignation of Mr King on 28 April, 2005.



### Corporate Governance

In recognising the need for the highest standards in corporate behaviour and accountability, the directors of Western Areas NL support and, unless otherwise stated, adhered to the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations".

The company's corporate governance statement is contained in the following section of this report.

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

A handwritten signature in black ink, appearing to be 'J. Hanna', with a long horizontal flourish extending to the right.

J. Hanna

Executive Director

Dated this 6th day of September 2005

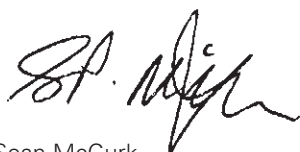


## AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Western Areas NL for the year ended 30 June 2005, 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.



Sean McGurk

Partner


Grant Thornton

Perth, Western Australia

Dated this 6th day of September 2005

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Consultant: V Zappavigna



## Corporate Governance Statement

The Board of Directors of Western Areas NL is responsible for the corporate governance of the Consolidated Entity. The Board guides and monitors the business and affairs of Western Areas on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" (the "Recommendations"), the Corporate Governance Statement must contain certain specific information and must disclose the extent to which the company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure.

During the current financial year the Board of Directors has developed and implemented changes to ensure that an appropriate and optimal level of corporate governance was in place during this year. The Board has taken into consideration the nature of the governance matter, the impact of immediate or accelerated change to comply on the company and the issues (particularly risks) associated with deferred implementation. Where compliance has not been achieved explanations are provided.

Other than as highlighted in this Statement, Western Areas' corporate governance practices were in place throughout the year and were compliant with the Council's best practice recommendations.

For further information on corporate governance policies adopted by the company, refer to our website:

**[www.westernareas.com.au](http://www.westernareas.com.au)**

### Structure of the Board

The skills, experience and expertise relevant to the position held by each director in office at the date of the annual report is included on page 1. One of the Council's recommendations is that the Board of Directors should comprise a majority of independent Directors. Directors of Western Areas NL are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to influence the direction of the company.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Western Areas NL are considered to be independent:

Name	Position
D Boyer	Chairman, Non Executive Director
D Cooper	Non Executive Director

At the date of this report and throughout the financial year, Western Areas NL has not complied with the Council's recommendation of having the majority of the Board comprise independent directors. However, the company is committed to a process of bringing on new, independent directors to the Board as it grows and heads toward becoming a successful nickel producer.

The Board has in place a Charter which defines the role and structure of the Board. It also outlines the Board's ability to delegate authority to the Managing Director and Senior Management of the company and highlights the procedures in place to enable directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

Each Director has been in office since the company was incorporated, in December 1999.

### **Nomination Committee**

The Board has established a nomination committee to assess the necessary and desirable competencies of a board member and to evaluate the board's performance. The committee shall also review board succession plans and make recommendations for the appointment and removal of directors. The committee operates under a charter approved by the Board.

The nomination committee was formed during the 2004 financial year and since being formed comprised the following members:

D Boyer (chairman)  
D Cooper  
T Streeter

For details of directors' attendance at meetings of the nomination committee, refer to page 17 of this report.

During the year the nomination committee conducted one performance evaluation, which involved an assessment of each board members performance against specific qualitative and quantitative criteria.

### **Audit & Risk Management Committee**

The Board has established an audit & risk management committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Consolidated Entity to the audit & risk management committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are non-executive directors. At the date of this report the members of the audit & risk management committee are:

D Cooper (chairman)  
D Boyer  
T Streeter

Mr King resigned from the committee on 28 April 2005 and was replaced by Mr Streeter.

Refer to page 1 of this report for the qualifications and experience of the members of the audit & risk management committee.

For details on the number of meetings of the audit & risk management committee held during the year and the attendees at those meetings, refer to page 17 of this report.

### **Remuneration**

The Board has established a remuneration committee, which operates under a charter approved by the Board.

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions.

To assist in achieving this objective the remuneration committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives;
- Attraction of quality management to the company; and
- Performance incentives which allow executives to share the rewards of the success of the company.

A full discussion of the company's remuneration philosophy and framework along with details on the amount of remuneration received by directors and executives during the year is provided in the Remuneration Report, which is contained within the Directors' Report (page 14).

Since formation the members of the remuneration committee are:

D Cooper (chairman)  
D Boyer  
T Streeter

For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, refer to page 17 of this report.

For further details regarding the Board's committees refer to our website [www.westernareas.com.au](http://www.westernareas.com.au)

### **Board and Executive Performance**

The performance of the board and key executives is reviewed against both measurable and qualitative indicators. The performance criteria against which directors and executives are assessed is aligned with the financial and non-financial objectives of Western Areas NL.





## Statement Of Financial Performance

For The Year Ended 30 June 2005

	Notes	Consolidated Entity		Parent Entity	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Revenues from ordinary activities	2	302	95	302	95
Employee expenses		(927)	(389)	(927)	(389)
Borrowing expenses	3	(49)	(27)	(49)	(27)
Exploration assets written off/down	3	(1,258)	(1,330)	(1,258)	(1,254)
Other expenses from ordinary activities		(1,822)	(1,070)	(1,821)	(1,069)
Loss from ordinary activities before income tax expense		(3,754)	(2,721)	(3,753)	(2,644)
Income tax expense relating to ordinary activities	4	-	-	-	-
Net loss attributable to members of the parent entity	18	<b>(3,754)</b>	<b>(2,721)</b>	<b>(3,753)</b>	<b>(2,644)</b>
Share issue costs charged direct to equity	16 (b)	(1,228)	(770)	(1,228)	(770)
Total changes in equity other than those resulting from transactions with owners as owners		<b>(4,982)</b>	<b>(3,491)</b>	<b>(4,981)</b>	<b>(3,414)</b>
Basic loss per share (cents per share)	19	(3.29)	(3.07)		

The accompanying notes form part of these financial statements.

## Statement Of Financial Position

For The Year Ended 30 June 2005

	Notes	Consolidated Entity		Parent Entity	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
<b>Current Assets</b>					
Cash assets	20 (b)	3,003	5,010	3,003	5,010
Receivables	6	599	525	599	525
<b>Total Current Assets</b>		<b>3,602</b>	<b>5,535</b>	<b>3,602</b>	<b>5,535</b>
<b>Non Current Assets</b>					
Receivables	7	-	-	1,266	1,007
Other financial assets	8	-	-	3	2
Buildings, plant and equipment	9	4,587	507	4,587	507
Exploration, evaluation & development	10	48,644	23,910	47,457	22,982
Other	11	1,216	-	1,216	-
<b>Total Non Current Assets</b>		<b>54,447</b>	<b>24,417</b>	<b>54,529</b>	<b>24,498</b>
<b>Total Assets</b>		<b>58,049</b>	<b>29,952</b>	<b>58,131</b>	<b>30,033</b>
<b>Current Liabilities</b>					
Payables	12	5,340	3,782	5,340	3,782
Interest bearing liabilities	13	64	2,537	64	2,537
Provisions	14	91	36	91	36
<b>Total Current Liabilities</b>		<b>5,495</b>	<b>6,355</b>	<b>5,495</b>	<b>6,355</b>
<b>Non Current Liabilities</b>					
Interest bearing liabilities	13	10,308	-	10,308	-
Provisions	14	561	-	561	-
Other	15	685	-	685	-
<b>Total Non Current Liabilities</b>		<b>11,554</b>	<b>-</b>	<b>11,554</b>	<b>-</b>
<b>Total Liabilities</b>		<b>17,049</b>	<b>6,355</b>	<b>17,049</b>	<b>6,355</b>
<b>Net Assets</b>		<b>41,000</b>	<b>23,597</b>	<b>41,082</b>	<b>23,678</b>
<b>Equity</b>					
Contributed equity	16	49,325	28,168	49,325	28,168
Reserves	17	57	57	57	57
Accumulated losses	18	(8,382)	(4,628)	(8,300)	(4,547)
<b>Total Equity</b>		<b>41,000</b>	<b>23,597</b>	<b>41,082</b>	<b>23,678</b>

The accompanying notes form part of these financial statements.



## Statement Of Cash Flows

For The Year Ended 30 June 2005

		Notes	Consolidated Entity		Parent Entity	
			2005	2004	2005	2004
			\$'000	\$'000	\$'000	\$'000
<b>Cash Flows From Operating Activities</b>						
Interest received			230	85	230	85
Interest paid			(75)	-	(75)	
Cash receipts in the course of operations			-	1,633	-	1,633
Cash payments to suppliers and employees			(2,573)	(1,422)	(2,572)	(1,421)
Other receipts			106	15	106	15
<b>Net Cash From / (Used in) Operating Activities</b>		20 (a)	<b>(2,312)</b>	<b>311</b>	<b>(2,311)</b>	<b>312</b>
<b>Cash Flows From Investing Activities</b>						
Investment in controlled entity			-	-	(1)	-
Purchase of plant and equipment			(4,026)	(441)	(4,026)	(441)
Receipt/(Deposit) of performance bonds			337	(342)	337	(342)
Mine development			(8,647)	-	(8,647)	-
Exploration & evaluation activities			(15,082)	(13,153)	(14,823)	(12,527)
<b>Net Cash Used In Investing Activities</b>			<b>(27,418)</b>	<b>(13,936)</b>	<b>(27,160)</b>	<b>(13,310)</b>
<b>Cash Flows From Financing Activities</b>						
Proceeds from borrowings			10,000	-	10,000	-
Proceeds from issue of shares			20,336	15,118	20,336	15,118
Loan to controlled entity			-	-	(259)	(627)
Loan from director related entity			-	3,000	-	3,000
Finance lease principal repayments			(27)	-	(27)	-
Borrowing costs			(531)	-	(531)	-
Payments for prospectus expenses			(1,518)	(480)	(1,518)	(480)
<b>Net Cash From Financing Activities</b>			<b>28,260</b>	<b>17,638</b>	<b>28,001</b>	<b>17,011</b>
Net Increase / (Decrease) in cash held			(1,470)	4,013	(1,470)	4,013
Cash as at 1 July, 2004			4,473	460	4,473	460
<b>Cash as at 30 June 2005</b>		20 (b)	<b>3,003</b>	<b>4,473</b>	<b>3,003</b>	<b>4,473</b>
The accompanying notes form part of these financial statements.						



## Notes To And Forming Part Of The Financial Statements

For The Year Ended 30 June 2005

### 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 Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the Consolidated Entity of Western Areas NL and its controlled entities (the "Consolidated Entity"), and Western Areas NL as an individual parent entity. Western Areas NL is a listed public company, incorporated and domiciled in Australia. Its controlled entities are wholly owned subsidiaries, incorporated and domiciled in Australia.

The financial report has been prepared on a historical cost basis and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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

#### (a) Principles of Consolidation

A controlled entity is an entity controlled by Western Areas NL. Control exists where Western Areas NL has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Western Areas NL to achieve the objectives of Western Areas NL. Information on the controlled entities is contained in Note 8 to the financial statements.

All inter-company balances and transactions between entities in the Consolidated Entity have been eliminated on consolidation.

#### (b) Buildings, Plant and Equipment

Each item of plant and equipment is carried at cost less, where applicable, any accumulated depreciation. The carrying amount of buildings, plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from these assets.

##### *Depreciation*

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Consolidated Entity commencing from the time the asset is held ready for use. The depreciation rates used for each major type of depreciable assets are:

Type of Fixed Asset	Depreciation Rate
Buildings	5-10%
Plant and equipment	20-27%
Motor vehicles	23%
Furniture and fittings	10-15%

#### (c) 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 and/or disposal 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.

Accumulated costs in relation to an abandoned or sold area are written off in full against profit in the year in which the decision to abandon or sell 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. Where it is determined that uncertainty exists as to the ability to recoup carry forward exploration, evaluation and development costs a provision will be raised against the asset and charged against profit in the year that determination is made.

#### (d) Income Tax

The Consolidated Entity adopts the liability method of tax effect accounting whereby the income tax expense is based upon the profit from ordinary activities adjusted for permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless realisation of the asset is assured beyond reasonable doubt except however to the extent that the company has sufficient assessable timing differences.

Western Areas NL and its wholly owned subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime from 1 July 2002. Western Areas NL is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group.

#### (e) Leases

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

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised and disclosed as plant and equipment under finance lease. A lease liability of equal value is also recognised in accordance with the requirements of AASB 1008 "Leases".

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability. The interest expense is charged direct to the Statement of Financial Performance.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

#### **(f) Cash**

For the purpose of statements of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts, and investments in money market instruments with less than 14 days to maturity.

#### **(g) Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from salaries and wages, annual leave and sick leave which will be settled after one year, have been measured at their nominal amount.

Contributions are made by the Consolidated Entity to employee superannuation funds and are charged as expenses when incurred.

#### **(h) Restoration Costs**

Costs of site restoration are provided for over the life of the facility from when exploration commences and are included in the costs of that stage. The costs include obligations relating to reclamation, waste dump rehabilitation and other costs associated with restoration and rehabilitation of the site.

#### **(i) Revenue**

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

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

#### **(j) Derivative Financial Instruments**

Derivative financial instruments are used by the Consolidated Entity to hedge exposures to commodity prices and foreign currency exchange rates.

Hedging gains and losses, including costs of entering into hedging transactions, are accounted for on the same basis as the underlying physical exposure that is being hedged. Accordingly, hedging settlements will be included in the Statement of Financial Performance at the same time as the underlying physical transaction is also recognised in the Statement of Financial Performance.

#### **Unrealised Gains / Losses on Foreign Exchange Contracts**

In accordance with AASB 1012 "Foreign Currency Translation" the company records the value of its USD foreign exchange hedge book on the Statement of Financial Position. The amount so recorded is the value of the foreign exchange derivative financial instruments held by the company at balance date, valued against the spot USD/AUD exchange rate at balance date. This is referred to as the spot mark to market value of the hedge book.

Where an unrealised foreign exchange asset exists on the spot mark to market of the company's USD hedge book, it is brought to account as an asset. The corresponding unrealised foreign exchange gain is brought to account as a liability.

#### **(k) Interests in Joint Ventures**

The Consolidated Entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated statements of financial performance and financial position where material. Details of the Consolidated Entity's interests in material joint ventures, are shown at Note 28.

#### **(l) Borrowing Costs**

Borrowing establishment costs, including establishment fees and legal costs are capitalised and written off over the term of that borrowing facility.

#### **(m) Interest Bearing Liabilities**

All loans are measured at the principal amount with interest being recognised as an expense as it accrues.

Interest on project funding facilities are capitalised as they are incurred and form part of the development cost of a particular asset. The capitalised interest is then amortised over the life of the asset against which the funds were borrowed.

Finance lease liabilities are determined in accordance with AASB 1008 "Leases". Refer to note 1(e) to these financial statements.

#### **(n) Receivables**

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful debts.

#### **(o) Payables**

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

**(p) Recoverable Amount**

Non current assets measured at cost are not carried at an amount above their recoverable amount. Where a carrying value exceeds this recoverable amount the asset is written down. 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 their present values in determining recoverable amounts.

**(q) Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary

shares are recognised directly in equity as a reduction of the share proceeds received.

**(r) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the 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 Statement of Financial Position are shown inclusive of GST.

**(s) Comparative Figures**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

		Consolidated Entity		Parent Entity	
	Notes	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>NOTE 2: REVENUE</b>					
- Interest received		302	85	302	85
- Other revenue		–	10	–	10
<b>Total Revenue</b>		<b>302</b>	<b>95</b>	<b>302</b>	<b>95</b>
<b>NOTE 3: LOSS FROM ORDINARY ACTIVITIES</b>					
Loss from ordinary activities before income tax has been determined after charging the following expenses:					
- Depreciation of non-current assets		130	42	130	42
- Rental expenditure - operating leases		109	90	109	90
- Exploration assets written off/down		1,258	1,330	1,258	1,254
- Tender costs written off		–	80	–	80
- Borrowing costs expensed:					
Interest expense - borrowings		249	27	249	27
Interest expense - finance leases		7	–	7	–
Other borrowing costs		531	–	531	–
Total borrowing costs		787	27	787	27
Less: interest expense capitalised	10	(207)	–	(207)	–
Less: borrowing costs capitalised	11	(531)	–	(531)	–
Total Borrowing Costs Expensed		49	27	49	27



Notes	Consolidated Entity		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>NOTE 4: INCOME TAX</b>				
Prima facie tax payable on loss from ordinary activities at 30 % (2004:30%):	(1,126)	(816)	(1,126)	(793)
Less the tax effect of:				
- Losses not brought to account	1,126	816	1,126	793
Income tax expense attributable to ordinary activities:	—	—	—	—
The company does not have a current year income tax expense as it has no taxable profits.				
<i>Deferred Tax Assets &amp; Liabilities</i>				
Future Income Tax Benefits (at 30%)	9,299	5,930	9,008	5,715
Deferred Tax Liabilities (at 30%)	9,299	5,930	9,008	5,715

The future income tax benefit has only been recognised to the extent that there exists sufficient assessable deferred tax liabilities. The deferred tax liabilities represent the immediate tax deductions available to the company from its expenditure on eligible exploration activities. The above asset and liability have been set-off in accordance with AASB 1020 "Accounting for Income Tax".

Future income tax benefits not brought to account, the benefits of which will only be realised if the conditions for deductibility set out below occur:

Tax losses carried forward (at 30%)	<b>2,463</b>	<b>1,337</b>	<b>2,439</b>	<b>1,313</b>
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The benefits will only be obtained if:

- a) the Consolidated Entity derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for these losses to be realised;
- b) the Consolidated Entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- c) no changes to tax legislation adversely affect the Consolidated Entity realising the benefit from the deductions for the losses.

## *Tax Consolidation*

Effective 1 July 2002, for the purposes of income tax, Western Areas NL and its 100% owned subsidiaries formed a tax consolidated group. There are no material financial impacts on the Group or any of its 100% owned subsidiaries as a result of entering into the tax consolidations regime.

## **NOTE 5: DIVIDENDS**

No dividends have been declared or paid during this financial year.

## **NOTE 6: CURRENT RECEIVABLES**

Other debtors	6 (a)	88	52	88	52
Performance bonds		—	354	—	354
GST refund due		511	119	511	119
		<b>599</b>	<b>525</b>	<b>599</b>	<b>525</b>

(a) Other debtors are non interest bearing.

		Consolidated Entity		Parent Entity	
	Notes	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>NOTE 7: NON CURRENT RECEIVABLES</b>					
Amounts due from controlled entities	7 (a)	–	–	<b>1,266</b>	<b>1,007</b>

(a) Amounts due from controlled entities are non interest bearing.

#### NOTE 8: OTHER FINANCIAL ASSETS

Investments at cost

- Controlled entities (unlisted)	–	–	<b>3</b>	<b>2</b>
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#### Interests in Subsidiaries:

Name	Country of Incorporation	Percentage of equity held by the Consolidated Entity		Investment	
		2005 %	2004 %	2005 \$'000	2004 \$'000
Western Platinum NL	Australia	100 %	100 %	2	2
Australian Nickel Investments Pty Ltd (*)	Australia	100 %	–	1	–
				<b>3</b>	<b>2</b>

(\*) Australian Nickel Investments Pty Ltd was incorporated on 29 October 2004.

#### NOTE 9: BUILDINGS, PLANT AND EQUIPMENT

Buildings – at cost	3,069	–	3,069	–
Accumulated Depreciation	–	–	–	–
	<b>3,069</b>	<b>–</b>	<b>3,069</b>	<b>–</b>
Plant & Equipment – at cost	1,488	592	1,488	592
Accumulated Depreciation	(178)	(85)	(178)	(85)
	<b>1,310</b>	<b>507</b>	<b>1,310</b>	<b>507</b>
Plant and Equipment under lease	245	–	245	–
Accumulated Depreciation	(37)	–	(37)	–
	<b>208</b>	<b>–</b>	<b>208</b>	<b>–</b>
Total Buildings, Plant & Equipment - at cost	4,802	592	4,802	592
Accumulated Depreciation	(215)	(85)	(215)	(85)
Total	<b>4,587</b>	<b>507</b>	<b>4,587</b>	<b>507</b>

**NOTE 9: BUILDINGS, PLANT AND EQUIPMENT** *continued**Assets Pledged as Security*

The buildings, plant and equipment are assets over which a mortgage has been granted as security over project loans (see note 13). The terms of the mortgage preclude the assets from being sold or being used as security for further mortgages without the permission of the existing mortgagor.

Assets under lease are pledged as security for the associated lease liabilities.

**Movement Schedule:**

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

	<b>Consolidated Entity \$'000</b>	<b>Parent Entity \$'000</b>
<b>Buildings</b>		
Written down value at the beginning of the year	–	–
- Additions	3,069	3,069
Written down value at the end of the year	<b>3,069</b>	<b>3,069</b>
<b>Plant &amp; Equipment</b>		
Written down value at the beginning of the year	507	507
- Additions	896	896
- Depreciation expense	(93)	(93)
Written down value at the end of the year	<b>1,310</b>	<b>1,310</b>
<b>Plant &amp; Equipment under Lease</b>		
Written down value at the beginning of the year	–	–
- Additions	245	245
- Depreciation expense	(37)	(37)
Written down value at the end of the year	<b>208</b>	<b>208</b>



		Consolidated Entity		Parent Entity	
	Notes	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>NOTE 10: EXPLORATION, EVALUATION AND DEVELOPMENT</b>					
Exploration & Evaluation Expenditure.					
- At cost		38,175	24,878	36,988	23,950
- Provision for write down		(1,466)	(968)	(1,466)	(968)
		<b>36,709</b>	<b>23,910</b>	<b>35,522</b>	<b>22,982</b>
Development Expenditure					
- At cost		11,167	–	11,167	–
- Capitalised restoration costs		561	–	561	–
- Capitalised interest	10 (a)	207	–	207	–
		<b>11,935</b>	<b>–</b>	<b>11,935</b>	<b>–</b>
<b>Total Exploration, Evaluation &amp; Development</b>		<b>48,644</b>	<b>23,910</b>	<b>47,457</b>	<b>22,982</b>

(a) The carrying value of development expenditure includes the associated interest costs on the project loan that have been incurred to 30 June 2005. Capitalised interest will be amortised over the reserves of the Flying Fox project. The interest rate details are described in note 13.

#### Movement Schedule:

Movement in the carrying amounts for exploration, evaluation and development expenditure between the beginning and the end of the current financial year:

	Consolidated Entity \$'000	Parent Entity \$'000
<b>Exploration &amp; Evaluation Expenditure</b>		
Written down value at the beginning of the year	23,910	22,982
- Expenditure	13,158	12,899
- Tenement acquisition	899	899
- Disposal	(760)	(760)
- Provision for write down	(498)	(498)
Written down value at the end of the year	<b>36,709</b>	<b>35,522</b>
<b>Development Expenditure</b>		
Written down value at the beginning of the year	–	–
- Additions	11,167	11,167
- Capitalised restoration costs	561	561
- Capitalised interest	207	207
Written down value at the end of the year	<b>11,935</b>	<b>11,935</b>

**Carry Forward Exploration & Evaluation Expenditure**

The recovery of the costs of exploration and evaluation expenditure carried forward is dependent upon the discovery of commercially viable mineral and other natural resource deposits and their development and exploration or alternatively their sale.

**Carry Forward Development Expenditure**

Development expenditure will be amortised over the production phase of the project.

	Notes	Consolidated Entity		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>NOTE 11: OTHER NON CURRENT ASSETS</b>					
Deferred borrowing costs		531	–	531	–
Unrealised foreign exchange asset	30 (e)	685	–	685	–
		<b>1,216</b>	<b>–</b>	<b>1,216</b>	<b>–</b>

**NOTE 12: CURRENT PAYABLES**

Trade creditors & accruals	12 (a)	<b>5,340</b>	<b>3,782</b>	<b>5,340</b>	<b>3,782</b>
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(a) Creditors are generally paid on 30 day terms.

**NOTE 13: INTEREST BEARING LIABILITIES****Current**

Lease liability	13 (b), 22 (b)	64	–	64	–
Bank overdraft		–	537	–	537
Loan from related party		–	2,000	–	2,000
		<b>64</b>	<b>2,537</b>	<b>64</b>	<b>2,537</b>

**Non Current**

Project loan	13 (a)	10,157	–	10,157	–
Lease liability	13 (b), 22 (b)	151	–	151	–
		<b>10,308</b>	<b>–</b>	<b>10,308</b>	<b>–</b>

(a) The project loan was provided by LionOre Australia (Nickel) Ltd under the Forresteria Project Funding Agreement. The project loan has second ranking mortgage over the project assets. The Commonwealth Bank of Australia facility, which was undrawn at balance date, has first ranking security.

The Project Loan balance includes interest capitalised to 30 June 2005. Interest is payable on the loan at a margin of 2.5% above the 90 day BBSY rate at drawdown. Total interest accrued at 30 June 2005 was \$157,000. The LionOre facility was repaid in full subsequent to the end of the financial year.

(b) The lease liability is secured over the assets under the lease. The finance leases have an average term of 4 years and an average implicit discount rate of 7.38%

**NOTE 14: PROVISIONS****Current**

Employee Entitlements	14 (a)	<b>91</b>	<b>36</b>	<b>91</b>	<b>36</b>
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**Non Current**

Rehabilitation	14 (b)	<b>561</b>	<b>–</b>	<b>561</b>	<b>–</b>
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(a) Employee entitlements refer to the balance of annual leave accrued by the company's employees.

(b) Rehabilitation relates to an estimate of restoration costs incurred to date as a result of the development of the Forresteria Nickel Project.

		Consolidated Entity		Parent Entity	
	Notes	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>NOTE 15: OTHER LIABILITIES: NON - CURRENT</b>					
Unrealised foreign exchange gain	30 (e)	685	–	685	–

#### NOTE 16: CONTRIBUTED EQUITY

##### a) Issued and paid up capital

Ordinary shares fully paid	49,325	28,168	49,325	28,168
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##### b) Movements in share capital

	2005		2004	
	Number of Shares	\$'000	Number of Shares	\$'000
Balance at beginning of the financial year	102,466,518	28,168	75,711,593	12,620
- Issued via non renouncable rights issue (i)	5,223,326	4,962	–	–
- Issued via share placements (ii)	9,365,000	14,688	15,500,000	12,200
- Issued to repay loan from related party (iii)	2,049,500	2,050	1,000,000	1,000
- Issued via option conversions (iv)	890,000	685	10,060,750	2,918
- Purchase of Copper Hills project	–	–	194,175	200
- Transaction costs relating to share issues	–	(1,228)	–	(770)
Balance at end of the financial year	119,994,344	49,325	102,466,518	28,168

#### Notes on movement in share capital during the current financial year

(i) In accordance with a prospectus lodged with the ASX and the ASIC on 13 July, 2004, the company successfully completed a 1 for 20 rights issue, raising \$4,962,110 from the issue of 5,223,326 shares at \$0.95 per share.

(ii) During the year there were 2 share placements:

- In October 2004, 5,365,000 shares were issued at \$1.53 per share.
- In February 2005, 4,000,000 shares were issued at \$1.62 per share

(iii) In September 2004, 2,049,500 shares were issued to Jungle Creek Gold Mines Pty Ltd, a related entity of Mr T Streeter. The shares were issued at \$1.00 each and represent repayment of the principal and interest on a loan made to the company in November, 2003. The loan repayment was made pursuant to a loan agreement between the company and Jungle Creek Gold Mines Pty Ltd and was approved by shareholders in a general meeting.

(iv) During the financial year the following options were exercised:

Date	Option Terms (Exercise Price & Maturity)		Total (#)	Total (\$)
	\$0.75 March '05	\$1.30 July '08		
<b>2004:</b>				
September 10	20,000	–	20,000	15,000
December 21	–	9,000	9,000	11,700
<b>2005:</b>				
March 10	25,000	10,000	35,000	31,750
March 23	813,000	10,000	823,000	622,750
May 2	–	3,000	3,000	3,900
<b>TOTAL</b>	<b>858,000</b>	<b>32,000</b>	<b>890,000</b>	<b>685,100</b>

**NOTE 16: CONTRIBUTED EQUITY** *continued*

**c) Share Options on Issue**

The following options were outstanding at 30 June 2005:

	Option Terms (Exercise Price and Maturity)					TOTAL
	\$0.40 Mar 06	\$0.75 Mar 05	\$2.50 Mar 05	\$1.30 Jul 08	\$2.30 Mar 06	
Opening balance	2,100,000	858,000	300,000	–	–	3,258,000
Options issued	–	–	–	1,500,000	1,000,000	2,500,000
Options lapsed	–	–	(300,000)	–	–	(300,000)
Options exercised	–	(858,000)	–	(32,000)	–	(890,000)
Closing balance	<b>2,100,000</b>	<b>nil</b>	<b>nil</b>	<b>1,468,000</b>	<b>1,000,000</b>	<b>4,568,000</b>

All of the outstanding options vested upon date of granting except for the \$1.30/Jul 2008 options. 1/3 of these vest on the grant date itself, a further 1/3 12 months after the grant date and the final 1/3 24 months after the grant date.

**d) Terms and Conditions of Contributed Equity**

*Ordinary shares*

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Consolidated Entity		Parent Entity	
2005	2004	2005	2004
\$'000	\$'000	\$'000	\$'000

**NOTE 17: RESERVES**

**Option Reserve**

Opening Balance	57	57	57	57
Transfers to / (from) reserves	–	–	–	–
Closing balance	<b>57</b>	<b>57</b>	<b>57</b>	<b>57</b>

The option reserve relates to the value of options issued.

**NOTE 18: ACCUMULATED LOSSES**

Accumulated losses at the beginning of the year	(4,628)	(1,907)	(4,547)	(1,903)
Net loss attributable to the members of the parent entity	(3,754)	(2,721)	(3,753)	(2,644)
Accumulated losses at the end of the year	<b>(8,382)</b>	<b>(4,628)</b>	<b>(8,300)</b>	<b>(4,547)</b>

**NOTE 19: LOSS PER SHARE**

Earnings used in the calculation of basic loss per share	(3,754)	(2,721)
Weighted average number of ordinary shares used in the calculation of basic loss per share	113,987,122	88,728,118
Basic Loss per Share	(3.29)	(3.07)

As the potential ordinary shares would reduce the loss per share from continuing ordinary operations on conversion, the potential ordinary shares are not dilutive. As such only basic Earnings per Share is required to be disclosed under AASB 1027 "Earnings per Share."



Consolidated Entity		Parent Entity	
2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000

## NOTE 20: CASH FLOW INFORMATION

### a) Reconciliation of the net loss after tax to the net cash flow from operations:

Loss from ordinary activities after income tax	(3,754)	(2,721)	(3,753)	(2,644)
Depreciation	131	42	131	42
GST relating to non operating activity	(33)	1,497	(33)	1,497
Write down in tenement carrying value	1,258	1,330	1,258	1,254
Capitalised interest actually paid	(50)	–	(50)	–
Interest expense paid through issue of shares	24	–	24	–
Sundry revenue	65	–	65	–
Write off of tender costs	–	80	–	80
<b>Change in Assets and Liabilities</b>				
Increase in payables	23	98	23	98
Increase / (decrease) in provisions	55	(19)	55	(19)
(Increase) / decrease in receivables	(31)	4	(31)	4
<b>Net Cash Flows from / (used in) Operating Activities</b>	<b>(2,312)</b>	<b>311</b>	<b>(2,311)</b>	<b>312</b>

### b) Reconciliation of Cash

Cash balance comprises:				
Cash on hand	3,003	5,010	3,003	5,010
Bank overdraft	–	(537)	–	(537)
<b>Closing Cash Balance</b>	<b>3,003</b>	<b>4,473</b>	<b>3,003</b>	<b>4,473</b>

### c) Financing Facilities Available

As at the reporting date the Company had the following facilities in place:

	Total Facility \$'000	Utilised at Balance Date \$'000	Available Facilities (*) \$'000
Project Facilities:-			
- LionOre Australia (Nickel) Ltd	20,000	10,157	9,843
- Commonwealth Bank of Australia	20,000	–	20,000
Finance Lease Facility	500	215	285
	<b>40,500</b>	<b>10,372</b>	<b>30,128</b>

(\*) The facilities are made available to the company upon satisfaction of conditions precedent typically associated with project finance loans.

**NOTE 20: CASH FLOW INFORMATION continued****d) Non Cash Financing Activities**

During the year, the consolidated entity acquired plant & equipment with an aggregate fair value of \$244,778 (2004:\$nil) by means of finance leases.

**NOTE 21: CONTINGENT LIABILITIES**

The Directors are not aware of any contingent liabilities as at the date of these financial statements.

**NOTE 22: COMMITMENTS**

The Directors are not aware of any commitments, other than those listed below, as at the date of these financial statements:

**a) Operating Lease Commitments**

Non-cancellable operating leases contracted for but not capitalised in the accounts.

	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
	<b>2005 \$'000</b>	<b>2004 \$'000</b>	<b>2005 \$'000</b>	<b>2004 \$'000</b>
- no later than 1 year	77	77	77	77
- later than 1 year and not later than 5 years	18	95	18	95
Lease expenditure contracted for at year end	<b>95</b>	<b>172</b>	<b>95</b>	<b>172</b>

Prior to the expiry of the current lease term, the company has the right to extend the term of the lease for a further 3 years.

**b) Finance Lease Commitments**

- no later than 1 year	78	–	78	–
- later than 1 year and not later than 5 years	165	–	165	–
Total Minimum Lease Payments	243	–	243	–
- future finance charges	(28)	–	(28)	–
Total Lease Liability	<b>215</b>	<b>–</b>	<b>215</b>	<b>–</b>
- current	64	–	64	–
- non current	151	–	151	–
	<b>215</b>	<b>–</b>	<b>215</b>	<b>–</b>

**c) Capital Expenditure Commitments**

At the end of the financial year the Consolidated Entity has no material capital commitments.

**d) Exploration Expenditure Commitments**

Under the terms and conditions of the Company's title to its various tenements, it has an obligation to meet tenement rentals and minimum levels of exploration expenditure as gazetted by the Department of Industry and Resources. The Company is also obliged to meet certain expenditure commitments to earn or retain its interest in several Joint Venture arrangements. All of these commitments, which are forecast to total \$2 - \$3 million have been adequately provided for in the Company's exploration expenditure budget for the ensuing year.

**e) Other Commitments**

As part of the acquisition agreement for the final 25% of the Forrestania tenements (completed in May 2003), the company is required to pay a 2% net smelter royalty to Outokumpu Mining Ltd on all nickel production from the Forrestania Nickel project.

**NOTE 23: AUDITOR'S REMUNERATION**

- auditing or reviewing the financial report
- other services

The company has entered into an Ore Tolling and Concentrate Purchase Agreement ("OTCPA") with LionOre Australia (Nickel) Pty Ltd ("LionOre"). Under the terms of this agreement LionOre are entitled to purchase the first 75,000 tonnes of nickel in concentrate produced from the Forrestania tenements.

## Subsequent to the end of the Financial Year:

- An initial resource on the company's T5 deposit at Flying Fox of 630,000 tonnes at 6.9% nickel for 43,400 tonnes of nickel was announced on 4 July 2005. The company has commenced a feasibility study into the development of the T5 resource as part of Stage 2 of the Forrestania Nickel Project. The feasibility study will include resource infill and geotechnical drilling, mining and hydrological studies, evaluation of constructing a treatment plant at Cosmic Boy and environmental studies.
- On 25 July, 2005 the company entered into a project funding facility with the Commonwealth Bank of Australia and NM Rothschild & Sons (Australia) Ltd. The facility totals \$37.2 million and replaces the existing facility with the Commonwealth Bank and the LionOre Funding Agreement. It will be used to repay the balance owing on the LionOre facility and to complete the development of the Flying Fox T1 nickel mine.

The financial effects of the above transactions have not been brought to account in the 2005 Financial Statements.

#### a) Details of Specified Directors and Specified Executives

D Boyer	Chairman (non-executive)
J Hanna	Director and Chief Executive Officer
D Cooper	Director (non-executive)
T King	Director (non-executive) - resigned 28 April, 2005
T Streeter	Director (non-executive)

T Manners	Chief Financial Officer & Company Secretary
B Dawes	General Manager - Operations

*(i) Remuneration Committee, Philosophy and Structure*

The Remuneration Committee of the Board of Directors of Western Areas is responsible for determining compensation arrangements for the directors and the senior management team. Remuneration levels and other terms of employment are reviewed annually by the committee, having regard to qualifications and experience, relevant market conditions, and performance against goals set each year.

The committee assesses the appropriateness of the remuneration levels to ensure the Company is able to attract and retain high quality executives.

**NOTE 26: DIRECTOR AND EXECUTIVE DISCLOSURES continued****Remuneration Philosophy**

The company recognises that Western Areas operates in a global environment and to prosper in such it must attract, motivate and retain personnel of the highest calibre.

The principles supporting the Company's remuneration policy are that:

- Reward reflects the competitive global market in which we operate;
- Individual reward is based on performance across a range of disciplines that apply to delivering results for the company;
- Executive remuneration is linked directly to the creation of shareholder value; and
- Remuneration arrangements are equitable and fair and facilitate the deployment of senior management across the company.

**Remuneration Structure**

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

**Non Executive Director Remuneration**

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

The aggregate remuneration of non-executive directors is determined from time to time by shareholders in a general meeting. An amount not exceeding the determined amount is then divided between the directors as agreed. The latest determination was at the general meeting held on 7 September 2005 when shareholders approved an aggregate remuneration of \$400,000 per year.

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

It is an objective of the company to encourage directors to own shares in Western Areas. To facilitate this, the company has created a Director Option Incentive Program which is structured to align director rewards directly with the creation of shareholder value. Each option issue must be approved by the company's shareholders in a general meeting.

During the 2005 Financial Year 1,000,000 options were issued to the directors of company under this program. This issue was approved by the shareholders at the 2004 Annual General Meeting.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

**Executive Director and Senior Management Remuneration**

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company. The objective is to:

- Reward executives for their individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of the shareholders; and
- Ensure the total remuneration is competitive by market standards

The company's reward structure combines fixed remuneration, short and long term incentives.

*Fixed*

The fixed remuneration component is reviewed annually by the Remuneration Committee. The committee has access to external independent advice to ensure that the remuneration levels set meet the objects of the company.

*Short Term Incentive (STI)*

The objective of STI's is to link the achievement of key company operational targets with the remuneration received by those executives charged with meeting those targets.

At this stage in the Company's growth it is considered inappropriate to establish too many STI programs. The only one in existence at the moment relates to the development targets set for the Flying Fox decline. The General Manager – Operations is the only senior executive able to participate in this reward program.

To date no payments under an STI have been made.

*Long Term Incentive (LTI)*

The objective of the LTI plan is to reward senior managers in a manner that aligns this element of remuneration with the creation of shareholder wealth.

The structure of the company's LTI program is an Employee Share Option Incentive Scheme which was established and approved by shareholders on 26 August, 2004. At the discretion of the Board, participation in the scheme is offered to all key executives of the group, except the Managing Director. The Managing Director participates in the Director Option Incentive Program.



### Employee Share Option Incentive Scheme

An employee share scheme has been established whereby Western Areas NL may, at the discretion of the Board of Directors, grant options over the ordinary shares of the company to employees and key contractors of the company. The options, which are issued at nil consideration, are granted in accordance with guidelines established by the Board.

The options are issued for a term of 4 years and will vest as follows:

- 1/3 immediately;
- 1/3 12 months after granting; and
- 1/3 24 months after granting.

The options are issued with an exercise price which is determined by the Board, however must be no less than the average of the last sale price of the Company's shares on the ASX at the close of business on each of the 15 business days immediately preceding the date the directors resolve to grant the said options,

### Employment Contracts

The CEO, Mr Hanna, is employed under contract. The contract commenced in March 2000 and expires on termination of employment. Under the terms of the contract:

- Mr Hanna may resign from his position and thus terminate the contract by giving 6 weeks written notice. On resignation any options will remain in existence under the terms they were issued.
- The company may terminate the employment contract by giving 3 months written notice. This notice period is reduced to 6 weeks in the event the termination is due to serious misconduct or wilful neglect in the discharge of his duties. Any options will remain in existence under the terms they were issued.
- The Company may terminate the employment of the CEO by giving 3 months notice if the CEO's position becomes redundant or there is a change to the core activity of the Company or if the CEO is removed from his position without his consent. In this case, the CEO is entitled to a termination payment equal to 12 months pay. Any options will remain in existence under the terms they were issued.

There are also formal employment contracts in place for the Chief Financial Officer and the General Manager – Operations. These contracts will be in place until termination of employment. Termination can occur by either the employee or the company having given 6 weeks written notice. The CFO and the General Manager – Operations are not entitled to any termination payments over and above the statutory amounts owing at that time.

### (iii) Remuneration of Specified Directors and Specified Executives

	Primary		Equity	Post Employment	TOTAL
	Base Salary	Non Monetary	Options (^)	Superannuation	
<b>D Boyer</b>					
2005	70,000	775	30,422	6,300	<b>107,497</b>
2004	43,336	–	–	3,900	<b>47,236</b>
<b>J Hanna</b>					
2005	220,000	2,074	30,422	19,800	<b>272,296</b>
2004	164,000	3,835	–	14,760	<b>182,595</b>
<b>D Cooper</b>					
2005	50,000	775	30,422	4,500	<b>85,697</b>
2004	24,664	–	–	2,220	26,884
<b>T King (*)</b>					
2005	41,666	611	30,422	3,750	<b>76,449</b>
2004	24,664	–	–	2,220	26,884
<b>T Streeter</b>					
2005	50,000	775	30,422	4,500	<b>85,697</b>
2004	24,664	–	–	2,220	26,884
<b>Total Remuneration: Specified Directors</b>					
2005	<b>431,666</b>	<b>5,010</b>	<b>152,110</b>	<b>38,850</b>	<b>627,636</b>
2004	281,328	3,835	–	25,320	<b>310,483</b>

(\*) Mr King resigned as a director of the Company on 28 April, 2005

**NOTE 26: DIRECTOR AND EXECUTIVE DISCLOSURES** continued

	<b>Primary</b>		<b>Equity</b>	<b>Post Employment</b>	<b>TOTAL</b>
	Base Salary	Non Monetary	Options (^)	Superannuation	

**T Manners**

2005	178,416	1,393	33,774	17,842	<b>231,425</b>
2004	14,752	–	–	1,475	<b>16,227</b>

**B Dawes**

2005	180,000	1,393	33,774	16,200	<b>231,367</b>
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**Total Remuneration: Specified Executives**

2005	<b>358,416</b>	<b>2,786</b>	<b>67,548</b>	<b>34,042</b>	<b>462,792</b>
2004	14,752	–	–	1,475	<b>16,227</b>

(^ ) Options granted as part of director and executive emoluments have been valued using the Black and Scholes option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option.

*(iii) Retirement and Superannuation Payment*

The directors and executives were paid the statutory 9% superannuation amount on their remuneration, except for Mr T Manners who is paid 10%.

*(iv) Options held by Specified Directors and Executives*

	Balance at 1 July 2004	Granted as Remuneration	On Exercise of Options	Purchases / (Sales)	Balance at 30 June 2005 (^)	Options Vested (*)
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**Specified Directors:**

D Boyer	533,000	200,000	(133,000)	–	600,000	600,000
J Hanna	530,000	200,000	(130,000)	–	600,000	600,000
D Cooper	528,000	200,000	(128,000)	–	600,000	600,000
T King (^)	530,000	200,000	(130,000)	–	600,000	600,000
T Streeter	–	200,000	–	–	200,000	200,000

**Specified Executives:**

T Manners	–	300,000	–	–	300,000	100,000
B Dawes	–	300,000	–	–	300,000	100,000

<b>TOTAL</b>	<b>2,121,000</b>	<b>1,600,000</b>	<b>(521,000)</b>	<b>–</b>	<b>3,200,000</b>	<b>2,800,000</b>
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(\*) 100% of options that have vested with the directors and executives are exercisable at any time up until expiry.

(^ ) Mr King resigned from the company on 28 April 2005

*(v) Shareholdings of Specified Directors and Executives*

	Balance at 1 July 2004	Granted as Remuneration	On Exercise of Options	Purchases / (Sales)	Balance at 30 June 2005 (^)
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**Specified Directors:**

D Boyer	1,057,000	–	133,000	12,850	1,202,850
J Hanna	1,329,300	–	130,000	(3,535)	1,455,765
D Cooper	542,000	–	128,000	27,100	697,100
T King (^)	2,334,356	–	130,000	(113,282)	2,351,074
T Streeter	23,241,234	–	–	4,722,417	27,963,651

**Specified Executives:**

T Manners	–	–	–	21,000	21,000
B Dawes	–	–	–	–	–

<b>TOTAL</b>	<b>28,503,890</b>	<b>–</b>	<b>521,000</b>	<b>4,666,550</b>	<b>33,691,440</b>
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(^ ) Mr King resigned from the company on 28 April 2005. The closing balance of shares is at this date.

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

(vi) Remuneration Options: Granted and vested during the year

During the financial year there were two issues of unlisted options. The first was made under the Employee Share Option Incentive Scheme in August 2004. The issue was made to employees, except for the Managing Director, and key contractors of the company. The options were issued free of charge. Each option entitles the holder to subscribe for 1 fully paid ordinary share at an exercise price of \$1.30. 1/3 of the options vest immediately, 1/3 12 months after granting and the final 1/3 24 months after granting. The options expire on 31 July 2008.

The second issue was for Director Incentive Options which was made pursuant to shareholder approval at the 2004 AGM. The options were issued free of charge. Each option entitles the holder to subscribe for 1 fully paid ordinary share at an exercise price of \$2.30. The options vest immediately in full. The options expire on 31 March 2006.

#### Options Granted as part of remuneration for the Year Ended 30 June 2005

	Granted	Vested	Grant Date	Value per option at grant date	Terms & Conditions for each Grant		
					Exercise Price per option	First Exercise Date	Last Exercise Date

##### **Specified Directors:**

D Boyer	200,000	200,000	26 Nov 04	\$0.152	\$2.30	26 Nov 04	31 Mar 06
J Hanna	200,000	200,000	26 Nov 04	\$0.152	\$2.30	26 Nov 04	31 Mar 06
D Cooper	200,000	200,000	26 Nov 04	\$0.152	\$2.30	26 Nov 04	31 Mar 06
T King	200,000	200,000	26 Nov 04	\$0.152	\$2.30	26 Nov 04	31 Mar 06
T Streeter	200,000	200,000	26 Nov 04	\$0.152	\$2.30	26 Nov 04	31 Mar 06

##### **Specified Executives:**

T Manners	300,000	100,000	26 Aug 04	\$0.338	\$1.30	26 Aug 04	31 Jul 08
B Dawes	300,000	100,000	26 Aug 04	\$0.338	\$1.30	26 Aug 04	31 Jul 08

<b>TOTAL</b>	<b>1,600,000</b>	<b>1,200,000</b>
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(vii) Shares issued on exercise of options

	Shares issued #	Paid \$ per share	Unpaid \$ per share
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##### **Specified Directors:**

D Boyer	133,000	\$0.75	—
J Hanna	130,000	\$0.75	—
D Cooper	128,000	\$0.75	—
T King	130,000	\$0.75	—

<b>TOTAL</b>	<b>521,000</b>
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#### NOTE 27: RELATED PARTY DISCLOSURES

##### **a) Ultimate parent**

Western Areas NL is the ultimate Australian parent company.

##### **b) Other Transactions with Specified Directors and Specified Executives**

All transactions with related parties are made on arm's length terms and conditions except where indicated.

The following related party transactions occurred during the reporting period:

**NOTE 27: RELATED PARTY DISCLOSURES continued**

- Accounting & Company Secretarial Fees of \$143,410 (2004: \$154,309) were paid, or are due and payable, at normal commercial rates to King & King partnership and Rexfam Consulting Pty Ltd, both being related parties to Mr. T King.
- Consultancy fees of \$3,250 (2004: \$3,575) were paid, at normal commercial rates, to Fidene Nominees Pty Ltd, a related entity to Mr D Cooper.
- In September 2004, 2,049,500 shares were issued to Jungle Creek Gold Mines Pty Ltd, a related entity of Mr T Streeter. The shares were issued at \$1.00 each and represented repayment of the principal and interest on a \$2 million loan made to the company in November, 2003. The loan repayment was made pursuant to a loan agreement between the company and Jungle Creek Gold Mines Pty Ltd and was approved by shareholders in a general meeting. Interest of \$25,355 was incurred on the loan during the financial year

**c) Amounts recognised at the reporting date in relation to Other Transactions**

Assets & Liabilities			Revenue & Expenses		
Current Liabilities					
- Payables	–	59	– Interest expense	25	25
- Interest bearing liabilities	–	2,000	– Other expense	143	158
Total Liabilities	–	2,059	Total Expenses	168	183

**NOTE 28: INTERESTS IN JOINT VENTURES**

At balance date the Consolidated Entity had entered into the following material unincorporated joint ventures:

Joint Venture		Percentage Interest	Principal Activities	Carrying Value \$'000
Bullfinch North	(i)	0 - 25%	Nickel & Gold	500
Koolyanobbing (3 JV's)	(ii)	51% - 100%	Nickel & Gold	1,303
Copper Hills	(iii)	100%	Nickel & Gold & PGE	1,167

(i) The Company's JV partner, Polaris Metals NL, will sole fund and manage the JV to completion of a pre-feasibility study. WSA has diluted to a 25% JV interest (with a clawback provision to 60% for nickel) in the Northern Tenements and a 0% JV interest (with a retained royalty interest) in the Southern Tenements.

(ii) The Koolyanobbing JV comprises 3 distinct sections: North, East and Central. Under the North JV the company has a 100% interest in the Koolyanobbing North tenements. The Company has executed an access agreement with Portman Ltd whereby Portman has entered into a Royalty Agreement to explore for, and mine iron ore. The company will be paid a royalty of 15 cents per tonne of ore mined from the tenements.

Under the East JV the company has an agreement in place with Portman Resources to earn an interest in minerals other than iron ore in three Exploration Licences in the Yilgarn Mineral Field. The company has earned a 66% interest in the Joint Venture, subject to the right of the other party to contribute to expenditure.

Under the Central JV the company has an agreement in place with Portman Iron Ore Limited to earn up to 70% interest in minerals excluding iron ore on one Exploration licence, three Mining leases and three Mining Lease Applications covering the central part of the Koolyanobbing Project. The company has notified Portman that it has earned a 51% interest in the JV.

(iii) The company owns 100% interest in the southern tenements at Copper Hills. WSA's subsidiary, Western Platinum NL has executed an agreement with Talisman Mining Ltd to earn a 70% interest in two tenements covering the northern part of the Copper Hills complex.

The joint ventures are not separate legal entities but are contractual arrangements between the participants for sharing costs and output and do not in themselves generate revenue or profit. The only asset held by the joint ventures is exploration and evaluation expenditure. No liabilities exist in the joint ventures.



## NOTE 29: STATEMENT OF OPERATIONS BY SEGMENTS

The Consolidated Entity operated predominantly in the mineral exploration industry in Australia.

## NOTE 30: FINANCIAL INSTRUMENTS

### a) Hedging of Specific Commitments

The consolidated entity enters into financial transactions in the normal course of business and in line with Board guidelines for the purpose of hedging and managing its expected exposure to nickel prices and exchange rates. The hedges are treated as specific in accordance with UIG 33, as the approximate value of the nickel sales is presently known.

#### 1. Nickel Hedging Contracts

As at balance date the company had forward sold 1,500 tonnes of nickel at an average USD price of US\$13,063 per tonne. The hedging contracts are vanilla forward sales contracts with maturity dates as shown in the table below.

#### 2. Foreign Exchange Hedging

The consolidated entity enters into USD/AUD forward exchange contracts to the extent USD revenues are forward sold under the above nickel hedges. This effectively creates an AUD nickel hedge. Details of both commodity and currency hedges are as follows:

	FY 2007	FY 2008	TOTAL
Nickel Tonnes	1,000	500	<b>1,500</b>
US Price (\$/tonne)	13,088	13,015	<b>13,063</b>
USD Value (\$'000)	13,088	6,507	<b>19,595</b>
USD Currency Hedges (US\$'000)	13,088	6,507	<b>19,595</b>
Exchange Rates	\$ 0.7508	\$0.7322	<b>\$ 0.7445</b>
<b>Effective AUD Nickel Price</b>	<b>17,430</b>	<b>17,776</b>	<b>17,545</b>

None of the hedging contracts are subject to margin calls.

### b) Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount, net of any provisions of doubtful debts of those assets, as disclosed in the balance sheet and notes to the financial statements.

### c) Interest Rate Risk

The Consolidated Entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at reporting date are as shown below:

#### 2005 Consolidated Entity

	Fixed Interest maturing in:					Total \$'000	Weighted Average Interest Rate
	Floating Interest Rate \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000		
<b>Financial Assets</b>							
Cash	3,003	—	—	—	—	<b>3,003</b>	5.40 %
Receivables	—	—	—	—	599	<b>599</b>	
	3,003	—	—	—	599	<b>3,602</b>	
<b>Financial Liabilities</b>							
Payables	—	—	—	—	5,340	<b>5,340</b>	
Project Loan	—	—	10,157	—	—	<b>10,157</b>	8.15 %
Lease Liability	—	64	151	—	—	<b>215</b>	7.38 %
	—	64	10,308	—	5,340	<b>15,712</b>	
<b>Net Financial Assets/(Liabilities)</b>	<b>3,003</b>	<b>(64)</b>	<b>(10,308)</b>	<b>—</b>	<b>(4,741)</b>	<b>(12,110)</b>	

**NOTE 30: FINANCIAL INSTRUMENTS** continued**2004 Consolidated Entity**

	Fixed Interest maturing in:					<b>Total</b> <b>\$'000</b>	Weighted Average Interest Rate
	Floating Interest Rate \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 Years \$'000	Non Interest Bearing \$'000		
<b>Financial Assets</b>							
Cash	5,010	–	–	–	–	5,010	5.00 %
Receivables	–	–	–	–	525	525	
	5,010	–	–	–	525	5,535	
<b>Financial Liabilities</b>							
Payables	–	–	–	–	3,782	3,782	
Bank Overdraft	537	–	–	–	–	537	9.45 %
Lease Liability	–	2,000	–	–	–	2,000	8.00 %
	537	2,000	–	–	3,782	6,319	
<b>Net Financial Assets/ (Liabilities)</b>	<b>4,473</b>	<b>(2,000)</b>	<b>–</b>	<b>–</b>	<b>(3,257)</b>	<b>(784)</b>	

**d) Reconciliation of Net Financial Assets to Net Assets**

	Notes	Consolidated Entity	
		2005 \$'000	2004 \$'000
Net Financial Liability		(12,110)	(784)
Buildings, plant and equipment	9	4,587	507
Exploration, evaluation and development	10	48,644	23,910
Other non current assets	11	1,216	–
Provisions – current	14	(91)	(36)
Provisions – non current	14	(561)	–
Other non current liabilities	15	(685)	–
Net Assets		<b>41,000</b>	<b>23,597</b>

**e) Net Fair Values***Recognised Financial Instruments*

The net fair values of the financial assets and liabilities recognised on the balance sheet (as shown in section (c) of this note), approximate their carrying value. No financial assets or liabilities recognised by the company are readily traded on organised markets and in a standardised form.

*Unrecognised Financial Instruments*

The net fair value of unrecognised financial instruments (hedging contracts) is determined on a mark to market basis. This represents the difference in value between the instruments in place at balance date and identical instruments that could be put in place if market rates at balance date were used.

	<b>Aggregate Net Fair Value</b>	
	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
Nickel Forward Contracts	39	–
Foreign Exchange Contracts	(8)	–
	<b>31</b>	<b>–</b>

The basis for determining the net fair value of the nickel financial instruments held by the consolidated entity at balance date is based on a spot price of US\$14,730 per tonne.

The basis for determining the net fair value of the foreign exchange financial instruments held by the consolidated entity at balance date is based on a spot AUD/USD exchange rate of 0.7645. Contained within the fair value of the foreign exchange contracts is the mark to spot amount calculated in accordance with Note 1 (j). The mark to spot amount (\$685,000) has been brought to account and is shown on the Statement of Financial Position.

### **Note 31: Impact of Adopting Australian Equivalents to IFRS**

Western Areas NL is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ending 30 June 2006. In 2004 the company allocated internal resources to perform diagnostics and conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. As Western Areas NL has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Western Areas' transition date to AIFRS. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the company prepares its first fully IFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit/loss for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing this financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to:

- (i) ongoing work being undertaken by the company with respect to AIFRS transition;
- (ii) potential amendments to AIFRSs and Interpretations thereof being issued by the standard setters and IFRIC; and
- (iii) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

#### **a) Reconciliation of equity as presented under AGAAP to that under AIFRS**

	<b>Notes</b>	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
		<b>30 June 05</b>	<b>1 July 04</b>	<b>30 June 05</b>	<b>1 July 04</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Total equity under AGAAP		41,000	23,597	41,082	23,678
<i>Adjustments to retained earnings (net of tax)</i>					
Recognition of share-based payment expense	(i)	(322)	(297)	(322)	(297)
<i>Adjustments to other reserves (net of tax)</i>					
Recognition of share-based payment expense	(i)	322	297	322	297
<b>Total equity under AIFRS</b>		<b>41,000</b>	<b>23,597</b>	<b>41,082</b>	<b>23,678</b>

(i) Under AASB 2 "Share Based Payments", the company would recognise the fair value of options granted to employees and contractors as remuneration and performance incentives as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share based payment costs are not recognised under AGAAP.

(ii) Management has decided to apply the exemption provided in AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" which permits entities not to apply the requirements of AASB 132 "Financial Instruments: Presentation and Disclosures" and AASB 139 "Financial Instruments: Recognition and Measurement" for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005.

**NOTE 30: FINANCIAL INSTRUMENTS** continued**b) Reconciliation of net profit under AGAAP to that under AIFRS**

<b>YEAR ENDED 30 JUNE 2005</b>	<b>Notes</b>	<b>Consolidated \$'000</b>	<b>Parent \$'000</b>
Net loss as reported under AGAAP		(3,754)	(3,753)
Recognition of share-based payment expense	(i)	(322)	(322)
<b>Net loss under AIFRS</b>		<b>(4,076)</b>	<b>(4,075)</b>

(i) Under AASB 2 "Share Based Payments," the company would recognise the fair value of options granted to employees and contractors as remuneration and performance incentives as an expense on a pro-rata basis in the income statement. Share based payment costs are not recognised under AGAAP. This would result in an increase in loss/decrease in profit from AGAAP to AIFRS.

**c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005.**

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS

**d) Other Impact Areas***1. Cash Flow Hedges*

Under AIFRS foreign exchange and commodity contracts held for hedging purposes would be accounted for as cashflow hedges. The change in the fair value of cashflow hedges is to be recognised directly through equity until the hedged transaction occurs.

Currently foreign exchange derivative instruments held by the company are valued against the spot exchange rate at balance date, with unrealised gains and losses deferred until settlement of the underlying hedged transaction. Movements in the fair value of commodity derivative contracts are currently not brought to account.

Under AIFRS, both foreign exchange and commodity derivative instruments will required to be "Marked to Market" at each reporting date and unrealised gains and losses recognised in the financial statements. As at 30 June 2005, this would amount to a net addition to financial assets of \$31,000 as disclosed in Note 30 (e).

As a result of the application of the exemption referred to in Note 31 (a)(ii) above, there would have been no adjustment to the classification or measurement of cash flow hedges from the application of AIFRS during the year ended 30 June 2005. The new policy will be applied from 1 July 2005.

*2. Provisions for Rehabilitation*

Under AIFRS, a full provision for restoration will be recorded where there is a legal or constructive obligation to do so, or where it is more likely than not that such an obligation has arisen from a past event. In establishing the provision, AIFRS requires the likely cash outflows to be discounted to present value.

Currently the cost of restoration work necessitated by exploration, evaluation or development activities prior to commencement of production is provided for at the time of such activities and forms part of the cost of the respective phase(s) of operations.

Upon adoption of AIFRS, there would be no material quantitative adjustment to the restoration provision.

*3. Impairment of Assets*

Under AIFRS entities are no longer able to assess whether assets are impaired by using an undiscounted recoverable amount test. Entities will be required to determine recoverable amount as the higher of the fair value of the assets less the costs to sell or their value in use. In calculating the fair value of the assets the future cashflows must be discounted.

The application of this policy has no impact on the 30 June 2005 Financial Statements for the consolidated entity.



## Directors' Declaration

In accordance with a resolution of the directors of Western Areas NL, I state that:

1. In the opinion of the directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

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

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

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'J. Hanna', with a long horizontal flourish extending to the right.

J. Hanna  
Director

Dated this 6th day of September 2005

## Scope

### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Western Areas NL (the company) and Western Areas NL and its controlled entities (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during the year

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.

### 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, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations 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.

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

We have read the other information in the annual report to determine whether it contained any material inconsistencies with the financial report.

## Independence

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

## Audit opinion

In our opinion, the financial report of Western Areas NL is in accordance with:

(a) the Corporations Act 2001, including:

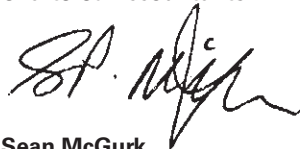
- i) giving a true and fair view of the Western Areas NL consolidated entity's financial position as at 30 June 2005, and of its performance for the year ended on that date; and
- ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.



Grant Thornton

Chartered Accountants



Sean McGurk

## Schedule Of Mining Tenements

Areas of Interest	Tenements	Company's Interest	Joint Venture Partners
<b>Mt Jewell</b>	EL 24/63	100 %	
	EL 27/83	100 %	
	MLA 24/597	100 %	
	MLA 24/598	100 %	
<b>Mt Alexander</b>	EL 29/189	100 %	WMC Resources
	EL 29/192	100 %	WMC Resources
	MLA 29/313	100 %	WMC Resources
	ML 29/36	100 %	Sipa Resources
	ML 29/37	100 %	Sipa Resources
<b>Koolyanobbing</b>	EL 77/438 - I	100 %	Portman Ltd
	EL 77/874 - I	100 %	Portman Ltd
	MLA 77/1087	100 %	Portman Ltd
	ML 77/676 - I	100 %	Portman Ltd
	ML 77/737 - I	100 %	Portman Ltd
	MLA 77/839	100 %	Portman Ltd
	MLA 77/1046	100 %	Portman Ltd
	EL 77/1004 - I	66 %	Portman Resources
	ELA 77/1088	66 %	Portman Resources
	EL 77/1089	66 %	Portman Resources
	M 77/606 - I	0 %	Portman Iron Ore
	M 77/607 - I	0 %	Portman Iron Ore
	M 77/611 - I	0 %	Portman Iron Ore
	ML 77/988 - I	0 %	Portman Iron Ore
	ML 77/989 - I	0 %	Portman Iron Ore
	ML 77/990 - I	0 %	Portman Iron Ore
<b>Bullfinch North Northern Tenements</b>	EL 77/474	25 %	Polaris Metals
	EL 77/485	25 %	Polaris Metals
	EL 77/733	25 %	Polaris Metals
	EL 77/922 - I	25 %	Polaris Metals
	EL 77/932	25 %	Polaris Metals
	EL 77/933	25 %	Polaris Metals
	EL 77/944	25 %	Polaris Metals
	ELA 77/879	25 %	Polaris Metals
	ELA 77/920	25 %	Polaris Metals
	EL 77/907	25 %	Polaris Metals
	EL 77/924 - I	25 %	Polaris Metals
	EL 77/1022	25 %	Polaris Metals
	PL 77/3292	25 %	Polaris Metals
	EL 77/1048	25 %	Polaris Metals

## Schedule Of Mining Tenements continued

Areas of Interest	Tenements	Company's Interest	Joint Venture Partners
<b>Bullfinch North</b>			
<b>Northern Tenements</b> (cont)	MLA 77/1050	25 %	Polaris Metals
	EL 77/1058	25 %	Polaris Metals
	MLA 77/1058	25 %	Polaris Metals
	MLA 77/1059	25 %	Polaris Metals
	MLA 77/1060	25 %	Polaris Metals
	MLA 77/1062	25 %	Polaris Metals
	MLA 77/1064	25 %	Polaris Metals
	MLA 77/1082	25 %	Polaris Metals
	PLA 77/3335	25 %	Polaris Metals
	PLA 77/3336	25 %	Polaris Metals
	MLA 77/1081	25 %	Strange
	E 77/1036	25 %	Della Bosca
<b>Southern Tenements</b>	EL 77/1010	0 %	Royalty Interest
	EL 77/1012	0 %	Royalty Interest
	ML 77/123	0 %	Royalty Interest
	ML 77/228	0 %	Royalty Interest
	PL 77/3295	0 %	Royalty Interest
	PL 77/3301	0 %	Royalty Interest
	PL 77/3302	0 %	Royalty Interest
	PL 77/3303	0 %	Royalty Interest
	PLA 77/3304	0 %	Royalty Interest
	PL 77/3307	0 %	Royalty Interest
	PL 77/3313	0 %	Royalty Interest
<b>Plumridge</b>	EL 69/982	100 %	
	EL 69/983	100 %	
	EL 69/1252	100 %	
	EL 69/1550	100 %	
	EL 39/904	100 %	
	EL 39/905	100 %	
	EL 39/906	100 %	
	EL 39/909	100 %	
	EL 39/915	100 %	
	EL 69/1721	100 %	
	ELA 69/1881	0 %	Placer Dome
<b>Cue Gold</b>	ELA 20/427	100 %	
	ELA 20/428	100 %	
<b>Forrestania</b>	E 77/555	100 %	
	LA 77/197	100 %	
	M 74/057	100 %	
	M 74/058	100 %	
	M 74/064	100 %	
	M 74/065	100 %	



Areas of Interest	Tenements	Company's Interest	Joint Venture Partners
<b>Forrestania</b> (cont)	M 74/081	100 %	
	M 74/090	100 %	
	M 74/091	100 %	
	M 74/092	100 %	
	M 77/098	100 %	
	M 77/215	100 %	
	M 77/216	100 %	
	M 77/219	100 %	
	M 77/284	100 %	
	M 77/285	100 %	
	M 77/286	100 %	
	M 77/329	100 %	
	M 77/335	100 %	
	M 77/336	100 %	
	M 77/389	100 %	
	M 77/399	100 %	
	M 77/458	100 %	
	M 77/542	100 %	
	M 77/543	100 %	
	M 77/550	100 %	
	M 77/568	100 %	
	M 77/574	100 %	
	M 77/582	100 %	
	M 77/583	100 %	
	M 77/584	100 %	
	M 77/585	100 %	
	M 77/586	100 %	
	M 77/587	100 %	
	M 77/588	100 %	
	M 77/589	100 %	
	M 77/911	100 %	
	M 77/912	100 %	
<b>Copper Hills</b>	E 45/1435	100 %	
	EA 45/2643	100 %	
	E 45/2377	0 %	Talisman
	E 45/2378	0 %	Talisman
<b>Windarra</b>	ELA 38/1606	0 %	Image Resources
	ELA 39/1056	0 %	Image Resources
	ELA 39/1057	0 %	Image Resources
	ELA 39/1058	0 %	Image Resources
	ELA 39/1068	0 %	Image Resources



## Shareholder Information

As at 19 October 2005

### a) Distribution of Shareholdings

### Ordinary Shares (\*)

i) Distribution schedule of holdings :

1 - 1000	272
1,001 - 5,000	870
5,001 - 10,000	469
10,001 - 100,000	655
100,001 - over	118
	<u>2,384</u>

ii) Number of holders of less than a marketable parcel 25

iii) Number of overseas holders 94

iv) Percentage held by 20 largest holders 60.02%

\* All ordinary shares carry one vote per share without restriction

### b) Largest Security Holders

The names of the 20 largest holders of ordinary shares are listed below:

Name	Shares Held	%
Jungle Creek Gold Mines Pty Ltd	27,615,651	22.16
Northmead Holdings Pty Ltd	7,497,217	6.02
Westpac Custodian Nominees	7,407,558	5.94
ANZ Nominees Limited	5,567,354	4.47
J P Morgan Nominees Australia	4,997,012	4.01
Tricom Nominees Pty Ltd	4,962,736	3.98
Citicorp Nominees Pty Ltd	3,074,636	2.47
Eclipse Resources Pty Ltd	2,765,000	2.22
Marinovich, John	1,640,500	1.32
Marchesani, Michael	1,260,348	1.01
Marinovich, Brett John	1,000,000	0.80
ABNED Nominees Pty Ltd	999,500	0.80
Tsallis, Georgina	916,650	0.74
Marchesani, Michele	800,000	0.64
Cannavo, Anthony	787,500	0.63
Sydney Fund Managers	787,500	0.63
Beresford, Thomas John (Estate)	695,337	0.56
Stuart, Richard Anthony	689,439	0.55
Perth Select Seafoods Pty Ltd	687,971	0.55
Boyer, David Donald	636,850	0.51
	<u>74,788,759</u>	<u>60.02</u>

### c) Substantial Shareholders

The names of substantial shareholders which have notified the Company in accordance with section 671B of the Corporations Act, 2001 are:

Name	Shares Held	%
Jungle Creek Gold Mines Pty Ltd	28,105,651	22.55
Northmead Holdings Pty Ltd	8,102,217	6.50

