

ANNUAL REPORT 2006



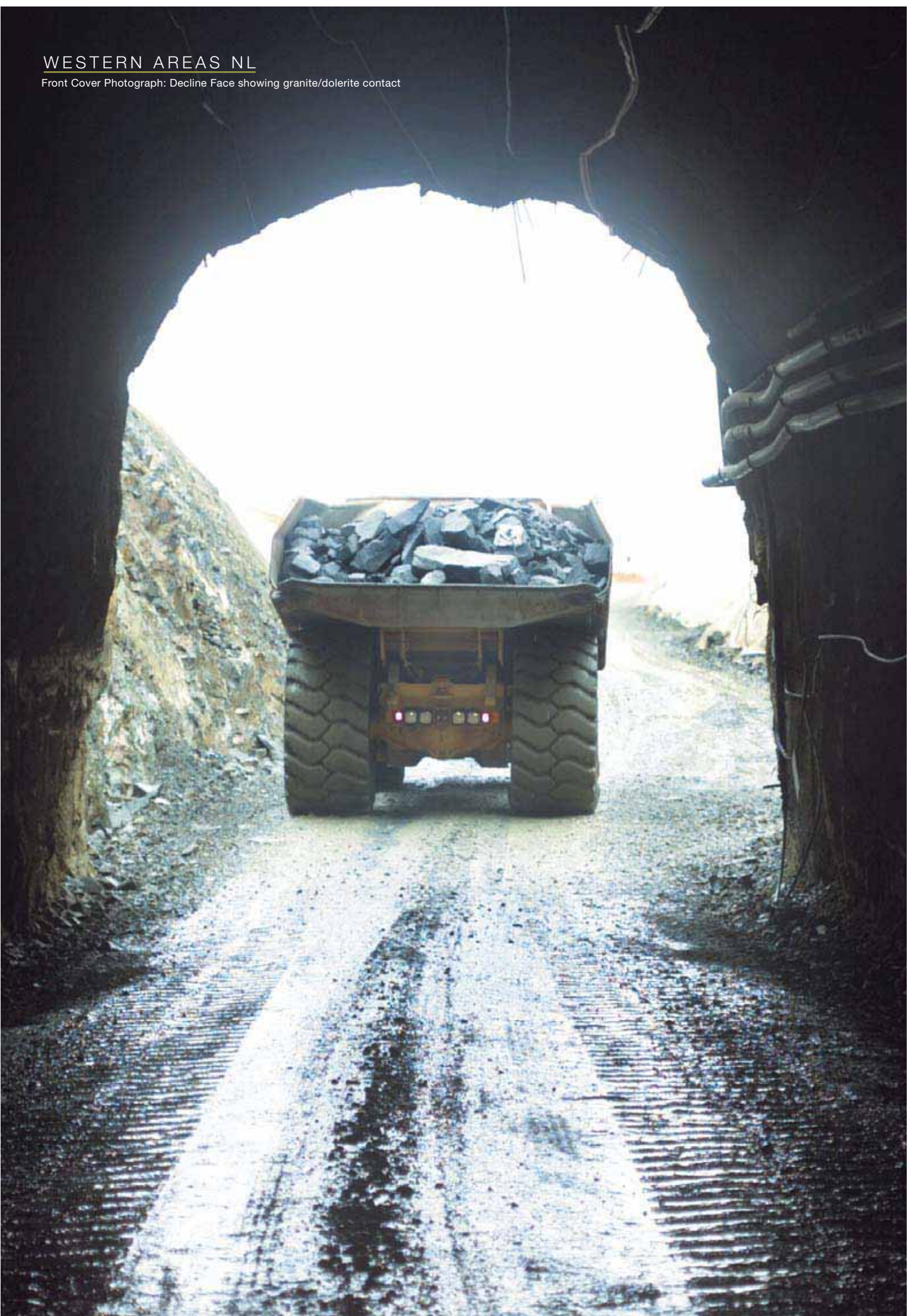
WESTERN AREAS NL



ABN 68 091 049 357

WESTERN AREAS NL

Front Cover Photograph: Decline Face showing granite/dolerite contact



CONTENTS

CORPORATE DIRECTORY	1
CHAIRMAN'S LETTER	3
OPERATION REVIEW	4
DIRECTORS' REPORT	9
CORPORATE GOVERNANCE STATEMENT	21
INDEPENDENT AUDITOR'S DECLARATION	23
INCOME STATEMENT	24
BALANCE SHEET	25
STATEMENT OF CHANGES IN EQUITY	26
CASH FLOW STATEMENT	27
NOTES TO THE FINANCIAL STATEMENTS	28
DIRECTORS' DECLARATION	61
CERTIFICATION OF ANNUAL FILINGS	62
INDEPENDENT AUDIT OPINION	64
SCHEDULE OF MINING TENEMENTS	66
SHAREHOLDER INFORMATION	71

CORPORATE DIRECTORY

Directors

Don Boyer (retired 28 August 2006)
David Cooper
Robin Dunbar
Julian Hanna
Terry Streeter

Company Secretary

Craig Oliver

Auditors

Grant Thornton Western Australian Partnership
256 St George's Terrace
Perth WA 6000

Bankers

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

Stock Exchange

Australian Stock Exchange Limited &
Toronto Stock Exchange Group
Code : WSA

Solicitors

Steinepreis Paganin
Level 14, Chancery House
37 St George's Terrace
Perth WA 6000

Share Registry

Australia

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

Canada

CIBC Mellon Trust Company
320 Bay Street
PO Box 1
Toronto Ontario M5H 4A6

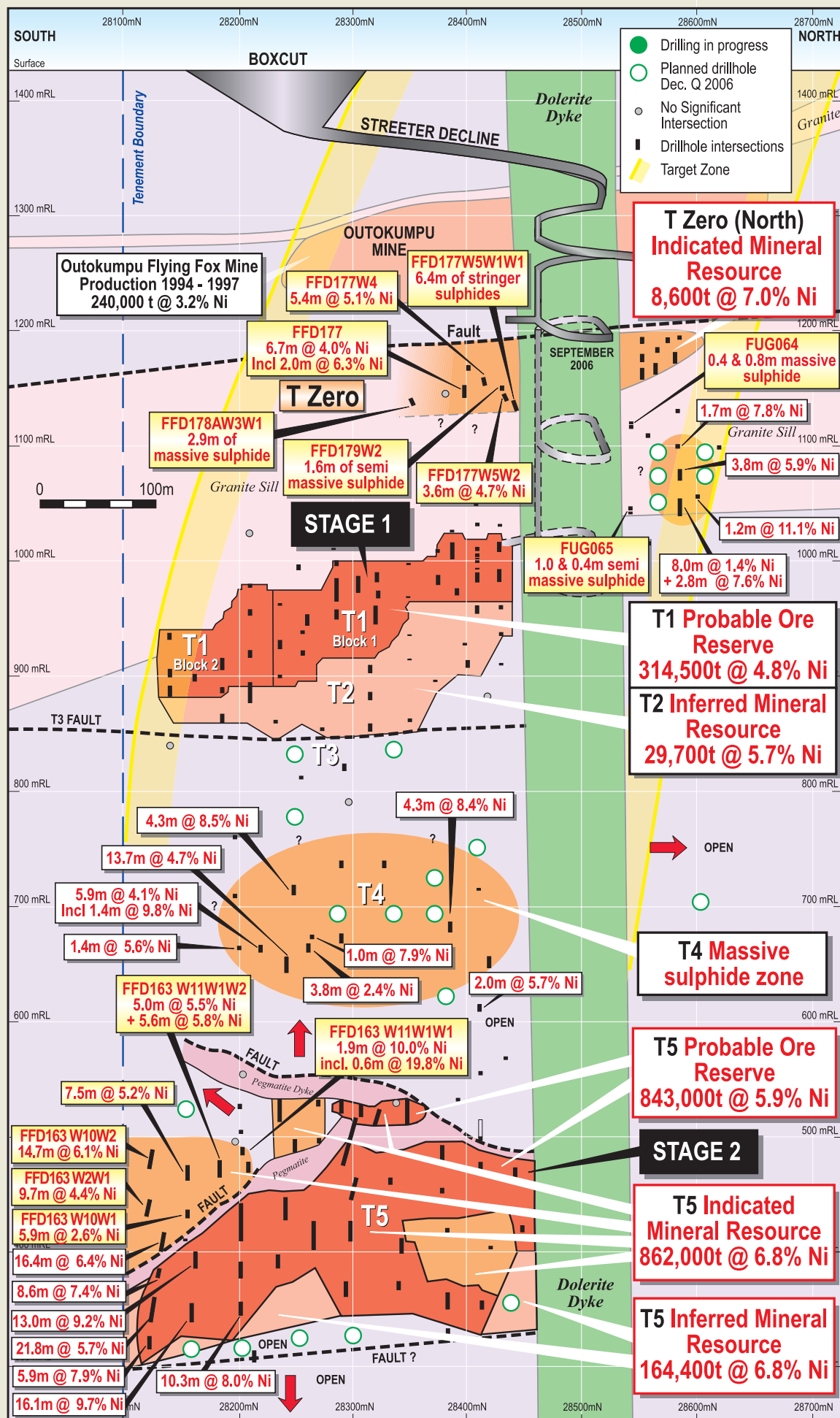
Registered Office

Suite 3, Level 1
11 Ventnor Avenue
West Perth WA 6005
Phone (08) 9486 7855
Fax (08) 9486 7866

Branch Office

TD Canada Trust Tower
BCE Place
Suite 2668
PO Box 508
161 Bay Street
Toronto Ontario M5J 251

Flying Fox - Interpreted Longitudinal Projection (Note: Drill hole intersections shown as downhole widths.)



CHAIRMAN'S LETTER

It gives me great pleasure to present this Annual Report on Western Areas for the year ending 30 June 2006.

As you are probably aware, the Company is developing the Flying Fox nickel mine at a time of record nickel prices. Flying Fox is one of the highest grade nickel mines in Australia and we anticipate that first ore will be produced within a few months, during the December quarter. This will be a major milestone for Western Areas, our mining team and our shareholders.

At the date of this report (31 August 2006) the nickel price was approximately US\$30,000 per tonne, double what it was 12 months ago. This has the potential to have a significant impact on profits generated from mining Flying Fox. The Feasibility Study announced on 15 March 2006 demonstrated a very robust project which was based on an assumed average nickel price of only US\$12,100 per tonne.

During the past year, Western Areas has focussed on a number of goals at the Forrestania Nickel Project that should underpin the future growth of the Company. These are to:

- Commence production at Flying Fox in the December quarter 2006
- Increase mineral resources to support a 10 year mine life at Flying Fox
- Complete a feasibility study to develop the Diggers South deposit
- Construct a nickel concentrate plant at Cosmic Boy
- Discover another "Flying Fox type" nickel deposit at Forrestania

I am able to report that there has been excellent progress towards achieving all these goals. The Operations Review and Directors Report included in this Annual Report will detail progress on each of these goals and describe activities on Western Areas other projects.

In addition to the ongoing program at Forrestania, the Company has been very active in exploring for nickel and platinum group elements (PGE) at a number of other projects in Western Australia. Recent successes include a high grade nickel intersection at the 100% owned Koolyanobbing Nickel Project, geophysical anomalies identified at the Lake King Joint Venture and exciting drilling targets outlined at the 100% owned Copper Hills PGE Project.

In the 2005 Annual Report, I listed milestones for the previous 12 month period (to June 2005). This year I have followed a similar format and have set out below some of the milestones that were achieved during the past 12 months to the date of this report.

- December 2005 – Western Areas listed on Toronto Stock Exchange
- February 2006 – 54% increase in contained nickel in T5 Ore Reserve
- March 2006 – Feasibility Study completed for T5 Deposit
- April 2006 – Decision to proceed with Flying Fox mine expansion
- May 2006 – Cosmic Boy Village completed with capacity for 180 people
- June 2006 – Discovery of new nickel deposit at Flying Fox, "T Zero"
- July 2006 – \$80 million debt facility for Flying Fox completed
- August 2006 – 2.4km of underground mine development completed at Flying Fox to date

In a very competitive employment market in Western Australia, the Company has been able to retain a first rate mining and development team. We are fortunate to have an experienced and highly motivated group of people to manage the mine, the exploration programs and the administration of the Company. I am able to report to shareholders that Western Areas is in good hands.

Finally, I recently announced my intention to retire as the Chairman of Western Areas. I have held this position since the Company listed in 2000 and have thoroughly enjoyed being involved with a Company which has evolved from being a junior nickel explorer into a mining Company developing one of the best nickel mines in Australia.

There have been many exciting times during the past six years and I hope to have contributed to the success story which is Western Areas today. I look forward to catching up with staff, contractors and shareholders in the future to discuss the growth of the Company.



Don Boyer

Chairman

OPERATION REVIEW

During the past 12 months there has been excellent progress in developing the Flying Fox mine, building high grade ore reserves and expanding Western Areas other assets. This growth is reflected not only in the share price but also in the increasing level of interest being shown by Australian and offshore investment funds and brokers.

With Flying Fox, Western Areas owns one of the highest grade nickel mines in Australia with significant potential for increasing ore reserves and mine life. Flying Fox is part of the 100% owned, 90km long Forrestania Nickel Project, arguably one of the best nickel exploration projects in Australia. Although the main priority is to increase ore reserves at Flying Fox, there is potential to build mineral resources to support a second mine at Diggers South and there is a backlog of other high quality exploration targets yet to be tested at Forrestania.

As a result, drilling priorities are constantly reviewed by Western Areas exploration and management team. The Company has three surface and one underground diamond drill rigs on site at Forrestania drilling 24 hours per day. In addition, active exploration programs are being conducted on several of Western Areas other nickel and PGE exploration projects in Western Australia with encouraging results reported during the past 12 months.

This Operations Review discusses progress on developing the Flying Fox mine and includes coverage of some of the work undertaken in other areas at Forrestania and at Western Areas other exploration projects.

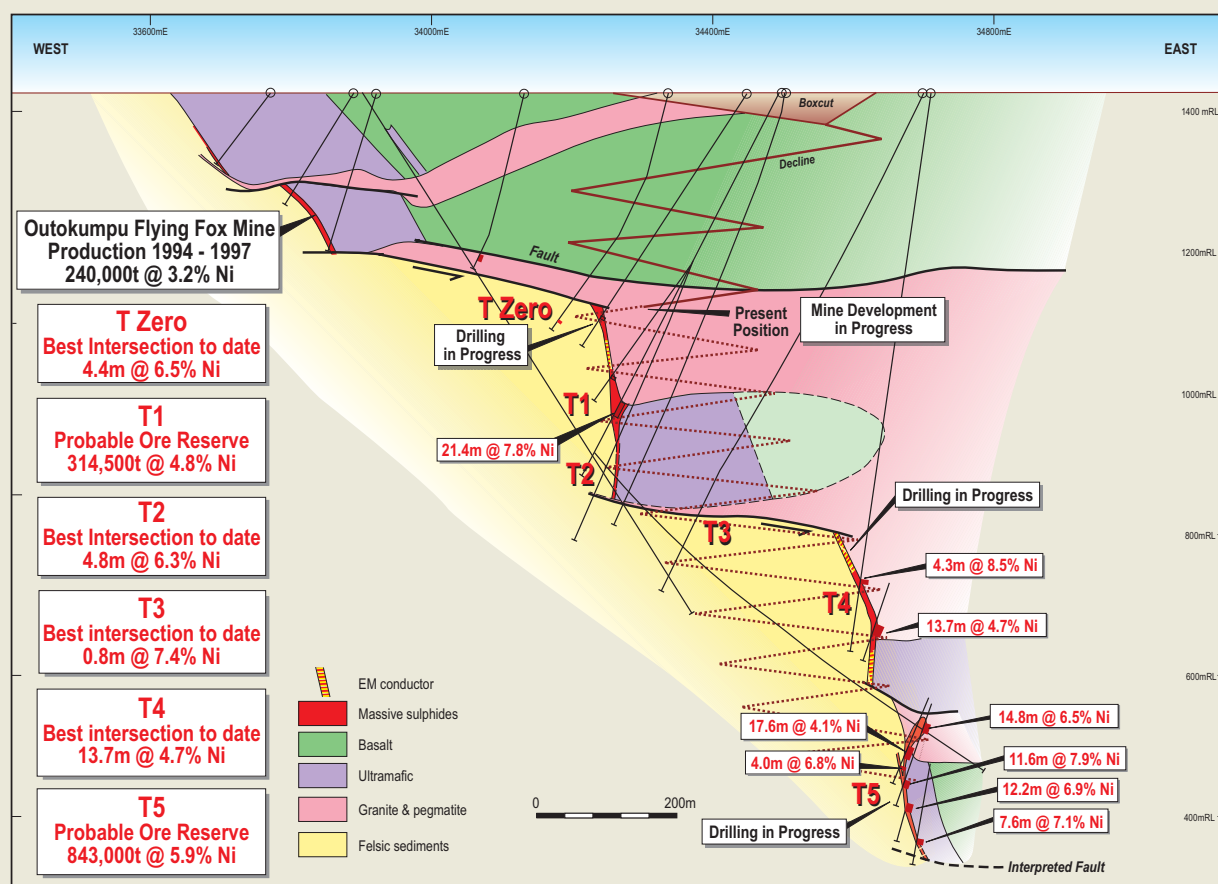
Flying Fox Mine Development and Infrastructure

At the time of this report (end of September) approximately 2.4km of underground mine development has been completed at Flying Fox. This has been achieved within 16 months from commencement and is a credit to the mining team involved in the development. The decline has been installed with substantial services including ventilation, power and water disposal required for a mine designed to extend to at least 1km vertical depth.

During the year, some delays were encountered in the decline due to water inflows along a 10m wide horizontal fault zone which offsets the T Zero deposit from the base of the old Outokumpu mine. The decline required grouting to seal off the water flow and dewatering bores were installed to reduce the water table to enable the mine to progress through the fault zone. The decline has now advanced below the fault zone, water inflow has diminished, production has significantly improved and the decline advance routine has been re-established.

Less than 100m of advance is required before the decline intersects the T Zero (North) deposit where first ore production is expected in the December quarter. Production from the larger, underlying T1 deposit is expected to commence in mid 2007.

Surface infrastructure was upgraded with the installation of a backup power generator, an underground dewatering pipeline to the Lounge Lizard open pit and completion of the site offices and workshop.



In addition, permits were received for installing a 20 kilometre long buried pipeline from Flying Fox to Cosmic Boy to increase storage capacity for the mine water. Western Areas environmental officers are working closely with state and federal environmental authorities to ensure that the project meets or exceeds all required environmental standards.

The Cosmic Boy village has now been completed to a very high standard with en suite accommodation for 180 people. The village includes an office complex, first aid post, gymnasium, wet mess and excellent catering facilities. The site is operated on a fly in - fly out basis with regular charter flights from Perth.

Flying Fox Mineral Resources

The Company has announced a goal to increase the total of high grade mineral resources defined to date at Flying Fox from the approximately 90,000 tonnes of contained nickel to 100,000 tonnes of contained nickel. The purpose is to build sufficient ore reserves to support a 10 year mine life. During the past 12 months there has been excellent progress towards achieving this goal.

In June 2006, the T Zero (North) deposit was discovered at 250 metres depth adjacent to the path of the mine decline. Although a relatively small deposit with an Indicated Mineral Resource of 8,600 tonnes at an average grade of 7.0% nickel, T Zero (North) is expected to provide early production from the mine. Drilling is now focussed on the area south of the dolerite dyke T Zero (South), shown on the longitudinal projection included in this report. The first drill hole in this area, FFD 177, intersected 6.7m @ 4.0% nickel, announced on 27 July. Drilling will continue at T Zero (South) with the aim of defining a mineral resource which can also be accessed from the existing decline.

During the past 12 months, excellent drill hole results were announced from the T4 deposit, mid way between T1 and T5. Previously announced intersections include 13.7m @ 4.7% nickel and 4.3m @ 8.5% nickel. High grade mineralisation has been intersected over a wide area at T4 and further drilling is required before a mineral resource can be estimated in this area. The recent discovery of T Zero has meant that the T4 and T5 drill rigs have been moved for several months to drill out this shallower area of the mine. Drilling will resume at T4 as soon as a drill rig is available.

T4 has the potential to provide additional, low cost mine production making use of the decline which is designed to access the underlying T5 deposit. Because a mineral resource has not yet been defined at T4, the deposit was not included in the Stage 2 Feasibility Study or in the Company financial models for the Flying Fox mine.

A major increase in the size of the T5 mineral resource and associated ore reserve was announced in October 2006. The revised T5 Indicated Mineral Resource is 862,100 tonnes at an average grade of 6.8% nickel containing approximately 58,800 tonnes of nickel (listed on the following resource table).

Flying Fox Mineral Resources (October 2006):

Flying Fox Deposit	Category (JORC)	Tonnes	Nickel grade (Ni%)	Contained Ni (tonnes)
T Zero (North)*	Indicated Mineral Resource	8,600	7.0%	600
T1**	Indicated Mineral Resource	285,900	5.9%	16,900
T1/T2	Inferred Mineral Resource	29,700	5.7%	1,700
T5***	Indicated Mineral Resource	862,100	6.8%	58,800
T5	Inferred Mineral Resource	164,400	6.8%	11,220
TOTAL		1,350,700	6.6%	89,220

Notes:

* Includes Probable Ore Reserve of 12,200 tonnes at an average grade of 4.1% nickel containing 500t Ni.

** Includes Probable Ore Reserve of 314,500 tonnes at an average grade of 4.8% nickel containing 15,000t Ni.

*** Includes a Probable Ore Reserve of 843,000 tonnes at an average grade of 5.9% nickel containing 49,700t Ni.

Construction of nickel concentrate plant

Detailed engineering design work for the 250,000 tpa Cosmic Boy nickel concentrate plant was completed in mid 2006. The total cost for constructing the plant has been estimated at \$25 million and construction is expected to commence in 2007. Western Areas has already acquired the major plant items including the ball mill, nickel flotation and filtration circuits and conveyor systems. Major infrastructure already exists at Cosmic Boy including grid power, tailing storage and borefields. Permits have been received for the construction of the plant and preliminary site works have already been completed.

Until the plant is constructed, Western Areas will treat ore from Flying Fox at LionOre's Lake Johnston nickel concentrate plant located 90km east of Flying Fox. The ore will be sold under the terms of the existing Ore Tolling and Concentrate Purchase Agreement which provides Western Areas with the flexibility to either toll treat ore or sell nickel concentrate on favourable terms either at spot or hedged nickel prices.

Constructing a nickel concentrate plant at Cosmic Boy will enable Western Areas to optimise metallurgical recoveries, reduce ore transport costs and allow treatment of lower grade ores (eg Diggers South) on site.

OPERATION REVIEW *cont*

Flying Fox Project Finance

In July 2006, Western Areas completed an A\$80M senior debt facility from a banking syndicate lead by the Commonwealth Bank of Australia. The syndicate includes Investec Bank (Australia) Ltd and Westpac Banking Corporation. The senior debt incorporates an A\$55M amortising tranche and a A\$25M revolving tranche. These funds will be used for the expansion of the mine, the development of T5 and to refinance the previous T1 facility.

The facility has been able to be secured without the requirement for a major hedging program. The required hedging is in line with the Board's revolving hedging limits of 70% of saleable nickel in Year 1, 45% in Year 2 and 20% in Year 3. This will enable Western Areas to have significant exposure to spot nickel prices during what the Company anticipates will be a period of sustained high nickel prices. Production from the T Zero deposit (commencing in the December quarter) is currently unhedged and it is intended that this will be sold at spot nickel prices to maximise revenue during the early stages of the mine production.

Investec Bank (Australia) Ltd has also been mandated to arrange an A\$22M mezzanine debt facility provided favourable terms can be negotiated for this additional facility.

Diggers South Feasibility Study

As Western Areas nears production from Flying Fox and as a result of the recent increase in the nickel price, the Company is reviewing other substantial nickel deposits at Forrestania. A technical team is undertaking a scoping study to evaluate mining the Diggers South deposit 40 kilometres south of Flying Fox. A 28 hole diamond drilling program commenced in August 2006 to test the potential for extensions to the existing mineral resource below 500m depth.

Diggers South contains 30,500 tonnes of contained nickel with the majority in the high confidence Indicated Mineral Resource category. Previous mining by Outokumpu at the Digger Rocks mine, 500m North of Diggers South, produced approximately 28,000 tonnes of nickel in concentrate.

Diggers South Mineral Resource (reported 9 May 2005).

A scoping study of Diggers South was completed by consultants Golder Associates in February 2005. This study assumed an average nickel price of only US\$5.00 per pound of nickel compared with recent nickel prices of between US\$10.00 and US\$14.00 per pound. If the current scoping study is positive, mining

Deposit	Category (JORC)	Tonnes	Nickel grade(Ni%)	Contained Ni (tonnes)
Deposit South	Indicated Mineral Resource	1,456,800	1.56%	22,700
Deposit South	Inferred Mineral Resource	530,000	1.49%	7,800
TOTAL		1,986,800	1.54%	30,500

at Diggers South has the potential to add between 4,000 and 5,000 tonnes of nickel in concentrate per annum to overlap Flying Fox mine production for a 4-5 year period. The pre feasibility study is evaluating the potential to:

- Expand the Mineral Resources with drilling below 500m depth
- Increase metallurgical recoveries with further test work on the ore
- Review the existing preliminary underground mine design
- Increase capacity of the planned Cosmic Boy plant to treat Diggers South
- Improve project economics assuming increased nickel prices

Results from the Diggers South scoping study will be released to shareholders as work progresses.

Forrestania Exploration

During the past 12 months, the majority of exploration drilling at Forrestania has been directed towards building mineral resources at Flying Fox. The Company has also conducted drilling programs elsewhere at Forrestania designed to test a number of nickel and gold targets along the 90km long project.

Apart from Flying Fox, Western Areas main exploration priority is to discover another similar, high grade nickel deposit along strike from Flying Fox, under the horizontal granite intrusion. This granite intrusion obscured the Flying Fox T1, T4 and T5 deposits from early explorers and is now known to extend for several kilometres north and south along strike from the mine. Detailed drilling and the use of high quality geophysical methods at Flying Fox has resulted in an excellent understanding of the geometry and geological controls of the granite intrusion and the mineralisation. This knowledge is now being applied to explore for similar deposits in the area.

In addition to the ongoing exploration program, Western Areas is sponsoring a PhD student from The University of Western Australia, Jane Collins, to conduct a three year study of the unusual geological setting of the Flying Fox mineralisation.

As a result of the increased understanding of the Flying Fox deposit, two new nickel targets have been identified 1000m and 1600m north along strike from the Flying Fox Mine, below a flat lying granite intrusion similar to Flying Fox. Shallow drilling at these targets in the mid 1970's intersected highly anomalous end of hole nickel and copper assays (up to 1.2% nickel and 750ppm copper). Two early diamond drill holes followed up these anomalous results but intersected granite and sediments rather than the prospective ultramafic/sediment contact.

Western Areas will initially test the ultramafic/sediment contact with diamond drilling about 200-250m depth at both targets. This will be followed by down hole electromagnetic surveys to identify potential conductors.

Drilling is expected to start in early October following a protracted environmental approvals process to clear access tracks for the drilling. The geological setting shows a number of important similarities to the upper part of the Flying Fox mine and for this reason, this area is considered to be a high priority target.

Other Exploration Projects

Koolyanobbing Joint Ventures

In July 2006, four reverse circulation drill holes were drilled within a 1.5 km strike zone enclosing the Jock's Dream prospect in the Koolyanobbing North Nickel project (WSA 100%) to test four IP geophysical targets along strike from known nickel sulphide mineralisation. Early explorers at Jocks Dream (BHP and Delta Gold) intersected nickel sulphide mineralisation with the best previous result being 6.7m at 2.6% nickel.

Western Areas intersected 5m @ 2.1% Ni and 0.1% Cu from 74 to 79m including 1m @ 4.0% Ni and 0.3% Cu from 77m depth in drill hole KDRC014, 250m north of Jocks Dream. The mineralisation occurs as massive and stringer sulphides and provides encouragement that additional massive nickel sulphides will be intersected at depth.

Further geophysical work and diamond drilling is expected to resume in October 2006.

After a 12 month application process, Western Areas received approvals to conduct exploration at the Deborah prospect in the Koolyanobbing East joint venture (WSA 70%). BHP Minerals intersected disseminated sulphide mineralisation in widespread drilling of the ultramafic sequence in the early 1970's. A program of surface EM which is expected to be followed by drilling commenced in August.

Lake King Nickel Project

Western Areas has entered into an agreement to earn 70% interest in the Lake King project located 80km south west of Forrestania. The main interest is at the "Nickel Hill" prospect where soil sampling has returned anomalous nickel, copper, PGE and base metal values over a 300m area. An IP geophysical survey in July 2006 defined a strong conductor in the area of the soil anomaly and drilling is planned when access is available.

The project is located within a nature reserve and discussions are in progress with environmental authorities to gain approval to conduct the drilling program.

Copper Hills Project

Two exploration licences covering a large part of the Harbutt Range intrusive complex were granted during the year. An exploration team is assessing a number of platinum group element ("PGE") targets and preparing for drilling in October. Western Areas owns a 100% interest in the tenements.

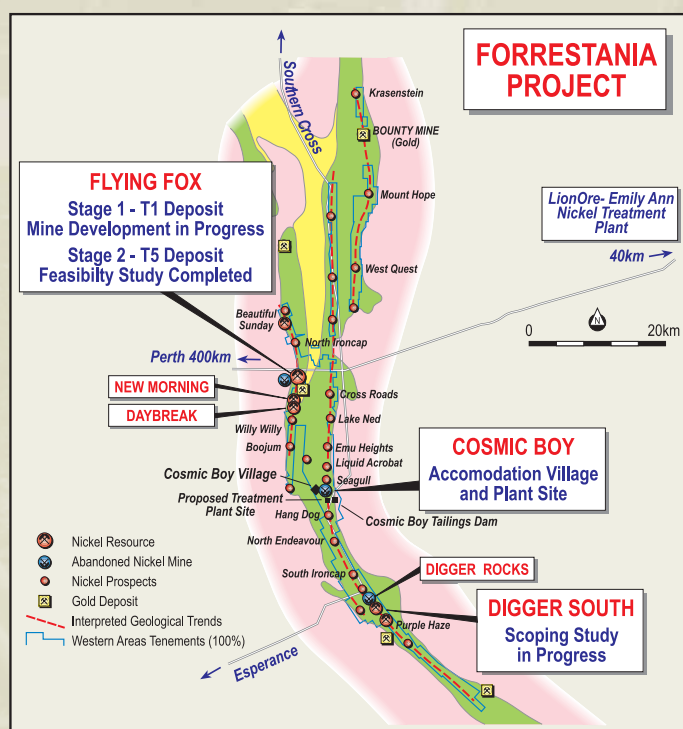
The Harbutt Range intrusion at Copper Hills is regarded as one of Western Areas most exciting regional exploration projects. The tenements cover a large area where widely spaced drilling by CRA Exploration in the 1980's intersected anomalous PGE (palladium and platinum) as well as zinc mineralisation. Western Areas has also identified a number of surface uranium anomalies which are currently being assessed.

Management, Staff and Contractors

To meet the rapidly expanding activities of the Company we have strengthened the senior management team with Dan Lougher appointed as General Manager of Operations and Craig Oliver as Chief Financial Officer and Company Secretary. We have also built up our management team on site with Ken McKenzie as Mine Manager, Peter Cullinan as alternate Underground Manager and Keiran Warnock as Plant Construction Manager.

Our key contractors include Newexco managing the Forrestania Exploration program, Barmenco operating the Flying Fox mine, Action Catering managing the Cosmic Boy village and Julstroy conducting surface site works. Exploration outside Forrestania and offshore is managed by Western Areas in-house team of geologists and geophysicists and the Company administration is managed by Western Areas staff based in the Perth office.

I am happy to report to shareholders that all of the people who make up the Western Areas team are highly motivated and are enjoying being involved at this exciting stage in the development of the Company.



OPERATION REVIEW cont

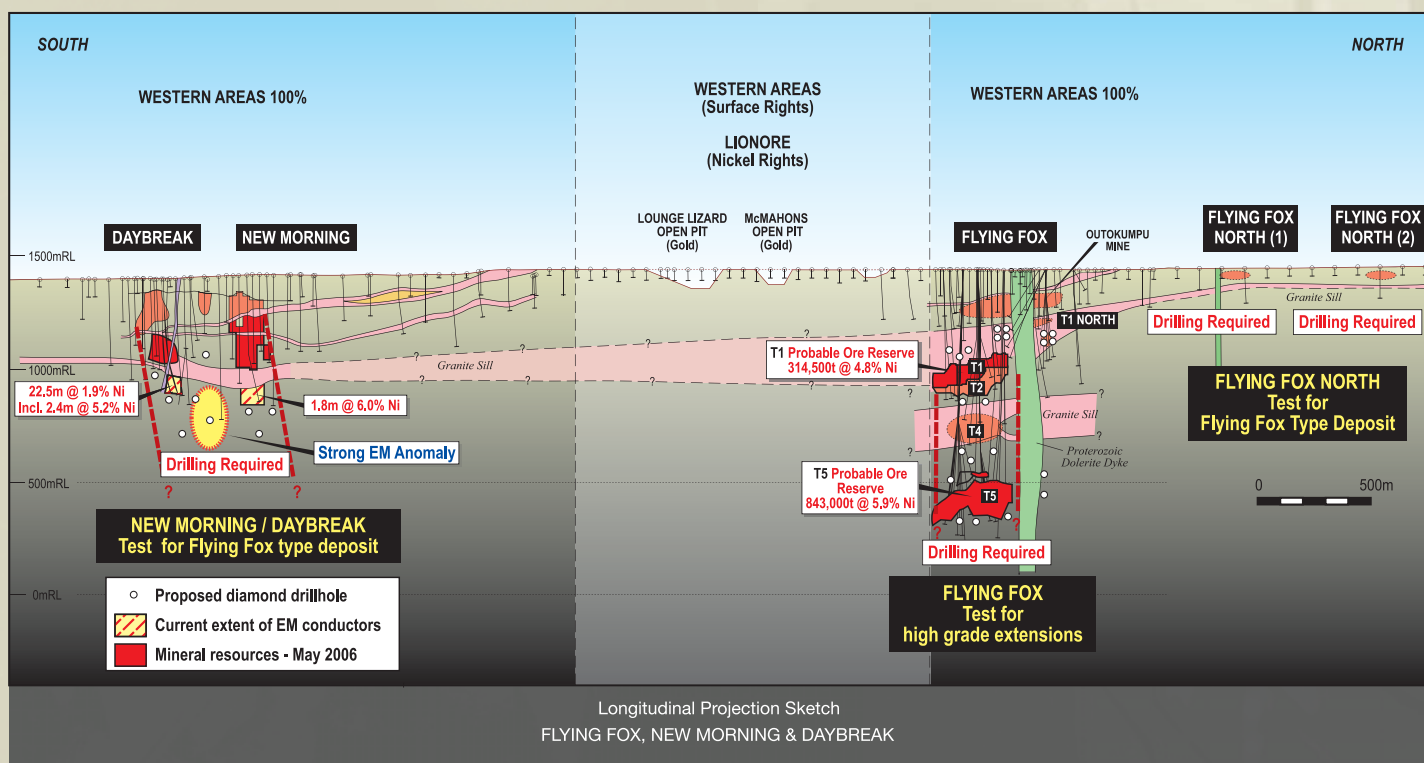
Finally I would like to take this opportunity to thank the Non-Executive Board members of the Company for their enormous energy and long hours of work. I would also like to wish our outgoing Chairman, Mr Don Boyer, all the best for the future. Don has been an important part of the Company for the past 6 years.

We all look forward to an exciting year ahead with first ore production from the Flying Fox mine and ongoing exploration success.



Julian Hanna

Managing Director



DIRECTORS' REPORT

The Directors submit the financial report of the consolidated entity for the year ended 30 June 2006. Unless noted, all amounts in this report refer to Australian dollars.

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. (*) denotes current directorship



David Donald Boyer

BSc(Hons), CPGeo (Independent, Non-Executive Chairman)

Mr Boyer is a professional geologist with over 35 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 various senior exploration management roles. On the 28 August 2006 Mr Boyer retired from his position on the Company's Board.

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) and Australian Mines Limited (from September 2000 to May 2004).



Julian Hanna

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

During the past three years Mr Hanna has also served as a director of the following other listed companies; Fox Resources Limited (*) (since April 2006)



David Cooper

CPA (Independent, Non-Executive Director)

Mr Cooper is a Certified Practising 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.

On the 28 August 2006 Mr Cooper was appointed as the Chairman of the Company's Board.



Terry 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) and Jubilee Mines NL (from 1993 to May 2004)



Robin Dunbar

MBA (Non-Executive Director) – Appointed 12 December 2005

Mr Dunbar joined the Board on 12 December 2005. Mr Dunbar is based in Toronto, Canada and has held a number of senior positions in both commercial and corporate banking sectors and is currently the President of Mustang Minerals Corporation.

During the past three years Mr Dunbar has also served as a director of the following other listed companies; Mustang minerals Corp (*) (since May 1996), Veldron Gold Inc (*) (since September 2005) and Aquila Resources Ltd (*) (Since May 1996)

DIRECTORS' REPORT *cont***Company Secretary****Craig Oliver***ACA, MBA*

Mr Oliver has been the Company Secretary and the Chief Financial Officer since 21 March 2006. Mr Oliver has over 15 years of resources experience in senior financial and corporate roles and is a qualified Chartered Accountant.

**Dan Lougher***B.Sc. Msc. Eng (GM - Operations)*

Dan is a qualified Mining Engineer with over 20 years experience in all facets of resource and mining project evaluation, feasibility, development and operational activities in Australia and overseas. Dan is a member of the Australasian Institute of Mining & Metallurgy.

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 (*)
D. Boyer	1,330,554	—
J. Hanna	1,450,765	—
D. Cooper	1,051,000	—
T. Streeter	29,169,806	—
R. Dunbar	—	—

(*) The remuneration committee resolved to issue 2,000,000 \$3.20 options to the Directors during May 2006. This is still subject to shareholder approval.

Results

The net loss after tax of the Consolidated Entity for the year ended 30 June 2006 was \$4.8 million (2005:\$3.2 million).

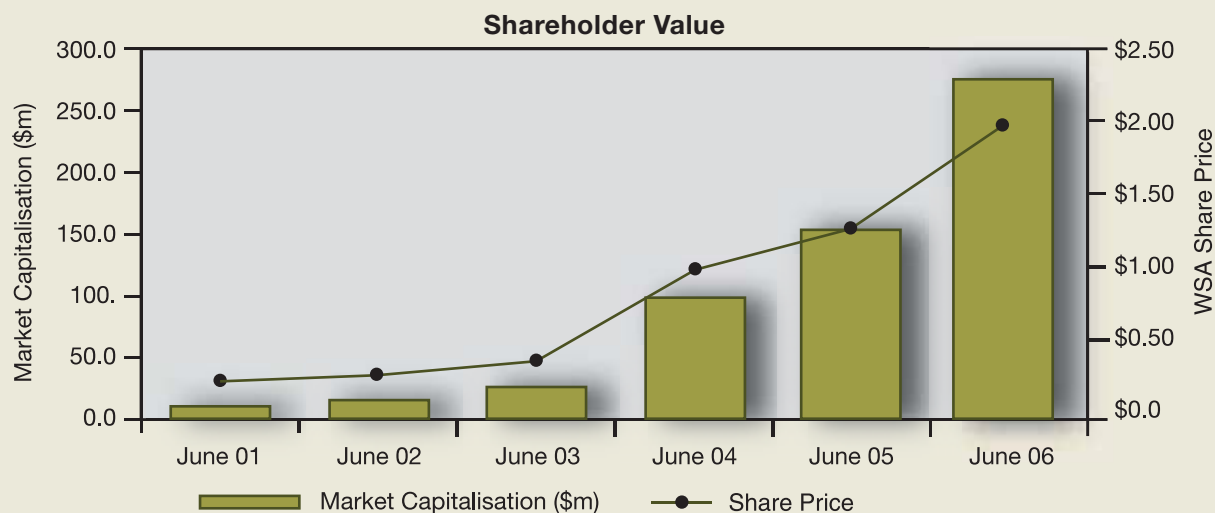
Loss Per Share

	CENTS
Basic loss per share	3.66

Shareholder Returns

The Board are pleased to report that the ongoing exploration success at Forrestania and the ongoing development at Flying Fox has led to a 53% increase in share price during 2006 and a 79% 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 below illustrates these 2 key indicators over the past 6 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 18 employees as at 30 June 2006 (2005 : 14 employees).

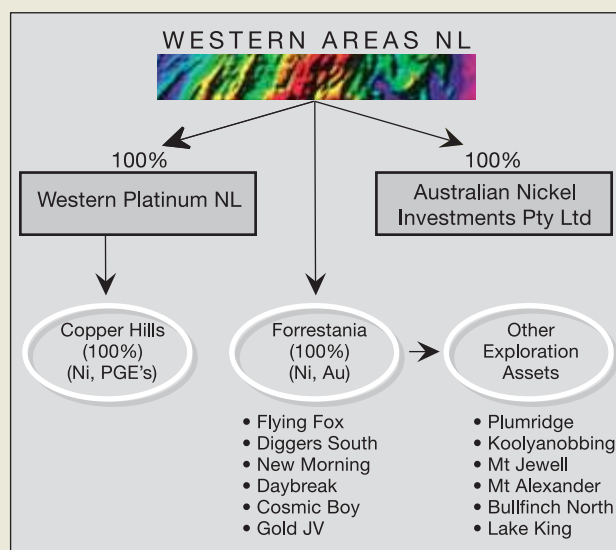
Dividends

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 below along with the principle 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 and platinum group elements ("PGE") deposits.

Western Areas is currently developing the high grade Flying Fox nickel mine at the 100% owned Forrestania Nickel Project. Mine development commenced in December 2004 and consists of an underground decline which is designed to access a number of high grade nickel deposits extending from approximately 250m

to 1050m vertical depth from surface. Approximately 2.4km of underground development has been completed to date.

A nickel offtake agreement has been executed with LionOre (Australia) Nickel Ltd to sell the first 75,000 tonnes of nickel either in ore or in concentrate from Forrestania to LionOre. Initial ore production from Flying Fox will be treated at LionOre's Lake Johnston nickel concentrate plant, located 90km east of Flying Fox.

The Company has secured an A\$80M senior debt facility from a banking syndicate lead by the Commonwealth Bank of Australia. The syndicate comprises the Commonwealth Bank of Australia, Investec Bank (Australia) Ltd (formerly NM Rothschild Australia) and Westpac Banking Corporation. These funds will be used to provide funding for the expansion of Flying Fox, the development of T5 and to refinance the existing T1 facility. Investec Bank (Australia) Ltd has also been mandated to arrange a A\$22M mezzanine debt facility.

Flying Fox – T Zero and T1 Deposits

The first mine production from Flying Fox is due to commence in the December quarter 2006 from the T Zero deposit which is located immediately north of the current decline path. Surface drilling is in progress to extend the T Zero Mineral Resource in the area south of the decline. The decline will be extended to access the T1 deposit at 400m depth 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 mid 2007 at an initial annualised production rate of approximately 6,000 tonnes of nickel in concentrate per annum.

Flying Fox – T5

The Company has completed a bankable feasibility study ("BFS") for the Stage 2 expansion of the Flying Fox mine and a decision to proceed with Stage 2 was made in April 2006. The mine expansion is based on the development of the high grade Flying Fox T5 nickel deposit between approximately 850m and 1,050m depth.

T5 has a Probable Ore Reserve of 843,000 tonnes @ 5.9% nickel containing approximately 49,700 tonnes of nickel plus and Inferred Mineral Resource of 118,500 tonnes @ 6.5% nickel. In addition, drilling in the area up to 100m south of the T5 ore reserve has intersected significant widths of massive sulphides and a revised Mineral Resource was announced for this area in October 2006.

T5 mine development is expected to commence in late 2007. Given the outstanding widths and continuity of high nickel grades in T5, a mining rate of up to 200,000 tonnes per annum ("tpa") ore has been assumed in the feasibility study to produce up to approximately 13,500 tpa of nickel in concentrate in 2010.

DIRECTORS' REPORT *cont*

Western Areas has acquired a sulphide flotation plant, a ball mill and conveyor system which are expected to form the main components for a 250,000 tpa nickel concentrate plant to be constructed at Cosmic Boy, 20km south of Flying Fox. Cosmic Boy has substantial existing infrastructure including roads, grid power, borefields, airstrip, tailings storage and the village with high quality accommodation for 180 people. Detailed engineering design work for the Cosmic Boy plant has been completed, permits have been received and preliminary site works were completed in July. Plant construction is scheduled to commence in 2007.

Diggers South

Western Areas is 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.

A scoping study for Diggers South is in progress and drilling commenced in August 2006 with the aim of testing for extensions to the existing mineral resource below 500m depth.

Forrestania Exploration Activities

Drilling with three diamond drill rigs is continuing at Forrestania with the main objectives of expanding high grade resources at the Flying Fox T Zero, T4 and T5 deposits. The Company has announced a goal to increase total mineral resources at Flying Fox to 100,000 tonnes of contained nickel during the next 12 months from the current level of approximately 90,000 tonnes of contained nickel. Currently defined mineral resources at Flying Fox do not include recent significant drilling results at the T Zero (south) and T4 deposits where drilling is ongoing and additional mineral resources are yet to be estimated.

The rate of exploration that has been in progress at Forrestania during the past 12 months is expected to increase 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. Details of these priority targets are included in the Operations Review.

In addition, Western Areas has been actively exploring for gold on the Forrestania Project tenements under the terms of a joint venture with Outokumpu. Western Areas can earn 100% interest in the precious metals rights.

Regional Exploration Activities

Although the main exploration effort was again focussed on Forrestania, active exploration programs were carried out at a number of other targets identified at Western Areas other regional exploration projects during the past 12 months.

The projects where most activity is focussed are Koolyanobbing, Copper Hills and Lake King. Results from work conducted during the past 12 months are included in the Operations Review.

Review of Financial Position

Profitability

The Company's net loss this year was \$4.8 million, a 52% increase over that of 2005. The main reasons were higher employee expenses, due to an increase in Company staff, and higher corporate and administration expenses due to the Toronto listing.

Capital Structure

During the year 10.8 million shares were issued via two private placements and 6.9 million shares via the IPO on the TSX. Combined, these raisings injected \$29.9 million into the Company.

As at 30 June 2006 the Company had approximately 140 million shares on issue, with total shareholders equity standing at \$53.1 million. The Company's debt/equity ratio at the end of the financial year was 58.3%. This is expected to continue to rise over the next 12 months as the Flying Fox development heads into production, 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 \$2.5 million in cash and cash equivalents.

The Company had drawn a total of \$30.7 million from the funding facility that was established in July 2005 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. This was used to repay the balance owing on the LionOre facility and to progress the development of the Flying Fox nickel mine.

Subsequent to the end of the financial year the Company announced completion of an \$80 million finance facility for the ongoing development of the Stage 2 expansion of the Flying Fox 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, then 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 2006 were as follows:

- a) The parent entity made 2 placements during the financial year issuing a total of 17,725,000 fully paid ordinary shares and raising a total of \$27,593,608 (net of expenses), this included listing on the TSX (see point b). A total of 2,678,334 unlisted options were also exercised during the financial year at various exercise prices, raising a total of \$1,591,834.
- b) The Company successfully issued a prospectus and was admitted onto the Toronto Stock Exchange in December 2005, the offering was 6,875,000 and raised C\$10,106,250.
- c) Mr Robin Dunbar was appointed to the Company's Board on the 12 December 2005. Mr Dunbar is based in Toronto Canada and brings a wealth of finance and banking experience to the Board.
- d) During February 2006 the ore reserve for the T5 deposit was increased by 54% to 843,000 ore tonnes at 5.9%, containing approximately 49,500 tonnes of nickel metal.
- e) In March 2006 the feasibility study for the Stage 2 development of the Forrestania nickel project was completed which included the development of the T5 deposit and the construction of a 250,000 tonne per annum concentrate plant.
- f) In April 2006 the Company announced the decision to proceed with the Stage 2 development of the Forrestania nickel project. This includes the development of the deeper T5 deposit and construction of a 250kt concentrate plant.

- g) In July 2006, the Company discovered the T Zero deposit and announced a mineral resource for that part of T Zero to the north of the dolerite dyke. First ore production from T Zero is expected in the December quarter 2006. Production from the underlying T1 deposit is expected in mid 2007.

Matters Subsequent to the end of the Financial Year

Subsequent to the end of the Financial Year:

- (a) The Company announced on the 28 July 2006 the completion of an A\$80m funding facility for the Stage 2 expansion of the Forrestania nickel project.
- (b) The Company has executed an option to acquire a controlling interest in Polar Gold Pty Ltd on 21 July 2006.

Likely Developments

The Directors foresee that the 2006/07 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 December quarter, 2006;
- Continuation of an active exploration program at the Forrestania Nickel Project and at other nickel and PGE projects in Western Australia;
- The entity will aim to expand and grow its asset base through the identification of nickel sulphide and PGE 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.

DIRECTORS' REPORT *cont*

Share Options

Unissued Shares

As at the date of this report there were 3,495,000 options over unissued ordinary shares in the parent entity. Refer to note 30 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 2,678,334 fully paid ordinary shares in Western Areas NL at a weighted average exercise price of \$0.59.

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 25 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 28 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.

Proceedings on behalf of the Company

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

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

Auditor's Independence Declaration

The Auditor's Independence Declaration to the Directors of Western Areas NL on page 33 forms part of the Director's Report for the year ended 30 June 2006.

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 not 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:

Due Diligence Services	\$53,595
	<u>\$53,595</u>

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 2006 Financial Year no options were issued to the Directors of the Company under this program. However the remuneration committee resolved to issue 2,000,000 options to Directors in May 2006, this is still subject to shareholder approval.

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 2006 is detailed in note 25 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:

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 STI's in existence at present relate 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.
- Successfully securing funding for the Forrestania Stage 2 project development. The Chief Financial Officer is the only Senior Executive able to participate in this reward program.

The STI's above were selected as they are mission critical to the organisation in the short term. The methods of assessing completion of targets are discrete indicators that are set in employment contracts. 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 25 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:



DIRECTORS' REPORT cont

- 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.
- They may resign from their positions and thus terminate the contract by giving 4 weeks written notice. On resignation any allocated options may remain in existence at the discretion of the Board.
- The Company may terminate the employment contract by giving 6 weeks written notice. This notice period is reduced to 4 weeks in the event the termination is due to serious misconduct or wilful neglect in the discharge of their duties. Any allocated options may remain in existence at the discretion of the Board.
- The Company may terminate the employment of the General Manager of Operations or Chief Financial Officer by giving 6 months notice if their position becomes redundant or there is a change to the core activity of the Company or if they are removed from their position without their consent. In this case, they are entitled to a termination payment equal to 6 months pay. Any allocated options may remain in existence at the discretion of the Board.

The General Manager of Operations and the Chief Financial Officer are employed under contract. The contracts commenced in May and March 2006 respectively and expire on termination of employment. Under the terms of the contract:



Company performance, shareholder wealth and Director and Executive remuneration

As the Company is not yet generating earnings nor paying dividends, the share price is the key measure of the increase in shareholder value. The table below shows the increase in share price over the previous 4 years;

YEAR	2002 \$	2003 \$	2004 \$	2005 \$	2006 \$
Closing Share price	0.19	0.44	1.04	1.33	2.03
% Change	—	232%	236%	128%	153%

The issuing of share options under the Directors share option plan helps align the Board's personal interests to that of the shareholders. The Company has shown a consistent increase in share price over the preceding years. The Board is of the opinion that these results can be in part attributed to the previously described remuneration policy and philosophies.

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 2006

		Primary Benefits		Equity	Post Employment	TOTAL
		Base Salary \$	Non Monetary \$	Options \$	Options \$	\$
D Boyer	2006	97,844	1,191	—	8,806	107,841
	2005	70,000	775	30,422	6,300	107,497
J Hannna	2006	271,000	1,342	—	24,390	296,732
	2005	220,000	2,074	30,422	19,800	272,296
D Cooper	2006	63,073	1,191	—	5,677	69,941
	2005	50,000	775	30,422	4,500	85,697
T Streeter	2006	63,073	1,191	—	5,677	69,941
	2005	50,000	775	30,422	4,500	85,697
R Dunbar (*)	2006	41,150	—	—	—	41,150
	2005	—	—	—	—	—
T King (^)	2006	—	—	—	—	—
	2005	41,666	611	30,422	3,750	76,449
Total Remuneration : Specified Directors						
	2006	536,140	4,915	—	44,550	585,605
	2005	431,666	5,010	152,110	38,850	627,636

(*) Mr Dunbar was appointed as a director of the Company on 12 December, 2005

(^) Mr King resigned on the 28 April 2005

DIRECTORS' REPORT *cont***Remuneration for Company's Executive Officers who received the highest remuneration for the Year Ended 30 June 2006**

		Primary Benefits		Equity	Post Employment	TOTAL
		Base Salary \$	Non Monetary \$	Options \$	Options \$	\$
C Oliver	2006	70,192	—	45,466	6,317	121,975
	2005	—	—	—	—	—
D Lougher	2006	34,667	—	45,466	3,120	83,253
	2005	—	—	—	—	—
T Manners	2006	155,327	336	—	13,979	169,642
	2005	178,416	1,393	33,774	17,842	231,425
B Dawes	2006	158,642	336	—	14,277	173,255
	2005	180,000	1,393	33,774	16,200	231,367
Total Remuneration : Specified Executives						
	2006	418,828	672	90,932	37,693	548,125
	2005	358,416	2,786	67,548	34,042	462,792

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.
- C Oliver and D Lougher commenced employment with the Company on 21 March 2006 and 15 May 2006 respectively.
- B Dawes and T Manners ceased employment with the Company on 17 February 2006 and 3 March 2006 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 2006.

	Grant date	Grant number	Vests	Value per option at grant date	Number exercised	Value per option at exercise date	Value at date option lapsed	% of remuneration (&)
C Oliver	5 May 06	400,000	(*)	\$0.341	nil	n/a	n/a	18.2%
D Lougher	5 May 06	400,000	(*)	\$0.341	nil	n/a	n/a	17.5%

(*) 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.

(&) This has been annualised against the specified Executive's salary as they have only been employed for part of the year.

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:

	Employee Share Option Incentive Scheme
Grant Date	5 May 2006
Avg share price over 12 months prior to grant	\$1.97
Dividend Yield	0%
Expected & Historical Volatility	59%
Risk Free Interest Rate	5.75%
Expected Life of the Option	3 years

The fair values of the options issued are expensed over the vesting term. This is consistent with AASB 2 "Share Based Payments"

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 2006 and the number of meetings attended by each director.

	Meetings of Committees			
	Directors Meetings	Audit & Risk Management	Remuneration	Nomination
Number of Meetings held:	12	2	2	2
Number of Meetings attended:				
D Boyer	12	2	1	2
J Hanna	12	—	—	—
D Cooper	10	2	2	2
T Streeter	12	2	2	2
R Dunbar (^)	6	—	—	—

(^) Attended 6 out of 6 meetings while in office

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:

Audit & Risk Management	Remuneration Committee	Nomination Committee
D Cooper ©	D Cooper ©	D Boyer ©
D Boyer	D Boyer	D Cooper
T Streeter	T Streeter	T Streeter

© denotes the chairman of the committee

Adoption of Australian Equivalents to IFRS

This financial report has been prepared under Australian equivalents to IFRS. A reconciliation of the differences between the previous GAAP and Australian equivalents to IFRS has been included at Note 29 in the financial statements.

DIRECTORS' REPORT cont

Rounding of Amounts

The amounts contained in this report and in the financial report for the year ended 30 June 2006 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.

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, adhere 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.

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



Julian Hanna
Managing Director
Perth, 4 September 2006



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

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 of the Directors' Report. 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
R Dunbar	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.

With the exception of R Dunbar each Director has been in office since the Company was incorporated, in December 1999. Mr Dunbar was appointed to the Board in December 2005

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 28 of the Directors' 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.

CORPORATE GOVERNANCE STATEMENT *cont*

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

Refer to page 1 of the Directors' 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 28 of the Directors' 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.

- 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 25).

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 28 of the Directors' Report.

For further details regarding the Board's committees refer to our website 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.

Trading Policy

The Company's policy regarding Directors and Employees trading in securities is set by the Finance Committee. The policy restricts Directors and Employees from acting on material information until it has been released to the market and adequate time has elapsed for this to be reflected in the securities prices.



INDEPENDENT AUDITOR'S DECLARATION

Grant Thornton 


Grant Thornton Western Australian Partnership
ABN 21 965 022 882
Chartered Accountants, Business Advisers and Consultants

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 2006, I declare that, to the best of my knowledge and belief, there have been:

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

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP


SEAN MCGURK
Partner

Dated 4 September 2006

Level 6
256 St Georges Terrace
Perth 6000 Australia
GPO Box P1213
Perth WA 6844
T + 61 8 9481 1448
F + 61 8 9481 0152
E gtperth@gtwa.com.au
W www.grantthornton.com.au

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INCOME STATEMENT**YEAR ENDED 30 JUNE 2006**

	Notes	Consolidated Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue	2	790	302	790	302
Employee benefits expenses		(1,637)	(1,449)	(1,637)	(1,449)
Finance costs	3	(90)	(85)	(90)	(85)
Exploration expenditure – Impairment Loss	3	(2,964)	(1,258)	(2,946)	(1,258)
Administration expenses		(2,825)	(1,822)	(2,823)	(1,821)
Loss before income tax		(6,726)	(4,312)	(6,706)	(4,311)
Income tax benefit	4	1,890	1,127	1,840	1,147
Net loss attributable to members of the parent entity		(4,836)	(3,185)	(4,866)	(3,164)
Basic & Diluted loss per share (cents per share)	17	(3.66)	(2.79)		

The accompanying notes form part of these financial statements.

BALANCE SHEET**AS AT 30 JUNE 2006**

	Notes	Consolidated Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current Assets					
Cash and cash equivalents	18 (b)	2,496	3,003	2,496	3,003
Trade and other receivables	6	1,008	599	979	599
Other financial assets	7	81	—	81	—
Total Current Assets		3,585	3,602	3,556	3,602
Non Current Assets					
Property, plant and equipment	8	14,313	4,587	14,313	4,587
Exploration & evaluation	9	47,058	36,709	45,533	35,522
Mine development	10	38,222	12,424	38,222	12,424
Deferred tax assets	11	4,402	2,512	4,348	2,508
Other financial assets	7	132	207	1,788	1,476
Total Non Current Assets		104,127	56,439	104,204	56,517
Total Assets		107,712	60,041	107,760	60,119
Current Liabilities					
Trade and other payables	12	7,099	5,340	7,099	5,340
Short term borrowings	13	105	64	105	64
Short term provisions	14	206	91	206	91
Other financial liabilities	15	8,903	—	8,903	—
Total Current Liabilities		16,313	5,495	16,313	5,495
Non Current Liabilities					
Long term borrowings	13	30,833	10,308	30,833	10,308
Long term provisions	14	993	555	993	555
Other financial liabilities	15	6,475	176	6,475	176
Total Non Current Liabilities		38,301	11,039	38,301	11,039
Total Liabilities		54,614	16,534	54,614	16,534
Net Assets		53,098	43,507	53,146	43,585
Equity					
Issued capital	16	78,511	49,325	78,511	49,325
Reserves	31	(14,080)	679	(14,080)	679
Accumulated losses		(11,333)	(6,497)	(11,285)	(6,419)
Total Equity		53,098	43,507	53,146	43,585

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY**YEAR ENDED 30 JUNE 2006**

CONSOLIDATED ENTITY	Issued Capital	Prospectus Expenses	Option Reserve	Hedge Reserve	Accumulated Losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total Equity at 1 July 2004	29,930	(1,762)	126	—	(3,312)	24,982
Shares issued during the year	22,385					22,385
Share issue expenses incurred		(1,228)				(1,228)
Share based payments expense			522			522
Cash flow hedge adjustment				31		31
Loss attributable to the members of the parent entity					(3,185)	(3,185)
Total Equity at 30 June 2005	52,315	(2,990)	648	31	(6,497)	43,507
Shares issued during the year	31,461					31,461
Share issues expenses incurred		(2,275)				(2,275)
Share based payments expense			437			437
Cash flow hedge adjustments				(15,196)		(15,196)
Loss attributable to the members of the parent entity					(4,836)	(4,836)
Total Equity at 30 June 2006	83,776	(5,265)	1,085	(15,165)	(11,333)	53,098
PARENT ENTITY						
Total Equity at 1 July 2004	29,930	(1,762)	126	—	(3,255)	25,039
Shares issued during the year	22,385					22,385
Share issue expenses incurred		(1,228)				(1,228)
Share based payments expense			522			522
Cash flow hedge adjustment				31		31
Loss attributable to the members of the parent entity					(3,164)	(3,164)
Total Equity at 30 June 2005	52,315	(2,990)	648	31	(6,419)	43,585
Shares issued during the year	31,461					31,461
Share issues expenses incurred		(2,275)				(2,275)
Share based payments expense			437			437
Cash flow hedge adjustments				(15,196)		(15,196)
Loss attributable to the members of the parent entity					(4,866)	(4,866)
Total Equity at 30 June 2006	83,776	(5,265)	1,085	(15,165)	(11,285)	53,146

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT

YEAR ENDED 30 JUNE 2006

	Notes	Consolidated Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash Flows From Operating Activities					
Cash receipts in the course of operations		236	106	236	106
Cash payments to suppliers and employees		(3,347)	(2,573)	(3,346)	(2,572)
Interest received		486	230	486	230
Finance costs		(2,006)	(75)	(2,006)	(75)
Net Cash Used in Operating Activities	18(a)	(4,631)	(2,312)	(4,630)	(2,311)
Cash Flows From Investing Activities					
Purchase of non-current assets		(9,224)	(4,026)	(9,224)	(4,026)
Receipt of performance bonds		—	337	—	337
Mine development expenditure		(21,956)	(8,647)	(21,956)	(8,647)
Exploration & evaluation activities		(13,868)	(15,082)	(13,482)	(14,823)
Loan to Polar Gold		(28)	—	(28)	—
Investment in controlled entity		—	—	(387)	(260)
Net Cash Used In Investing Activities		(45,076)	(27,418)	(45,077)	(27,419)
Cash Flows From Financing Activities					
Proceeds from borrowings		30,682	10,000	30,682	10,000
Repayment of borrowings		(10,157)	—	(10,157)	—
Proceeds from issue of shares		31,460	20,336	31,460	20,336
Finance lease principal repayments		(77)	(27)	(77)	(27)
Borrowing costs		(433)	(531)	(433)	(531)
Payments for prospectus expenses		(2,275)	(1,518)	(2,275)	(1,518)
Net Cash From Financing Activities		49,200	28,260	49,200	28,260
Net increase / (decrease) in cash held		(507)	(1,470)	(507)	(1,470)
Cash as at 1 July		3,003	4,473	3,003	4,473
Cash as at 30 June	18(b)	2,496	3,003	2,496	3,003

The accompanying notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006

Note 1: Statement of Significant Accounting Policies

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

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 ("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 of Western Areas NL both as a consolidated entity and an individual parent entity comply with all Australian Equivalents to International Financial Reporting Standards ("AIFRS") in their entirety. Compliance with AIFRS ensures that the financial report also complies with International Financial Reporting Standards (IFRS) in their entirety.

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

Basis of Preparation

First Time adoption of Australian Equivalents to International Financial Reporting Standards

The financial report of Western Areas NL both as a consolidated entity and an individual parent entity is prepared in accordance with the Australian Equivalents to International Financial Reporting Standards ("AIFRS") since 1 July 2005.

In accordance with the requirements of AASB 1 "*First time adoption of Australian Equivalents of International Financial Reporting Standards*", adjustments to both the consolidated entity and the parent entity that resulted from the introduction of AIFRS have been applied retrospectively to the 2005 comparative figures, apart from some instances where optional exemptions available under AASB 1 have been applied.

The accounting policies below have been applied consistently to all years presented. The Company has elected to apply the exemption available under AASB 1 "*First time adoption of Australian Equivalents of International Financial Reporting Standards*" relating to the AASB 2 "*Share Based Payments*" for share based remuneration where share options were granted after 7 November 2002 and were fully vested before AIFRS transition.

A reconciliation of equity and profit and loss between A-GAAP and AIFRS has been prepared at Note 29.

Reporting basis and Conventions

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

Accounting Policies

(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.

A list of the controlled entities is provided at note 7c.

All inter-Company balances and transactions between entities in the consolidated entity have been eliminated on consolidation. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies applied by the parent entity.

All consolidated entities have a 30 June financial year end.

(b) *Revenue*

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

Royalty revenue is recognised in the income statement in the period in which it is expected to accrue and become receivable to the consolidated entity.

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

(c) *Borrowing Costs*

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

Note 1: Basis of preparation (continued)

(d) *Property, Plant and Equipment*

Each item of plant and equipment is carried at cost less, where applicable, any accumulated depreciation. The carrying amount of property, plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from these assets (note 1(j)).

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

Depreciation

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
Property	5-10%
Plant and equipment	20-33%
Motor vehicles	23%
Furniture and fittings	10-15%

Depreciation charged to assets that are used in the development of the Flying Fox mine is capitalised as part of the cost of mine development.

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

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

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(e) *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.

When production commences, the accumulated costs for the relevant area of interest is amortised over the life of the area according to the rate of depletion of the 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 impairment loss will be raised against the asset and charged against profit in the year that determination is made.

Costs of site restoration are provided for over the life of the facility from when exploration commences and are included in the costs from that stage. Site restoration costs include obligations relating to dismantling and removing mining plant, reclamation, waste dump rehabilitation and other costs associated with restoration and rehabilitation of the site. Such costs have been determined using estimates of the future costs and current legal requirements and technology, discounted to present value. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(f) *Income Tax*

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont*

Note 1: Basis of preparation (continued)

(f) Income Tax (continued)

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

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

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

Western Areas NL and its wholly owned Australian 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.

(g) GST

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax 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 the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

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

(h) 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 have been measured at their nominal amount. Employee benefits that are expected to be settled after one year have been discounted to the present value of the future expected cash outflow to be made for those benefits. Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

The group operates an employee option plan, namely the "Western Areas Employee Share Option Incentive Scheme" (*The Scheme*). An expense is recognised in the income statement for the fair value of the options issued under the scheme, this is applied evenly over the granted options vesting period. The fair value of the options granted under the scheme is determined via applying the Black-Scholes option pricing model.

(i) Financial Instruments

Recognition

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

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Note 1: Basis of preparation (continued)

(i) *Financial Instruments (continued)*

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Derivative financial instruments

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

The Group documents at the inception of a transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Hedging derivatives are either Fair Value Hedges or Cashflow Hedges.

Fair Value Hedges

Changes in the fair value of derivatives classified as fair value hedges are recognised in the Income Statement, together with any changes in the fair value of the hedge asset or liability that are attributable to the hedged risk.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in equity in the hedging reserve. The ineffective portion is recognised directly in the Income Statement.

All Other Derivatives

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the Income Statement.

(j) *Impairment of Assets*

Assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for any carrying amount in excess of the recoverable amount. The recoverable amount is the higher of the value in use (discounted cash flow) or fair value less cost to sell. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

(k) *Leases*

Leases of property, plant and equipment where the Company substantially assumes all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease.

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.

(l) *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 income statement and balance sheet. The consolidated entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont***Note 1: Basis of preparation (continued)***(m) Comparative Figures*

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures. Where appropriate the comparative data has been restated as part of the transition to AIFRS (see note 29).

(n) Rounding Amounts

The parent entity has applied the relief available to it under the ASIC Class Order 98/100 and accordingly, amounts in the financial report have been rounded to the nearest \$1,000.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash-on-hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(p) Provisions

Provisions are recognised where the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow is able to be reliably measured.

Critical Accounting Estimates

Management is required to make various estimates and judgements in determining the reported amounts of assets and liabilities, revenues and expenses for each period presented and in the disclosure of commitments and contingencies. The significant areas where management uses estimates and judgments in preparing the financial report are the determination of carrying values and impaired values of exploration assets.

	Notes	Consolidated Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 2: Revenue					
- Interest received - Bank Deposits		464	302	464	302
- Royalty received		326	—	326	—
Total revenue		790	302	790	302

Note 3: Loss for the Year

The following expense items are relevant in explaining the financial performance for the year:

- Depreciation of non - current assets		168	130	168	130
- Rental expenditure - operating leases		123	109	123	109
- Exploration & evaluation impairment loss	9	2,964	1,258	2,946	1,258
Borrowing costs expensed:					
- Interest expense - borrowings		2,083	249	2,083	249
- Interest expense - finance leases		17	7	17	7
Other borrowing costs		505	567	505	567
Total borrowing costs		2,605	823	2,605	823
Less: interest expense capitalised	10	(2,082)	(207)	(2,082)	(207)
Less: borrowing costs capitalised	10	(433)	(531)	(433)	(531)
Total Borrowing Costs Expensed		90	85	90	85

Note 4: Income Tax

The Components of the tax expense comprise:

	Notes	Consolidated Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
- Current tax		1,862	1,168	1,856	1,146
- Deferred income tax		28	(41)	(16)	1
Income tax benefit		1,890	1,127	1,840	1,147
The prima facia tax on the loss from ordinary activities before income tax at the statutory income tax rate to income tax expense at the groups effective income tax rate is as follows:					
Loss from ordinary activities at 30%					
- Economic Entity		(2,018)	(1,315)	—	—
- Parent Entity		—	—	(2,012)	(1,293)
Add tax effect of:					
- Other non allowed items		40	15	40	15
- Share based payments		162	178	162	178
Less tax effect of:					
- Share issue costs deducted		(46)	(46)	(46)	(46)
- Temporary other		(28)	41	16	(1)
Tax Benefit		(1,890)	(1,127)	(1,840)	(1,147)
Effective tax rate		28%	26%	27%	27%

The Company's statutory tax rate is 30%.
The change in the effective tax rate is due to the change in permanent and temporary differences.

Note 5: Dividends

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

Note 6: Trade and Other Receivables

Other debtors	6 (a)	156	88	155	88
Unsecured loan receivable	6 (a)	28	—	—	—
GST refund due		814	511	814	511
Prepaid Insurance		10	—	10	—
		1,008	599	979	599

(a) Other debtors and unsecured loans are non interest bearing.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont*

	Notes	Consolidated Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 7: Other Financial Assets					
Available for sale	7 (a)	—	—	1,656	1,269
Derivatives	7 (b)	213	207	213	207
		213	207	1,869	1,476
Less non-current portion		132	207	1,788	1,476
Current portion		81	—	81	—
(a) Available for sale financial assets					
Investment is subsidiary at cost	7(c) & (aa)	—	—	1,656	1,269

Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

(b) Derivatives

Foreign exchange contracts	27 (b)	213	102	213	102
Base metal forward contracts	27 (b)	—	105	—	105
		213	207	213	207

Gains and losses arising from changes in the fair value of designated cashflow hedge contracts are initially recognised directly in equity, and are separately included in the hedge reserve in the statement of change in equity. At transaction date the gains and losses are recognised in the income statement in the period in which they arise.

(c) Investments in subsidiaries

Name	Country of Incorporation	Percentage of equity held by the Consolidated Entity		Investment	
		2006 %	2005 %	2006 \$'000	2005 \$'000
Western Platinum NL	Australia	100 %	100 %	1,579	1,266
Australian Nickel Investments Pty Ltd	Australia	100 %	100 %	77	3
				1,656	1,269

All the entities above are members of the tax consolidated group of which Western Areas is the head entity. Western Areas is the parent entity and is incorporated in Australia.

(aa) In the prior years the loans to subsidiaries were disclosed as non-current receivables. These have been reclassified as investments in subsidiaries as this better reflects the nature of these accounts. The comparative data has been adjusted accordingly.

	Consolidated Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 8: Property, Plant and Equipment				
Property – at cost	5,688	3,069	5,688	3,069
Accumulated depreciation	(166)	—	(166)	—
	5,522	3,069	5,522	3,069
Plant & equipment – at cost	8,958	1,488	8,958	1,488
Accumulated depreciation	(465)	(178)	(465)	(178)
	8,493	1,310	8,493	1,310
Plant & equipment under lease	353	245	353	245
Accumulated depreciation	(55)	(37)	(55)	(37)
	298	208	298	208
Total Property, Plant & Equipment – at Cost	14,999	4,802	14,999	4,802
Accumulated Depreciation	(686)	(215)	(686)	(215)
Total	14,313	4,587	14,313	4,587

Assets Pledged as Security

The property, plant and equipment are assets over which a mortgage has been granted as security over project loans. 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 in carrying amounts: Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current year:

	Consolidated Entity \$'000	Parent Entity \$'000
Property		
Written down value at the beginning of the year	3,069	3,069
- Additions	2,619	2,619
- Depreciation expense	(166)	(166)
Written down value at the end of the year	5,522	5,522
Plant & Equipment		
Written down value at the beginning of the year	1,310	1,310
- Additions	7,470	7,470
- Depreciation expense	(287)	(287)
Written down value at the end of the year	8,493	8,493
Plant & Equipment under Lease		
Written down value at the beginning of the year	208	208
- Additions	108	108
- Depreciation expense	(18)	(18)
Written down value at the end of the year	298	298

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 cont

	Consolidated Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 9: Exploration & Evaluation				
Exploration & Evaluation Expenditure.				
- At cost	51,212	38,175	49,669	36,988
- Impairment loss	(4,154)	(1,466)	(4,136)	(1,466)
Total Exploration and Evaluation	47,058	36,709	45,533	35,522

Movement in carrying amount:

Movement in the carrying amounts for exploration and evaluation expenditure between the beginning and the end of the current period:

	Notes	Consolidated Entity \$'000	Parent Entity \$'000
Exploration & Evaluation Expenditure			
Written down value at the beginning of the year		36,709	35,522
- Expenditure		13,203	12,847
- Tenement acquisition		110	110
- Impairment loss	9(a)	(2,964)	(2,946)
Written down value at the end of the year		47,058	45,533

(a) The material impairment losses recognised for the year were for the companies regional areas of interests. While exploration is ongoing for these areas, the Company has raised impairment provisions due to the lack of success so far. The sales value less cost to sell was used to determine the carrying value for these areas of interest. This is based on the assumption that there is an active market for the areas.

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.

	Consolidated Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 10: Mine Development				
Development Expenditure				
- At cost	34,051	11,167	34,051	11,167
- Capitalised restoration costs	918	519	918	519
- Capitalised interest	2,289	207	2,289	207
- Capitalised borrowing costs	964	531	964	531
Total Mine Development	38,222	12,424	38,222	12,424

(a) The carrying value of development expenditure includes the associated interest costs on the project loan that have been incurred to 30 June 2006. Capitalised interest will be amortised over the reserves of the Flying Fox project.

Note 10: Mine Development (continued)**Movement in carrying amount:**

Movement in the carrying amounts for mine development expenditure between the beginning and the end of the current period:

	Consolidated Entity \$'000	Parent Entity \$'000
Development Expenditure		
Written down value at the beginning of the year	12,424	12,424
- Additions	22,884	22,884
- Rehabilitation increment	399	399
- Capitalised interest	2,082	2,082
- Capitalised borrowing costs	433	433
Written down value at the end of the year	38,222	38,222

	Consolidated Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 11: Tax Asset				
(a) Liabilities				
Deferred tax liabilities comprise:				
- Exploration expenditure deduction	12,566	9,472	12,235	9,219
- Other	417	248	417	248
Total	12,983	9,720	12,652	9,467
(b) Assets:				
Deferred tax assets comprise:				
- Future income tax benefits due to tax losses	16,989	12,014	16,604	11,757
- Future capital gain benefit	24	24	24	24
- Provisions	360	194	360	194
- Other	12	—	12	—
Total	17,385	12,232	17,000	11,975
(c) Reconciliation				
(i) <i>Gross movement</i>				
The overall movement in the deferred tax account is as follows:				
Opening balance	2,512	1,385	2,508	1,361
Credit to income statement	1,890	1,127	1,840	1,147
Closing balance	4,402	2,512	4,348	2,508

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont***Note 11: Tax Asset (continued)**

	Consolidated Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>(ii) Deferred tax liability</i>				
The movement in the deferred tax liabilities for each temporary difference during the year is as follows:				
Exploration Expenditure				
Opening balance	(9,472)	(5,621)	(9,219)	(5,456)
Credit to income statement	(3,094)	(3,851)	(3,016)	(3,763)
Closing balance	(12,566)	(9,472)	(12,235)	(9,219)
Other				
Opening balance	(248)	(202)	(248)	(202)
Credit to income statement	(169)	(46)	(169)	(46)
Closing balance	(417)	(248)	(417)	(248)
<i>(iii) Deferred tax assets</i>				
The movement in the deferred tax assets for each temporary difference during the year is as follows:				
Provisions				
Opening balance	194	167	194	167
Credit to income statement	166	27	166	27
Closing balance	360	194	360	194
Other				
Opening balance	—	—	—	—
Credit to income statement	(12)	—	(12)	—
Closing balance	(12)	—	(12)	—

(d) Unrecognised losses

All deferred taxes have been brought to account as it more likely than not that future assessable gains will eventuate to deduct these losses.

Note 12: Trade & Other Payables

	Notes	Consolidated Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current Trade & other payables	12 (a)	7,099	5,340	7,099	5,340

(a) Creditors are generally paid on 30 day terms.

	Notes	Consolidated Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 13: Borrowings					
Current					
Lease liability	13 (b) & 19 (b)	95	64	95	64
Insurance premium funding		10	—	10	—
		105	64	105	64
Non Current					
Project loan	13 (a)	30,682	10,157	30,682	10,157
Lease liability	13 (b) & 19(b)	151	151	151	151
		30,833	10,308	30,833	10,308

(a) The project loan provided by LionOre Australia (Nickel) Ltd under the Forrestania Project Funding Agreement was repaid in full during the first quarter of the current financial year. This was replaced with a project funding facility from the Commonwealth Bank of Australia and NM Rothchild & Sons (Australia) Ltd.

The carrying value of assets secured under the project loan is as follows:

Project loan

Mine development	34,051	11,167	34,051	11,167
Property, plant & Equipment	8,729	4,791	8,729	4,791
	42,780	15,958	42,780	15,958

The terms of the project facility are typical of normal commercial borrowing contracts.

(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%. Refer note 8 for the carrying value of the assets under lease.

Note 14: Provisions

Current

Employee Entitlements	14 (a)	206	91	206	91
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Non Current

Rehabilitation

Opening Balance		555	—	555	—
Discount unwind		39	36	39	36
Additional provisions raised		399	519	399	519
Rehabilitation	14 (b)	993	555	993	555

(a) Employee entitlements refer to the balance of annual leave and Long service leave accrued by the Company's employees. Recognition and measurement criteria have been disclosed in Note 1.

(b) Rehabilitation relates to an estimate of restoration costs that will result from the development of the Forrestania Nickel Project discounted to present value. The current mine life is 8 years, after which time the rehabilitation activities will be undertaken. The treasury bank rate has been applied to discounted cashflows.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont*

	Notes	Consolidated Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 15: Other financial liabilities					
Derivatives	15 (a)	15,378	176	15,378	176
		15,378	176	15,378	176
Less non-current portion		6,475	176	6,475	176
Current portion		8,903	—	8,903	—
(a) Derivatives					
Foreign exchange contracts	27 (b)	239	110	239	110
Base metal forward contracts	27 (b)	15,139	66	15,139	66
		15,378	176	15,378	176

Note 16: Issued Capital**a) Issued capital**

	2006 \$'000	2005 \$'000
140,397,678 Ordinary shares fully paid (2005; 119,994,344)	78,511	49,325

Changes to the corporation laws abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

b) Movements in issued capital

	2006	
	Number of Shares	\$'000
Balance at beginning of the financial year	119,994,344	49,325
- Issued via share placements (i)	17,725,000	29,869
- Issued via option conversions (ii)	2,678,334	1,592
- Transaction costs relating to share issues	—	(2,275)
Balance at end of the financial year	140,397,678	78,511

	2005	
	Number of Shares	\$'000
Balance at beginning of the financial year	102,466,518	28,168
- Issued via share placements	9,365,000	14,688
- Rights issue	5,223,326	4,962
- Issued to repay loan from related party	2,049,500	2,050
- Issued via option conversions	890,000	685
- Transaction costs relating to share issues	—	(1,228)
Balance at end of the financial year	119,994,344	49,325

Notes on movement in issued capital during the current financial year

(i) During the year ended the following share placement took place:

- In August 2005, 4,200,000 shares were issued at A\$1.68 per share
- In December 2005, 5,985,300 shares were issued at A\$1.70 per share and 6,300,545 were issued on the TSX at C\$1.47.
- In March 2006, 664,700 shares were issued at A\$1.70 and 574,455 shares were issued on the TSX at C\$1.47.

Note 16: Issued capital (Continued)

(ii) During the year the following options were exercised:

Date	Option Terms	(Exercise Price & Maturity)	
	\$0.40 March '06	\$1.30 July '08	Total (\$)
2006:			
August 4		40,000	52,000
August 23		100,000	130,000
August 31		190,000	247,000
September 6		68,334	88,834
September 21		10,000	13,000
October 7		10,000	13,000
December 14		75,000	97,500
December 15	250,000		100,000
January 5		10,000	13,000
January 6		30,000	39,000
January 13	400,000	25,000	192,500
February 8	400,000		160,000
March 10		20,000	26,000
March 15	400,000		160,000
March 16	400,000		160,000
March 24	250,000		100,000
Total	2,100,000	578,334	1,591,834

c) Share Options

For information relating to the Western Areas Employee Share Option Incentive Scheme, including details of the options issued, exercised and lapsed during the year and the options outstanding at the end of the year refer to Note 30 Share Based Payments.

d) Terms and Conditions of Issued Capital*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.

Note 17: Loss Per Share

	Consolidated Entity	
	2006 \$'000	2005 \$'000
Earnings used in the calculation of basic loss per share	(4,836)	(3,185)
Weighted average number of ordinary shares used in the calculation of basic loss per share	132,203,264	113,987,122
Basic Loss per Share	(3.66)	(2.79)

There were 3,495,000 share options outstanding at the end of the year, these potential ordinary shares would reduce the loss per share from continuing ordinary operations on conversion, hence these potential ordinary shares are not dilutive. As such only basic Earnings per Share is required to be disclosed under AASB 133 "Earnings per Share".

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont*

	Consolidated Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 18: Cash Flow Information				
a) Reconciliation of the net loss after tax to the net cash flow from operations :				
Loss after income tax	(4,836)	(3,185)	(4,866)	(3,164)
Depreciation	474	131	474	131
GST relating to non operating activity	(20)	(33)	(20)	(33)
Write down in tenement carrying value	2,964	1,258	2,946	1,258
Capitalised interest actually paid	(1,955)	(50)	(1,955)	(50)
Interest expense paid through issue of shares	—	24	—	24
Sundry revenue	—	65	—	65
Share Based Payment	437	522	437	522
Change in Assets and Liabilities				
Increase in payables	107	23	107	23
Increase / (decrease) in provisions	155	91	154	91
(Increase) / decrease in receivables	(67)	(31)	(67)	(31)
(Increase) / decrease in Deferred Tax	(1,890)	(1,127)	(1,840)	(1,147)
Net Cash Flows from / (used in) Operating Activities	(4,631)	(2,312)	(4,630)	(2,311)

b) Reconciliation of Cash

Cash on hand	2,496	3,003	2,496	3,003
Closing Cash Balance	2,496	3,003	2,496	3,003

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:-			
- Commonwealth Bank of Australia	20,200	17,019	3,181
- Investec	16,000	13,663	2,337
Performance Bond Facility	1,000	718	282
Finance Lease Facility	500	246	254
	37,700	31,646	6,054

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

d) Non Cash Financing Activities

During the year, the consolidated entity acquired plant & equipment with an aggregate fair value of \$108,332 (2005:\$244,778) by means of finance leases.

Note 19: 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.

	Consolidated Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
- no later than 1 year	61	77	61	77
- later than 1 year and not later than 5 years	10	18	10	18
Lease expenditure contracted for at year end	71	95	71	95

The operating leases are for office premises both in West Perth and Toronto Canada. Prior to the expiry of the current lease term of the West Perth office in November 2006, the Company has the right to extend the term of the lease for a further 3 years. The Toronto office lease expires in October 2007.

b) Finance Lease Commitments

- no later than 1 year	112	78	112	78
- later than 1 year and not later than 5 years	156	165	156	165
Total Minimum Lease Payments	268	243	268	243
- future finance charges	(22)	(28)	(22)	(28)
Total Lease Liability	246	215	246	215
- current	95	64	95	64
- non current	151	151	151	151
	246	215	246	215

The finance lease commitments relate primarily to the motor vehicles, but also include some office equipment. Motor vehicles are finance leased under 3 year contracts at normal commercial rates, balloon payments are generally required at the expiry of the finance lease, at which point the Company takes ownership of the vehicle.

c) Capital Expenditure Commitments

- no later than 1 year	1,206	—	1,206	—
- later than 1 year and not later than 5 years	—	—	—	—
Total Minimum Lease Payments	1,206	—	1,206	—

d) Exploration Expenditure Commitments

- no later than 1 year	3,875	4,528	3,626	4,528
- later than 1 year and not later than 5 years	—	—	—	—
Total Minimum Payments	3,875	4,528	3,626	4,528

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont*

Note 19: Commitments (continued)

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.
- As part of the acquisition agreement for Polar Gold Pty Ltd, the Company is required to make available US\$3 million by 21 September 2006. The Funds need to be made available as follows; US\$2 million in cash deposited into a WSA controlled Company bank account and a further US\$1 million made available via a guarantee. (Refer Note 23 Subsequent Events for a detailed explanation of the Polar Gold acquisition.)

Note 20: Auditor Remuneration

	Consolidated Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
The following remuneration was earned by the company's Auditor during the period				
- Audit of financial statements	45	30	45	30
- Other services	54	13	54	13
	99	43	99	43

Note 21: Material Contracts

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.

Note 22: Contingent Liabilities

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

Note 23: Subsequent Events

Subsequent to the year ended 30 June 2006:

- The Company announced on the 28 July 2006 the completion of an A\$80m funding facility for the Stage 2 expansion of the Forrestania nickel project.
- The Company has executed an option to acquire a controlling interest in Polar Gold Pty Ltd on 21 July 2006. Polar Gold owns a controlling interest in OAO Kola Mining.

The above events have no effect on the accounts as at 30 June 2006.

Note 24: Statement of Operations by Segments

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

Note 25: Key Management Personnel

a) Key Management Personnel

D Boyer	Chairman (Non-Executive)
J Hanna	Director and Chief Executive Officer
D Cooper	Director (Non-Executive)
T Streeter	Director (Non-Executive)
R Dunbar	Director (Non-Executive) - Appointed 12 Dec, 2005
C Oliver	Chief Financial Officer & Company Secretary - Appointed 21 Mar, 2006
D Lougher	General Manager – Operations - Appointed 15 May, 2006
B Dawes	General Manager – Operations – Resigned 17 Feb, 2006
T Manners	Chief Financial Officer & Company Secretary - Resigned 3 Mar, 2006

Note 25: Key Management Personnel (Continued)

b) Remuneration of Key Management Personnel

(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.

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 2006 Financial Year no options were issued to the Directors of Company under this program. However the remuneration committee resolved to issue 2,000,000 options to Directors in May 2006, this is still subject to shareholder approval.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont*

Note 25: Key Management Personnel (Continued)

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 STI's in existence at the moment relate to:

- a) 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.
- b) Successfully securing funding for the Forrestania Stage 2 project development. The Chief Financial Officer 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 regard 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.

The General Manager of Operations and the Chief Financial Officer, are employed under contract. The contracts commenced in May and March 2006 respectively and expire on termination of employment. Under the terms of the contract:

- They may resign from their positions and thus terminate the contract by giving 4 weeks written notice. On resignation any allocated options may remain in existence at the discretion of the Board.
- The Company may terminate the employment contract by giving 6 weeks written notice. This notice period is reduced to 4 weeks in the event the termination is due to serious misconduct or wilful neglect in the discharge of their duties. Any allocated options may remain in existence at the discretion of the Board.
- The Company may terminate the employment of the General Manager of Operations or Chief Financial Officer by giving 6 months notice if their position becomes redundant or there is a change to the core activity of the Company or if they are removed from their position without their consent. In this case, they are entitled to a termination payment equal to 6 months pay. Any allocated options may remain in existence at the discretion of the Board.

Note 25: Key Management Personnel (Continued)**(ii) Remuneration of Key Management Personnel**

	Short Term		Share Based	Post Employment	TOTAL
	Base Salary	Non Monetary	Options (^)	Superannuation	
D Boyer					
2006	97,844	1,191	—	8,806	107,841
2005	70,000	775	30,422	6,300	107,497
J Hanna					
2006	271,000	1,342	—	24,390	296,732
2005	220,000	2,074	30,422	19,800	272,296
D Cooper					
2006	63,073	1,191	—	5,677	69,941
2005	50,000	775	30,422	4,500	85,697
T Streeter					
2006	63,073	1,191	—	5,677	69,941
2005	50,000	775	30,422	4,500	85,697
R Dunbar (*)					
2006	41,150	—	—	—	41,150
2005	—	—	—	—	—
T King (#)					
2006	—	—	—	—	—
2005	41,666	611	30,422	3,750	76,449
C Oliver (&)					
2006	70,192	—	45,466	6,317	121,975
2005	—	—	—	—	—
D Lougher (&)					
2006	34,667	—	45,466	3,120	83,253
2005	—	—	—	—	—
T Manners (&)					
2006	155,327	336	—	13,979	169,642
2005	178,416	1,393	33,774	17,842	231,425
B Dawes (&)					
2006	158,642	336	—	14,277	173,255
2005	180,000	1,393	33,774	16,200	231,367
Total Remuneration					
2006	954,968	5,587	90,932	82,243	1,133,730
2005	790,082	7,796	219,658	72,892	1,090,428

No performance based remuneration was paid during the year.

(*) Mr Dunbar was appointed as a director of the Company on 12 December, 2005.

(#) Mr King resigned on the 28 April 2005.

(^) 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.

(&) Mr Oliver and Mr Lougher joined the Company on 21 March 2006 & 15 May 2006 respectively. Mr Manners resigned from the Company on 3 March 2006. Mr Dawes resigned from the Company on 17 February 2006.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont***Note 25: Key Management Personnel (Continued)****(iii) Retirement and Superannuation Payment**

The Directors and Executives were paid the statutory 9% superannuation amount on their remuneration.

(iv) Options held by Key Management Personnel

	Balance at 1 July 2005	Granted as Remuneration	On Exercise of Options	Purchases / (Sales)	Expired / Lapsed	Balance at 30 June 2006	Options Vested (*)
D Boyer	600,000	—	(400,000)	—	(200,000)	—	—
J Hanna	600,000	—	(400,000)	—	(200,000)	—	—
D Cooper	600,000	—	(400,000)	—	(200,000)	—	—
T Streeter	200,000	—	—	—	(200,000)	—	—
R Dunbar (^)	—	—	—	—	—	—	—
C Oliver (&)	—	400,000	—	—	—	400,000	133,333
D Lougher (&)	—	400,000	—	—	—	400,000	133,333
T Manners (&)	300,000	—	(200,000)	—	(100,000)	—	—
B Dawes (&)	300,000	—	(200,000)	—	(100,000)	—	—
TOTAL	2,600,000	800,000	(1,600,000)	—	1,000,000	800,000	266,666

(^) Mr Dunbar was appointed as a director of the Company on 12 December, 2005

(*) 100% of options that have vested with the Directors and Executives are exercisable at any time up until expiry.

(&) Mr Oliver and Mr Lougher joined the Company on 21 March 2006 & 15 May 2006 respectively. Mr Manners resigned from the Company on 3 March 2006. Mr Dawes resigned from the Company on 17 February 2006.

(v) Shareholdings of Key Management Personnel

	Balance at 1 July 2005 (&)	Granted as Remuneration	On Exercise of Options	Purchases / (Sales)	Balance at 30 June 2006 (^)
D Boyer	1,202,850	—	400,000	(272,296)	1,330,554
J Hanna	1,455,765	—	400,000	(405,000)	1,450,765
D Cooper	697,100	—	400,000	(46,100)	1,051,000
T Streeter	27,963,651	—	—	1,206,155	29,169,806
R Dunbar(*)	—	—	—	—	—
C Oliver (&)	25,000	—	—	—	25,000
D Lougher	—	—	—	—	—
T Manners	21,000	—	200,000	(200,000)	21,000
B Dawes	—	—	200,000	(200,000)	—
TOTAL	31,365,366	—	1,600,000	82,759	33,048,125

(*) Mr Dunbar was appointed as a director of the Company on 12 December, 2005

(^) Mr Manners resigned on the 3 March 2006, closing balance at that date.

(&) Mr Oliver joined the Company on the 21 March 2006 balance was the shareholding at that 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.

Note 25: Key Management Personnel (Continued)**(vi) Remuneration Options: Granted and vested during the year**

During the financial year there was one issue of unlisted options. The issue was made under the Employee Share Option Incentive Scheme in May 2006. 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 \$2.75. 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 5 May 2009.

Options Granted as part of remuneration for the Year Ended 30 June 2006

	Terms & Conditions for each Grant						
	Granted	Vested	Grant Date	Value per option at grant date	Exercise Price per option	First Exercise Date	Last Exercise Date
D Boyer	—	—	—	—	—	—	—
J Hanna	—	—	—	—	—	—	—
D Cooper	—	—	—	—	—	—	—
T King	—	—	—	—	—	—	—
T Streeter	—	—	—	—	—	—	—
C Oliver	400,000	133,333	5 May 06	\$0.341	\$2.75	5 May 05	5 May 09
D Lougher	400,000	133,333	5 May 06	\$0.341	\$2.75	5 May 05	5 May 09
TOTAL	800,000	266,666					

(vii) Shares issued on exercise of options

	Shares issued #	Paid \$ per share	Unpaid \$ per share
Specified Directors:			
D Boyer	400,000	\$0.40	—
J Hanna	400,000	\$0.40	—
D Cooper	400,000	\$0.40	—
TOTAL	1,200,000		

Note 26: Interests in Joint Ventures

At balance date the Consolidated Entity had entered into the following material unincorporated joint ventures. The Company's and percentage interest and share of non-current assets after impairment write off is listed below:

Joint Venture	% Interest	Principal Activities	Consolidated Entity		Parent Entity	
			2006	2005	2006	2005 \$'000
Bullfinch North	(i) 0 — 25%	Nickel & Gold	265	500	265	500
Koolyanobbing (3 JV's)	(ii) 51% — 100%	Nickel & Gold	1,714	1,303	1,714	1,303
Copper Hills	(iii) 100%	Nickel & Gold & PGE	1,480	1,167	—	—

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont*

Note 26: Interests in Joint Ventures (Continued)

The principal activities of the Company's joint ventures are to explore tenement interests for exploitable mineral resources.

- (i) The Company's JV partner, Polaris Metals NL, will solely 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 NL 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 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 27: Financial Instruments

a) Treasury Risk

The Company has a Treasury Committee consisting of Senior Management and Board members that meets on a regular basis to analyse currency and interest rate exposure and to evaluate and refine the current risk management policies. This committee assess the risk in the context of the most recent economic conditions and forecasts.

b) 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 cashflow hedges in accordance with AASB 139 "Financial Instruments: Recognition and Measurement".

1. Nickel Hedging Contracts

As at balance date the Company had forward sold 2,275 tonnes of nickel at an average USD price of US\$13,145 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	1,275	2,275
US Price (\$/tonne)	13,088	13,189	13,145
USD Value (\$'000)	13,088	16,816	29,904
USD Currency Hedges (US\$'000)	13,088	16,816	29,904
Exchange Rates	\$ 0.7508	\$0.7317	\$ 0.7400
Effective AUD Nickel Price	17,430	18,025	17,764

None of the hedging contracts are subject to margin calls. At the end of the period the current hedge program requires restructuring to align the expected nickel sales to the contract settlement dates. This will be undertaken in conjunction with the finalisation of the funding arrangements of the Forrestania Stage 2 development.

Note 27: Financial Instruments (Continued)

c) 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.

d) 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:

2006 Consolidated Entity

	Floating Interest Rate \$'000	Fixed Interest maturing in:			Non- Interest Bearing \$'000	Total \$'000	Weighted Average Interest Rate
		1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 Years \$'000			
Financial Assets							
Cash	2,496	—	—	—	—	2,496	5.40 %
Receivables	—	—	—	—	1,008	1,008	—
	2,496	—	—	—	1,008	3,504	—
Financial Liabilities							
Payables	—	—	—	—	7,099	7,099	—
Project Loan	—	—	30,682	—	—	30,682	8.24 %
Lease Liability	—	95	151	—	—	246	7.38 %
Premium Funding	—	10	—	—	—	10	3.00%
	—	105	30,833	—	7,099	38,037	—
Net Financial Assets/(Liabilities)	2,496	(105)	(30,833)	—	(6,091)	(34,533)	—

2005 Consolidated Entity

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont*

Note 27: Financial Instruments (Continued)

e) Price Risk

The Company is exposed to commodity price risk for the production over and above that hedged. The Board review and manage this risk via the established treasury policy.

f) Liquidity Risk

The Company manages liquidity risk by continually monitoring cash reserves and cashflow forecasts to ensure that financial commitments can be met when and as they fall due.

g) Market Risk

The Company manages market risk with the use of sales "Offtake Agreements" The current off take partner is LionOre Australia who have the right to purchase the first 75,000 tonnes of nickel metal at commercial terms.

h) 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.

Recognised Derivative Financial Instruments

The net fair value of derivative financial instruments (hedging contracts) is determined on a marked 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.

	Aggregate Net Fair Value	
	2006 \$'000	2005 \$'000
Nickel Forward Contracts	(15,139)	39
Foreign Exchange Contracts	(26)	(8)
	(15,165)	31

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\$22,325 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 0.7432. Contained within the fair value of the foreign exchange contracts is the marked to market amount calculated in accordance with Note 1 (i).

The marked to market amount for the derivative contracts entered into by the Company has been brought to account and is shown on the balance sheet.

Note 28: Related Party Transactions

There were no related party transactions during the financial year.

Note 29: Explanation of Transition to Australian Equivalents to IFRS

(1) Reconciliation of equity reported under the previous AGAAP to equity reported under AIFRS

(a) At the date of transition to AIFRS: 1 July 2004

	Notes	Consolidated Entity			Parent Entity		
		Previous AGAAP \$'000	Effect on Transition \$'000	AIFRS \$'000	Previous AGAAP \$'000	Effect on Transition \$'000	AIFRS \$'000
Current Assets							
Cash and cash equivalents		5,010	—	5,010	5,010	—	5,010
Trade and other receivables		525	—	525	525	—	525
Total Current Assets		5,535	—	5,535	5,535	—	5,535
Non Current Assets							
Property, plant and equipment		507	—	507	507	—	507
Exploration & evaluation		23,910	—	23,910	22,982	—	22,982
Mine development	i	—	519	519	—	519	519
Deferred tax asset	iv	—	1,385	1,385	—	1,361	1,361
Other financial assets					1,009	—	1,009
Total Non Current Assets		24,417	1,904	26,321	24,498	1,880	26,378
Total Assets		29,952	1,904	31,856	30,033	1,880	31,913
Current Liabilities							
Trade and other payables		3,782	—	3,782	3,782	—	3,782
Short term borrowings		2,537	—	2,537	2,537	—	2,537
Short term provisions		36	—	36	36	—	36
Total Current Liabilities		6,355	—	6,355	6,355	—	6,355
Non Current Liabilities							
Long term provisions	i	—	519	519	—	519	519
Total Non Current Liabilities		—	519	519	—	519	519
Total Liabilities		6,355	519	6,874	6,355	519	6,874
Net Assets		23,597	1,385	24,982	23,678	1,361	25,039
Equity							
Issued capital		28,168	—	28,168	28,168	—	28,168
Reserves	ii	57	69	126	57	69	126
Accumulated losses	ii & iv	(4,628)	1,316	(3,312)	(4,547)	1,292	(3,255)
Total Equity		23,597	1,385	24,982	23,678	1,361	25,039

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont***Note 29: Explanation of Transition to Australian Equivalents to IFRS (Continued)**

(1) Reconciliation of equity reported under the previous AGAAP to equity reported under AIFRS continued

(b) At the end of the last full year reporting period under the previous AGAAP 30 June 2005

	Notes	Consolidated Entity			Parent Entity		
		Previous AGAAP \$'000	Effect on Transition \$'000	AIFRS \$'000	Previous AGAAP \$'000	Effect on Transition \$'000	AIFRS \$'000
Current Assets							
Cash and cash equivalents		3,003	—	3,003	3,003	—	3,003
Trade and other receivables		599	—	599	599	—	599
Total Current Assets		3,602	—	3,602	3,602	—	3,602
Non Current Assets							
Property, plant and equipment		4,587	—	4,587	4,587	—	4,587
Exploration & evaluation		36,709	—	36,709	35,522	—	35,522
Mine development	i	12,466	(42)	12,424	12,466	(42)	12,424
Deferred tax asset	iv	—	2,512	2,512	—	2,508	2,508
Other financial assets	iii	685	(478)	207	1,954	(478)	1,476
Total Non Current Assets		54,447	1,992	56,439	54,529	1,988	56,517
Total Assets		58,049	1,992	60,041	58,131	1,988	60,119
Current Liabilities							
Trade and other payables		5,340	—	5,340	5,340	—	5,340
Short term borrowings		64	—	64	64	—	64
Short term provisions		91	—	91	91	—	91
Total Current Liabilities		5,495	—	5,495	5,495	—	5,495
Non Current Liabilities							
Long term borrowings		10,308	—	10,308	10,308	—	10,308
Long term provisions	i	561	(6)	555	561	(6)	555
Other financial liabilities	iii	685	(509)	176	685	(509)	176
Total Non Current Liabilities		11,554	(515)	11,039	11,554	(515)	11,039
Total Liabilities		17,049	(515)	16,534	17,049	(515)	16,534
Net Assets		41,000	2,507	43,507	41,082	2,503	43,585
Equity							
Issued capital		49,325	—	49,325	49,325	—	49,325
Reserves	ii	57	622	679	57	622	679
Accumulated losses	i, ii & iv	(8,382)	1,885	(6,497)	(8,300)	1,881	(6,419)
Total Equity		41,000	2,507	43,507	41,082	2,503	43,585

Note 29: Explanation of Transition to Australian Equivalents to IFRS (Continued)

(2) Reconciliation of loss reported under the previous reported AGAAP to loss reported under AIFRS cont.

(a) At the end of the last full year reporting period under the previous AGAAP 30 June 2005

	Notes	Consolidated Entity		
		Previous AGAAP \$'000	Effect on Transition \$'000	AIFRS \$'000
Revenue		302	—	302
Employee benefits expenses	ii	(927)	(522)	(1,449)
Finance costs	i	(49)	(36)	(85)
Exploration expenditure – Impairment Loss		(1,258)	—	(1,258)
Administration expenses		(1,822)	—	(1,822)
Loss before income tax		(3,754)	(558)	(4,312)
Income tax benefit	iv	—	1,127	1,127
Net loss attributable to members of the parent entity		(3,754)	569	(3,185)
Basic loss per share (cents per share)		(3.29)	—	(2.79)

	Notes	Parent Entity		
		Previous AGAAP \$'000	Effect on Transition \$'000	AIFRS \$'000
Revenue		302	—	302
Employee benefits expenses	ii	(927)	(522)	(1,449)
Finance costs	i	(49)	(36)	(85)
Exploration expenditure – Impairment Loss		(1,258)	—	(1,258)
Administration expenses		(1,821)	—	(1,821)
Loss before income tax		(3,753)	(558)	(4,311)
Income tax benefit	iv	—	1,147	1,147
Net loss attributable to members of the parent entity		(3,753)	589	(3,164)

(3) Reconciliation of cash flow statements reported

The adoption of AIFRS has not resulted in any material adjustments to the cashflow statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont*

Note 29: Explanation of Transition to Australian Equivalents to IFRS (Continued)

(4) Notes to the reconciliation of equity and profit and loss at 1 July 2004 and 30 June 2005

(i) Restoration Provision

Under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets" from the 1 July 2004 the consolidated and parent entity is required to recognise an upfront provision for rehabilitation on a present value basis for the liability expected at the end of the mine life. The present value discount is unwound over the life of the provision and recognised as a borrowing cost. The effect of this for both the consolidated and the parent entity is:

1 July 2004

Under the previous AGAAP no provision for rehabilitation had been recognised. On transition there is an increase in non current provisions of \$519,000, with a corresponding increase in mine development of \$519,000.

30 June 2005

A provision for rehabilitation was recognised during the June quarter of \$561,000 under AGAAP. Due to this recognition in June for the consolidated and parent entity there is a decrease in non current provisions of \$6,000, offset by a decrease in mine development of \$42,000 and an increase in accumulated losses of \$36,000.

Finance costs have increased by \$36,000

(ii) Share Based Payments

Under AASB 2 "Share-Based Payments" from the 1 July 2004 the consolidated and parent entity is required to recognise options that were issued to employees under the Western Areas employee option plan after 7 November 2002 but that had not vested by 1 January 2005. The effect of this for both the consolidated and the parent entity is:

1 July 2004

For the consolidated and parent entity there is a decrease in retained earnings of \$69,000 and a corresponding increase in reserves of \$69,000.

30 June 2005

For the consolidated and parent entity there is a decrease in retained earnings of \$591,000 and a corresponding increase in reserves.

Employee benefits expense increased by \$522,000.

(iii) Hedge Accounting

Under AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" for reporting periods that start after the 1 January 2005 the consolidated and parent entity is required to recognise financial instruments at their fair value.

The consolidated and parent entity has decided not to apply the exemption available under AASB 132 & AASB 139 and have restated the comparative data. The effect of this for both the consolidated and the parent entity is:

1 July 2004

There is no effect to the 1 July 2004 accounts.

30 June 2005

For the consolidated and parent entity there is a decrease in the other non current assets of \$478,000, a decrease in other non current liabilities of \$509,000 and an increase in reserves of \$31,000.

(iv) Income Tax

Under AASB 112 "Income Tax" the consolidated and parent entity is required to account for income tax with the comprehensive balance sheet method. This standard allows a deferred tax asset to be recognised for deductible temporary differences and carry forward losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The effect of this for the consolidated entity is:

1 July 2004

For the consolidated entity there is an increase in deferred tax assets of \$1,385,000 and a corresponding decrease in accumulated losses.

30 June 2005

For the consolidated entity there is an increase in deferred tax assets of \$2,512,000 and a corresponding decrease in accumulated losses.

Income Tax benefit has decreased by \$1,127,000.

The effect of this for the parent entity is:

1 July 2004

For the parent entity there is an increase in deferred tax assets of \$1,361,000 and a corresponding decrease in accumulated losses.

30 June 2005

For the parent entity there is an increase in deferred tax assets of \$2,508,000 and a corresponding decrease in accumulated losses.

Income Tax benefit has decreased by \$1,147,000.

Note 30: Share Based Payments

The following share based payments arrangements existed at the end of the financial year:

On the 31 July 2004 1,500,000 options were issued as part of the Western Areas employee share option scheme. These are redeemable for one ordinary share in the Company and have an exercise price of A\$1.30.

On the 5 May 2006 2,960,000 options were issued as part of the Western Areas employee share option scheme. These are redeemable for one ordinary share in the Company and have an exercise price of A\$2.75.

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 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.

The following options were outstanding at 30 June 2006:

	Consolidated Entity				Parent Entity			
	2006		2005		2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	4,568,000	\$1.11	3,400,000	\$1.14	4,568,000	\$1.11	3,400,000	\$1.14
Options issued	2,960,000	\$2.75	1,500,000	\$1.30	2,960,000	\$2.75	1,500,000	\$1.30
Options lapsed	(1,354,666)	\$2.04	(300,000)	\$2.50	(1,354,666)	\$2.04	(300,000)	\$2.50
Options exercised	(2,678,334)	\$0.59	(32,000)	\$1.30	(2,678,334)	\$0.59	(32,000)	\$1.30
Closing balance	3,495,000	\$2.52	4,568,000	\$1.11	3,495,000	\$2.52	4,568,000	\$1.11
Vested balance	1,521,667	\$2.24	3,568,000	\$1.05	1,521,667	\$2.24	3,568,000	\$1.05

All of the outstanding options vest in line with the employee share scheme. 1/3 of the options 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.

The weighted average contractual life remaining for the current outstanding options is 32 Months

The options issued through out the year were valued via the Black Scholes option pricing model applying the following inputs. Average 12 month share price: \$1.97, option exercise price: \$2.75, life of the option: 3 years price volatility:59% and discount rate: 5.75%.

The movement in the various classes of options for the year ended 30 June 2006 were as follows:

	Option Terms (Exercise Price and Maturity)				
	Directors \$0.40 Mar 06	Employee \$1.30 Jul 08	Directors \$2.30 Mar 06	Employee \$2.75 May 09	TOTAL
Opening balance	2,100,000	1,468,000	1,000,000	—	4,568,000
Options issued	—	—	—	2,960,000	2,960,000
Options lapsed	—	(354,666)	(1,000,000)	—	(1,354,666)
Options exercised	(2,100,000)	(578,334)	—	—	(2,678,334)
Closing balance	—	535,000	—	2,960,000	3,495,000

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006 *cont*

Note 31: Reserves

(i) *Option equity reserve*

The option reserve records the items recognised as expenses on valuation of employee share options

(ii) *Hedge reserve*

The hedge reserve records revaluations of items designated as hedges

Note 32: Change in Accounting Policy

a) The group has adopted the following Accounting Standards for application on or after 1 January 2005:

- AASB 132: Financial Instruments: Disclosure and Presentation; and
- AASB 139: Financial Instruments: Recognition and Measurement.

The changes resulting from the adoption of AASB 132 relate primarily to increased disclosures required under the Standard and do not affect the value of amounts reported in the financial statements.

The adoption of AASB 139 has not resulted in material differences in the recognition and measurement of the group's financial instruments. The group has to adjust comparative information resulting from the introduction of AASB 139.

b) The following Australian Accounting Standards have been issued or amended and are applicable to the parent and economic entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Affected Standard	Nature of change to accounting policy	Application date of standard	Application date to group
2004—3	AASB 1 First time adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 101 Presentation of financial statements	No change, no impact	1 January 2006	1 July 2006
	AASB 124 Related party disclosures	No change, no impact	1 January 2006	1 July 2006
2005—1	AASB 139 Financial instruments recognition and measurements	No change, no impact	1 January 2006	1 July 2006
2005—5	AASB 1 First time adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 139 Financial instruments recognition and measurements	No change, no impact	1 January 2006	1 July 2006
2005—6	AASB 3 Business combinations	No change, no impact	1 January 2006	1 July 2006
2005—9	AASB 132 Financial instruments disclosure and presentation	No change to the accounting policy required, However there will be changes to the level of disclosures in respect to financial instrument	1 January 2006	1 July 2006
	AASB 139 Financial instruments recognition and measurements		1 January 2006	1 July 2006

Note 32: Change in Accounting Policy (Continued)

AASB Amendment	Affected Standard	Nature of change to accounting policy	Application date of standard	Application date to group
2005—10	AASB 139 Financial instruments recognition and measurements	No change, no impact	1 January 2007	1 July 2007
	AASB 101 Presentation of financial statements	No change, no impact	1 January 2007	1 July 2007
	AASB114 Segment reporting	No change, no impact	1 January 2007	1 July 2007
	AASB 117 Leases	No change, no impact	1 January 2007	1 July 2007
	AASB 133 Earnings per share	No change, no impact	1 January 2007	1 July 2007
	AASB 132 Financial instruments disclosure and presentation	No change, no impact	1 January 2007	1 July 2007
	AASB 1 First time adoption of AIFRS	No change, no impact	1 January 2007	1 July 2007
	AASB 4 Insurance contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1023 General insurance contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1038 Life insurance contracts	No change, no impact	1 January 2007	1 July 2007
		No change, no impact	1 January 2007	1 July 2007
2006—1	AASB 121 The effects of the change in foreign exchange rates	No change, no impact	1 January 2006	1 July 2006
New Standard	AASB 7 Financial instrument disclosure	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 119 Employee benefits: December 2004	No change, no impact	1 January 2006	1 July 2006

All other pending Standards issued between the previous financial report and the current financial reporting dates have no applications to either the parent or the economic entity.

AASB Amendment	Affected Standard
2005—2	AASB 1023 General insurance contracts
2005—4	AASB 132 Financial instruments disclosure and presentation AASB 139 Financial instruments recognition and measurements
2005—9	AASB 4 Insurance contracts AASB 1023 General insurance contracts AASB 132 Financial instruments disclosure and presentation AASB 139 Financial instruments recognition and measurements

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTSYEAR ENDED 30 JUNE 2006 cont**Note 33: Additional Company information**

Western Areas NL is a Public Company, incorporated in Australia.

Registered office and Principal place of business:

Suite 3, Level 1

11 Ventnor Avenue

West Perth WA 6005

Tel: +61 8 9486 7855

Fax: +61 8 9486 7866

Web: www.westernareas.com.au

Email: info@westernareas.com.au

DIRECTORS' DECLARATION

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

1. the financial statements and notes, as set out on pages 34 to 85, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the Company and economic entity;
2. the Chief Executive Officer and Chief Financial Officer have each declared that:
 - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view;
3. in the director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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 4th day of September 2006

CERTIFICATION OF ANNUAL FILINGS

FORM 52–109F1 – Certification of Annual Filings

I, Julian Hanna, Managing Director of Western Areas NL, certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of Western Areas (the issuer) for the period ending 30 June 2006;
2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings;
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
 - a. designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared;
 - b. designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
 - c. evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation; and
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: 4 September 2006

A handwritten signature in black ink, appearing to be 'J. Hanna', followed by a long horizontal flourish line ending in a small loop.

Julian Hanna
Managing Director

FORM 52-109F1 – Certification of Annual Filings

I, Craig Oliver, Chief Financial Officer of Western Areas NL, certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of Western Areas (the issuer) for the period ending 30 June 2006;
2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings;
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
 - a. designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared;
 - b. designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
 - c. evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation; and
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: 4 September 2006

A handwritten signature in black ink, appearing to be 'C. Oliver', with a stylized flourish at the end.

Craig Oliver
Chief Financial Officer

INDEPENDENT AUDIT OPINION

Grant Thornton 

Grant Thornton Western Australian Partnership
ABN 21 965 022 882
Chartered Accountants, Business Advisers and Consultants

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF WESTERN AREAS NL

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, 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 2006. 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, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's 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.

Level 6
256 St Georges Terrace
Perth 6000 Australia
GPO Box P1213
Perth WA 6844
T + 61 8 9481 1448
F + 61 8 9481 0152
E gtperth@gtwa.com.au
W www.grantthornton.com.au

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**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF WESTERN
AREAS NL
(cont)**

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 and ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration has not changed as at the date of providing our audit opinion.

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 company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP

SEAN MCGURK
Partner

Perth, WA

Dated this 4th day of September 2006

SCHEDULE OF MINING TENEMENTS

Areas of Interest	Tenements	Company's Interest	Joint Venture Partners
Mt Jewell	E 24/63	100 %	Magma Metals
	E 27/83	100 %	Magma Metals
	MLA 24/597	100 %	Magma Metals
	MLA 24/598	100 %	Magma Metals
	MLA 27/473	100 %	Magma Metals
	MLA 27/474	100 %	Magma Metals
	MLA 27/397	100 %	Magma Metals
	MLA 27/398	100 %	Magma Metals
Mt Alexander	E 29/189	100 %	WMC Resources
	E 29/192	100 %	WMC Resources
	M 29/313	100 %	WMC Resources
	MLA 29/340	100 %	WMC Resources
	MLA 29/341	100 %	WMC Resources
	MLA 29/342	100 %	WMC Resources
	MLA 29/343	100 %	WMC Resources
	MLA 29/344	100 %	WMC Resources
	MLA 29/345	100 %	WMC Resources
	MLA 29/346	100 %	WMC Resources
	M 29/36	100 %	Sipa Resources
	M 29/37	100 %	Sipa Resources
Koolyanobbing	E 77/438 — I	100 %	Portman Ltd
	E 77/874 — I	100 %	Portman Ltd
	MLA 77/1087	100 %	Portman Ltd
	M 77/676 — I	100 %	Portman Ltd
	M 77/737 — I	100 %	Portman Ltd
	MLA 77/839	100 %	Portman Ltd
	MLA 77/1046	100 %	Portman Ltd
	E 77/1004 — I	70 %	Portman Resources NL
	ELA 77/1088	70 %	Portman Resources NL
	E 77/1089	70 %	Portman Resources NL
	ELA 77/1307	70 %	Portman Resources NL
	PLA 77/3482	70 %	Portman Resources NL
	M 77/606 — I	0 %	Portman Iron Ore Ltd
	M 77/607 — I	0 %	Portman Iron Ore Ltd
	M 77/611 — I	0 %	Portman Iron Ore Ltd
	M 77/988 — I	0 %	Portman Iron Ore Ltd
	M 77/989 — I	0 %	Portman Iron Ore Ltd
	M 77/990 — I	0 %	Portman Iron Ore Ltd

Areas of Interest	Tenements	Company's Interest	Joint Venture Partners
Bullfinch North			
<i>Northern Tenements</i>			
	E 77/474 – I	25 %	Polaris Metals
	E 77/485 – I	25 %	Polaris Metals
	E 77/733 – I	25 %	Polaris Metals
	E 77/922 – I	25 %	Polaris Metals
	E 77/933	25 %	Polaris Metals
	E 77/944	25 %	Polaris Metals
	E 77/879	25 %	Polaris Metals
	ELA 77/920	25 %	Strange
	E 77/907 – I	25 %	Polaris Metals
	E 77/924 – I	25 %	Polaris Metals
	E 77/1022	25 %	Polaris Metals
	P 77/3292 – I	25 %	Polaris Metals
	E 77/1048	25 %	Polaris Metals
	MLA 77/1050	25 %	Polaris Metals
	E 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
	MLA 77/1099	25 %	Polaris Metals
	P 77/3335	25 %	Polaris Metals
	PLA 77/3336	25 %	Polaris Metals
	MLA 77/1081	25 %	Strange
	MLA 77/1203	0 %	Strange/Teune
	MLA 77/1204	25 %	Polaris Metals
	MLA 77/1205	25 %	Polaris Metals
	MLA 77/1206	25 %	Polaris Metals
	MLA 77/1207	25 %	Polaris Metals
	MLA 77/1208	0 %	Strange/Teune
	MLA 77/1209	25 %	Polaris Metals
	MLA 77/1210	25 %	Polaris Metals
	MLA 77/1211	25 %	Polaris Metals
	MLA 77/1212	25 %	Polaris Metals
	MLA 77/1216	25 %	Polaris Metals
	MLA 77/1217	25 %	Polaris Metals
	MLA 77/1218	25 %	Polaris Metals
	MLA 77/1219	25 %	Polaris Metals
	MLA 77/1220	25 %	Polaris Metals

SCHEDULE OF MINING TENEMENTS (Continued)

Areas of Interest	Tenements	Company's Interest	Joint Venture Partners
Bullfinch North (Cont.)			
<i>Northern Tenements (Cont.)</i>	MLA 77/1221	25 %	Polaris Metals
	MLA 77/1222	25 %	Polaris Metals
	MLA 77/1223	25 %	Polaris Metals
	MLA 77/1224	25 %	Polaris Metals
	MLA 77/1225	25 %	Polaris Metals
	MLA 77/1226	25 %	Polaris Metals
	MLA 77/1227	25 %	Polaris Metals
	MLA 77/1228	25 %	Polaris Metals
	MLA 77/1229	25 %	Polaris Metals
	MLA 77/1230	25 %	Polaris Metals
<i>Southern Tenements</i>	E 77/1010	0 %	Royalty Interest
	E 77/1012	0 %	Royalty Interest
	M 77/123	0 %	Royalty Interest
	M 77/228	0 %	Royalty Interest
	MLA 77/1089	0 %	Royalty Interest
	MLA 77/1090	0 %	Royalty Interest
	MLA 77/1094	0 %	Royalty Interest
	MLA 77/1101	0 %	Royalty Interest
	MLA 77/1103	0 %	Royalty Interest
	P 77/3295	0 %	Royalty Interest
	P 77/3301	0 %	Royalty Interest
	P 77/3302	0 %	Royalty Interest
	P 77/3303	0 %	Royalty Interest
	PLA 77/3304	0 %	Royalty Interest
	P 77/3307	0 %	Royalty Interest
	PLA 77/3313	0 %	Royalty Interest
	MLA 77/1121	20 %	Polaris Metals
	MLA 77/1122	20 %	Polaris Metals
	MLA 77/1123	20 %	Polaris Metals
	MLA 77/1213	20 %	Polaris Metals
	MLA 77/1214	20 %	Polaris Metals
	MLA 77/1215	20 %	Polaris Metals
<hr/>			
Plumridge	E 69/982	100 %	
	E 69/983	100 %	
	E 69/1252	100 %	
	E 69/1550	100 %	
	E 39/904	100 %	
	E 39/905	100 %	
	E 39/906	100 %	
	E 39/909	100 %	
	E 39/915	100 %	
	E 69/1721	100 %	
	ELA 69/1881	0 %	Placer Dome

Areas of Interest	Tenements	Company's Interest	Joint Venture Partners
Cue Gold	ELA 20/427	100 %	
	ELA 20/428	100 %	
Forrestania	E 77/555	100 %	
	L 77/197	100 %	
	M 74/057	100 %	
	M 74/058	100 %	
	M 74/064	100 %	
	M 74/065	100 %	
	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 77/545	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 %	
	MLA 77/911	100 %	
	MLA 77/912	100 %	

SCHEDULE OF MINING TENEMENTS (Continued)

Areas of Interest	Tenements	Company's Interest	Joint Venture Partners
Copper Hills	E 45/1435	100 %	
	ELA 45/2643	100 %	
	ELA 45/2696	100 %	
	ELA 45/2706	100 %	
	E 45/2377	0 %	Talisman
	E 45/2378	0 %	Talisman
Mt Holland	PLA 77/3569	100%	
	PLA 77/3570	100%	
	PLA 77/3571	100%	
	PLA 77/3572	100%	
	ELA 77/1308	100%	
	ELA 77/1309	100%	
Lake King	E 70/2148	0%	Swanoak Holdings Pty Ltd

SHAREHOLDER INFORMATION

The shareholder Information set out below shows the position as at 21 August 2006.

a) Distribution of Shareholdings

Ordinary Shares*

i) Distribution schedule of holdings:

1 – 1,000	298
1,001 – 5,000	935
5001 – 10,000	445
10,001 – 100,000	598
100,001 – over	21

Total number of holders **2,397**

ii) Number of holders of less than a marketable parcel 0

iii) Number of overseas Holders 99

iv) Percentage held by 20 largest holders 65.34%

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

b) Largest Security Holders

i) Names of the 20 largest holders of Ordinary Shares are listed below:

NAME	NO. SHARES HELD	%
Jungle Creek Gold Mines NL	28,280,351	20.14
Westpac Custodian Nominees	9,667,955	6.89
Citicorp Nominees Pty Ltd	8,506,702	6.06
Northmead Holdings Pty Ltd	8,500,000	6.05
Citicorp Nominees Pty Ltd CFS W/Sale GBL Res	7,460,732	5.31
JP Morgan Nominees Australia	7,420,331	5.28
CDS & Co Canada	3,871,882	2.76
Eclipse Resources Pty Ltd	3,036,752	2.16
G. Santalucia Investments	2,500,000	1.78
Marinovich John	2,050,500	1.46
HSBC Custody Nominees	2,042,141	1.45
ANZ Nominees Limited	1,228,588	0.88
Marchesani Michael	1,022,348	0.73
Stuart Richard Anthony	939,439	0.67
Investment Queensland	924,778	0.66
Cannavo Anthony	906,500	0.65
Boyer David Donald	881,850	0.63
Tsallis Georgina	871,650	0.62
Fidene Nominees Pty Ltd	830,500	0.59
Marchesani Michele	800,000	0.57
TOTAL	91,742,999	65.34

c) Substantial Shareholders

NAME	NO. SHARES HELD	%
Jungle Creek Gold Mines NL	28,105,651	20.48
Commonwealth Bank of Australia	10,966,912	7.81
JP Morgan Nominees Australia	9,136,500	6.62
Northmead Holdings Pty Ltd	9,105,000	6.48
Merrill Lynch Investment Managers	8,015,708	6.05



WESTERN AREAS NL



ANNUAL REPORT 2006

Suite 3, Level 1, 11 Ventnor Avenue
West Perth, Western Australia 6005
Phone (08) 9486 7855 Fax (08) 9486 7866

website: www.westernareas.com.au