Drake Resources Limited

ABN 12 108 560 069

ANNUAL REPORT
30 JUNE 2006

CORPORATE DIRECTORY

Directors

Brett Fraser	Chairman
Robert Beeson	Managing Director
Jay Stephenson	Non-executive Director

Company Secretary
Jay Stephenson

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Auditor
Rix Levy Fowler
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Share Registry
Computershare Registry Services
Level 2, 45 St Georges Terrace
Perth WA 6000

Australian Stock Exchange
ASX Code - DRK

OPERATIONS REVIEW
Exploration

In 2005-06 Drake has made major advances at its Mt Carrington gold-silver property in New South Wales, commenced work at two gold projects in Western Australia, established an alliance with Zinifex Limited to lead a global zinc-lead-silver search, and begun project generation in Mexico.

MT CARRINGTON GOLD-SILVER ZINC PROJECT, NSW
(Drake Resources 90-100%)

Mt Carrington is a complex epithermal system with separate areas where gold, silver and copper are the dominant metals. Zinc occurs with both the gold and the silver. Drake Resources has carried out drill testing of both the gold and copper systems during the year. In addition the company has completed a major review of the past exploration for silver to identify the potential for that metal. A silver operation was planned by Aberfoyle in the early 1980s, but low prices since then deferred that project. However, the current higher silver prices have highlighted the need to determine whether silver represents a target in its own right.

Current inferred resources at Mt Carrington are:

	Mt	Au	Ag	
Gold resources	1.0	3.77	7.00	126,000 oz Au 600,000 oz Ag
Silver resources	0.78	0.93	176	4,400,000 oz Ag 20,000 oz Au

Mt Carrington – Gold

A major target of Drake's exploration has been to confirm the drilling reported by previous explorers, and to test for extensions to the mineralisation. Drake has drilled three holes into and below the known resources at the Strauss deposit, one of four gold areas mined by Mt Carrington Mines in the late 1980s. Previous drilling at the deposit had been mainly vertical; this is considered by Drake to be an inappropriate test of this style of mineralisation, which generally has a sub-vertical orientation in the existing pit.

The following intersections were obtained on Section 10230N: 20m @ 6.2 g/t Au from 17m depth, 7m @ 3.0 g/t Au from 76m depth, and 11m @ 3.8 g/t Au from 6m depth. The intersections strongly suggest that the grade of the mineralisation at Strauss may be higher than indicated by the previous vertical drilling. This is further supported by a previous angle hole drilled by Newmont (CD003) over 30 years ago, which gave an intersection of 54m at 5.5 g/t Au (uncut). The grades in CD003 are similar to the average grade of intersections in the angled drill holes recently completed by Drake Resources. CD003 was drilled 50m along strike to the north-east from Section 10230N.

Drake's 3D modelling of the deposit suggests the mineralisation extends below past drilling. Two of the three Drake drill holes were 100m in length, or 88m vertically below the surface. Most past drilling ceased 35m below the old pit floor and no past drilling extended below 50m vertically.

The intersection of 7m @ 3.0 g/t Au from 76m downhole confirms that the mineralisation extends well below past drilling and opens up the potential for a significant resource increase at Strauss.

Much of the early drilling at Mt Carrington had not been assayed for base metals. It has therefore been difficult to obtain a grade for the copper and zinc in the Mt Carrington resources and an estimate of the potential value of these metals as by-products of any gold or silver production. Drake's drilling programme has emphasised the potentially valuable levels of zinc in the resources. Examples of the zinc grades in the gold zone at Strauss include: 20m @ 6.2 g/t Au and 2.03% Zn, 11m @ 3.8 g/t Au and 3.93% Zn, 25m @ 1.9% Zn from 12m depth and 24m @ 2.4% Zn from 6m depth.

While these grades are too low for a zinc-alone project, by-product zinc has the potential to add value to potential ore processing options for a project at Mt Carrington.

Previous metallurgical test work on the gold mineralisation at Mt Carrington had been carried out by Mt Carrington Mines prior to the commencement of the mining operation in 1988. It is uncertain whether this work was completed on oxidised or sulphide samples. Hence a preliminary program to determine recoveries was undertaken on three Mt Carrington samples from drill hole DP19 in order to establish their amenability to leach recovery of gold from the primary mineralisation intersected in Drake drilling. Gold recoveries on these samples were in the range 83.9 to 91.1%.

Mt Carrington – Silver and Zinc

The potential for extensions to the known silver resources at Mt Carrington silver resources is considered by Drake to be high.

- The Cheviot Hills Fault Trend containing in which the Lady Hampden and Silver King deposits has the characteristics of the large disseminated silver systems of the central Andes, and this concept has not been tested
- A new model for the White Rock area, again not tested, suggests that mineralisation associated with porphyry sills may extend for hundreds of metres beyond the current resources

CHEVIOT HILLS FAULT TREND

The Cheviot Hills Fault Trend (CHFT) contains stratiform, disseminated and replacement mineralisation at the two silver resources, Lady Hampden and Silver King, plus numerous small historic workings.

In 2003 Kanowna Lights published a JORC compliant silver resource of 2.14 million ounces of silver at a grade of 148 g/t Ag in the Lady Hampden and Silver King deposits. A silver price of US$4.75/oz was used for this estimate. The average depth of all drilling on these prospects was only 44.5 at Lady Hampden, and 35.7m at Silver King.

Immediately east of the Cheviot Hills fault and the northern edge of the Lady Hampden open cut, the down faulted extensions of the mineralised zone have been intersected in drilling, as, for example on Section 11050N where the zone is 49 metres in thickness. This mineralisation is open to the east. No detailed mapping exists for the Lady Hampden area, and consequently the distribution of known favourable horizons, and the potential for repetitions of prospective units, remains untested.

At Silver King, 400 metres to the south of Lady Hampden, sections again indicate that the mineralisation remains untested in depth and to the east of the Cheviot Hills fault.

At Mozart, 450 metres south of Silver King, there is a zone in which there has been no drilling apart from the 3 holes on line 9800N. Hole MCP 421 intersected 11m @ 89 g/t Ag from 35m; this prospect is open in all directions.

The company is very encouraged by the currently known extent of the mineralisation along the Cheviot Hills Fault Trend, and Drake believes the Lady Hampden - Silver King - Mozart corridor has excellent exploration potential. There has been almost no drilling in the 400 metres between the Lady Hampden and Silver King, north of Lady Hampden, and south of Silver King to Mozart. An area at least two kilometers in length and up to 800 metres in width has potential for this style of mineralisation. 75% of this area has not been drill tested, and only 10% has received any systematic, but shallow, drilling.

The CHFT has similarities in style to the bulk-mineable, volcanic-hosted silver deposits such as San Cristobal in Bolivia (466 Moz silver). The mineralisation style in both districts is predominantly disseminated sulphides, with local vein mineralisation. The central Andean ores are typically in caldera-fill volcanics and volcanic sediments. These can have lateral dimensions of up to 2,000 metres, and thicknesses of up to 450 metres.

WHITE ROCK AREA

The White Rock deposit contains 2.3 million ounces at an average grade of 207 g/t Ag. Very significant silver exploration potential is seen to exist within 200m of surface between White Rock, where Aberfoyle had previously outlined an inferred silver resource, and White Rock North. A buried mineralised rhyolite breccia and stockwork system is inferred from prior drilling, and may extend westwards to White Rock West.

The White Rock deposit comprises three zones: Lens A, Lens B and the Northeast Zone. The A lens is open and untested to the west and north, the B lens is open and untested to the east and south west. A northeast zone lens appears to be open to the east as the last hole in this direction ends in mineralisation.

In addition the White Rock silver deposit contains significant zinc mineralisation within and adjacent to the Lens B silver resource defined by Aberfoyle in its evaluation of the prospect in the early 1980s. Aberfoyle and Kanowna Lights did not take account of the zinc mineralisation in their resource calculations in their respective reviews of the project. If extracted, the zinc could form a significant credit,

Six holes drilled at White Rock North Prospect have indicated the presence of significant silver mineralisation. The prospect was identified from an Ag, As, and Hg soil anomaly. Mineralised drill intercepts include 36m at 111 g/t Ag from 79.5 metres in buried rhyolite in hole PWR 013. This mineralisation remains open in all directions. PWR 013 was stopped in mineralization at 115m.

The ore grade silver intercepts at White Rock and White Rock North are therefore located in the top of a rhyolite sill (or sills) at a certain position in the stratigraphy of the area. Drake considers that mineralisation in this position may be extensive, but no drill holes have penetrated to this position between the prospects. If this interpretation is substantiated the silver resources in the White Rock area will be increased considerably.

Mt Carrington – Copper

<u>Primary copper mineralisation</u>

The ongoing analysis of past exploration results has revealed the presence of very extensive, albeit low grade, copper mineralisation in a poorly explored area southwest of the old Carrington gold deposit pit in the area of the Rainbow and Pioneer old workings..

Hole C012 was drilled by Newmont beneath a copper soil anomaly on the northern flank of the felsite. This hole intersected numerous narrow quartz-chalcopyrite veins over most of its 279m length. A number of zones with greater than 0.5% Cu were intersected within three broad zones of low grade mineralisation, including 73.m @ 0.28% Cu from 9m, and 66.5m @ 0.26% Cu from 109m.

A roughly circular felsite intrusive body occurs immediately to the south of Mt Carrington in the area of the Rainbow and Pioneer workings. Numerous shallow old workings occur on the margin of and within the felsite. A moderate to strong gold soil geochemical anomaly coincides with the intrusive body and strong copper anomalism occurs around its northern and eastern flanks.

This felsite body has received only limited drilling in the past, with only 12 drill holes testing an area of interest 600 metres by 500 metres. The contact zone of the felsite has only been tested by five drill holes.

<u>Supergene copper</u>

Two main areas of supergene copper mineralisation have been identified to date within the Mining Leases - Gladstone and Lady Mary. These form two northeast-southwest trending zones of mineralisation. The two zones reflect the dominant fissure vein trend direction, and have a positive topographic expression and show a positive correlation with gold soil geochemistry.

The main supergene copper prospect is at Gladstone, which is located 650m northwest of Mt Carrington and itself forms a prominent hill. Numerous small historic workings occur over a small area (30x100m) on the east side of the hill. The workings have exploited narrow quartz veins that strike northeast. Drill intersections by previous explorers include 49.6 metres at 1.4% Cu, 36 metres at 1.4% Cu and 18 metres at 1.05% Cu.

The workings are located within breccias and tuffs of the Upper Strauss member close to the contact with overlying banded felsite intrusive that crops out on the top of the hill. Drill hole data show that the contact between the felsite and the Upper Strauss member dips to the west at a moderate to low angle.

Drake drilling at Gladstone demonstrated that the zone of mineralisation extends beyond that defined by previous drilling, and significant grades and thicknesses were maintained. DP15, located north-west of past drilling, intersected 20m @ 0.70% Cu, and DP13, at the south-eastern limit of drilling at Gladstone, gave 26m @ 0.74% Cu.

MT PALMER GOLD PROJECT, WA (Drake 70%)

The Mt Palmer Gold Project is located in the Yellowdine Greenstone belt approximately 40km southeast of Southern Cross in Western Australia. The district hosts significant gold mines such as Marvel Loch, Cornishman, Yilgarn Star and Golden Pig, which had pre-mining reserves and resources of 2.5Moz (2003). The project area is covered by a granted mining lease containing one of area's larger historic producers, the Palmer's Find Gold Mine. The mine operated during the 1930's and 1940's and produced approximately 160,000 ounces of gold from 310,000t of ore at an average grade of approximately 16g/t Au.

Gold mineralisation at Mt Palmer occurs in a series of parallel quartz vein lodes within shear zones hosted by amphibolite. The mineralised shear zones are regularly spaced at 40-50 metre intervals, and have been traced over a strike length of 500 metres.

Individual lodes were mined over a length of up to 200 metres and to depths of up to 150 metres below surface. Within the broader zones of mineralisation are plunging shoots of high-grade mineralisation. The two most significant shoots occur in the Main and East lodes.

Approximately 160 surface holes have been drilled within the mining lease, but very few have intersected mineralisation comparable in grade to historic production figures. Many of the holes are shallow and were drilled in the immediate vicinity of the old workings, often intersecting mine cavities. Very few holes have tested the areas along strike of the lodes, particularly at depth. The southerly strike extension of the lodes is covered by mine tailings and remains largely unexplored.

Drake has identified several clear targets as having potential to host high grade mineralisation similar to that exploited by historic mining. These targets are primarily along strike to the previous workings, or on parallel structures.

HERON WELL GOLD PROJECT, WA (Drake 100%)

The Heron Well Gold Project in Western Australia covers an area of 10.4 sq km within the Norseman-Wiluna Greenstone Belt, approximately 20 kilometres south of Leonora. Nearby gold deposits include Sons of Gwalia (3Moz) and Orient Well (0.36Moz).

Despite its proximity to major ore deposits the project area has not been intensively explored. The lack of exploration is due to the transported cover that overlies most of the southern half of the tenement.

Previous explorers identified two prospects within the project area: Pelican and Flamingo. Neither prospect outcrops, but both were originally identified by surface geochemical sampling.

Gold mineralisation at the Pelican prospect occurs within a broad, northeast trending zone of quartz veining and sericite-pyrite-arsenopyrite alteration hosted by a felsic volcanic unit. The mineralisation has been traced over a strike length of 1.5 kilometres and the zone remains open along strike in both directions. The mineralised structure trends parallel to the strike of the stratigraphy and dips at a shallow angle to the southeast.

A zone of supergene/oxide gold occurs at around 40-50 metres depth has been traced over a strike length of approximately one kilometre. Deeper drilling has tested the mineralised structure(s) below the supergene mineralisation and several narrow, high grade intersections were reported.

The bedrock geochemical anomaly defined by aircore drilling remains open along strike in both directions; aeromagnetic data suggests the felsic host rocks also continue in both directions. The cover thins to the northeast, and there is a broad gold geochemical anomaly located approximately 1 kilometre along strike in that direction.

Four areas around the Pelican anomaly that returned the strongest bottom-of-hole gold geochemical values have not been drill tested. These include the zone at the north eastern end of the Pelican anomaly where four consecutive aircore holes returned bottom-of-hole assays exceeding 100ppb gold.

Most of the mineralisation identified to date occurs within the felsic rocks. However, no holes have been drilled deep enough to test the down-dip extension of the zone where it is interpreted to crosscut the strongly magnetic dolerite/basalt unit to the southeast. Importantly, iron-rich quartz dolerite is a major host rock for gold mineralisation throughout the Eastern Goldfields. This zone represents a highly prospective target.

The Flamingo prospect occurs at the western end of a broad, east-west trending soil geochemical anomaly. Air core drilling outlined a 200x400 metre bedrock geochemical anomaly, but this anomaly is open to the west and north. The extensive east-west soil geochemical anomaly extends over more than 2 kilometres and the majority of this anomaly has not been tested by drilling. Only one reverse circulation hole has been drilled into the bedrock anomaly.

BROKEN HILL TYPE LEAD-ZINC-SILVER SEARCH

Drake has entered an agreement to form an Alliance with Zinifex Australia Ltd to identify and acquire zinc exploration and development opportunities in several prospective areas around the world. Drake will be the Manager of the Alliance. The purpose of the Alliance is to bring together Drake’s technical project generation skills in base and precious metals exploration and Zinifex’s operational capabilities in advanced project exploration, mineral project development and mining.

The Alliance will primarily aim to identify zinc-lead-silver targets and opportunities that are prospective for the occurrence of metamorphosed zinc-lead-silver orebodies of the Broken Hill Type. However, it also extends to opportunities for other metals, such as copper and gold. The Alliance will focus its search on the known prospective mineral provinces in Australia, Scandinavia, North America and southern Africa, and will run initially until the end of June 2008.

Under the terms of the agreement, the Alliance will be funded jointly with cash and in-kind contributions. Drake will identify and present opportunities to the Alliance for consideration. Projects accepted by Zinifex will progress as Zinifex – Drake Joint Ventures, initially sole-funded by Zinifex. Drake has the right to participate in these Joint Ventures with a minority (30% or 10%) participating interest, or to retain a free-carried 1.5% net smelter royalty. Any project identified by the Alliance, but not accepted by Zinifex, can be taken up by Drake.

MEXICO SILVER-ZINC EXPLORATION

In keeping with its strategy of pursuing gold, silver and base metal opportunities Drake Resources Ltd commenced a programme of project identification and acquisition in Mexico. This country possesses exceptional deposits of copper, zinc and silver, and has an emerging gold mining industry. Mexico is the world's largest silver producer (99 million ounces in 2004), and has a historical production of approximately 10 billion ounces.

Drake considers Mexico to be relatively under-explored. A new mining law was only put in place in 1992, and there has been limited modern exploration since then. In particular there has been little exploration under cover, with the exception of the Sonora porphyry belt, and Drake plans to apply its experience in Australia and elsewhere in Mexico in this respect.

CORPORATE GOVERNANCE STATEMENT

As the framework of how the Board of Directors of Drake Resources Ltd ("Company") carries out its duties and obligations, the Board has considered the ten principles of corporate governance as set out in the ASX Good Corporate Governance and Best Practice Recommendations.

The essential corporate governance principles are:

1 Lay solid foundations for management and oversight;
2 Structure the Board to add value;
3 Promote ethical and responsible decision-making;
4 Safeguard integrity in financial reporting;
5 Make timely and balanced disclosure;
6 Respect the rights of shareholders;
7 Recognise and manage risk;
8 Encourage enhanced performance;
9 Remunerate fairly and responsibly;
10 Recognise the legitimate interests of stakeholders.

1. Lay solid foundations for management and oversight.

Recommendation 1.1: Formalise and disclose the functions reserved to the Board and those delegates to management.

Roles and Responsibilities:

The roles and responsibilities of the Board are to:

- Oversee control and accountability of the Company;
- Set the broad targets, objectives, and strategies;
- Monitor financial performance;
- Assess and review risk exposure and management;
- Oversee compliance, corporate governance, and legal obligations;
- Approve all major purchases, disposals, acquisitions, and issue of new shares;
- Approve the annual and half-year financial statements;
- Appoint and remove the Company's Auditor;
- Appoint and assess the performance of the Managing Director and members of the senior management team;
- Report to shareholders.

2. Structure the Board to add value.

Recommendation 2.1: A majority of the Board should be independent Directors. – There are no independent Directors. Refer general comment below.

Recommendation 2.2: The Chairperson should be an independent Director. – The Chairman is not independent. Refer general comment below.

Recommendation 2.3: The roles of the Chairperson and Chief Executive should not be exercised by the same individual.

Membership

The Board's membership and structure is selected to provide the Company with the most appropriate direction in the areas of business controlled by the Company. The Board currently consists of three members; a Managing Director and two non-executive Directors. Refer to the Directors' Report for details of each Director's profile.

Chairman and Managing Director

The roles of the Chairman and the Managing Director are separate. The Chairman is responsible for leading the Board in its duties, and facilitating effective discussions at Board level. The Managing Director is responsible for the efficient and effective operation of the Company.

Nomination Committee

The Company has a formal charter for the Nomination Committee, however, no Committee has been appointed to date. The Board as a whole deals with areas that would normally fall under the charter of the Nomination Committee. These include matters relating to the renewal of Board members and Board performance.

Skills

The Directors bring a range of skills and backgrounds to the Board including exploration, accountancy, finance, marketing, stockbroking and mining.

Experience

The Directors have considerable experience in business at both operational and corporate levels.

Meetings

The Board endeavour to meet at least once a month on a formal basis.

Independent professional advice

Each Director has the right to seek independent professional advice at the Company's expense for which the prior approval of the Chairman is required, and is not unreasonably withheld.

3. Promote ethical and responsible decision-making.

Recommendation 3.1: Establish a code of conduct to guide the Directors, the Chief Executive Officer (or equivalent) and any other key executives as to:

3.1.1 The practices necessary to maintain confidence in the Company's integrity;

3.1.2 The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Recommendation 3.2: Disclose the policy concerning trading in Company securities by Directors, officers, and employees.

Standards

The Company is committed to its Directors and employees maintaining high standards of integrity and ensuring that activities are in compliance with the letter and spirit of both the law and Company policies. Each staff member is issued with the Company's Policies and Procedures manual at the beginning of their employment with the Company.

4. Safeguard integrity in financial reporting.

Recommendation 4.1: Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Recommendation 4.2: The Board should establish an audit committee. – Refer general comment below.

Recommendation 4.3: Structure the audit committee so that it consists of:

- *Only non-executive Directors;*
- *A majority of independent Directors;*
- *An independent Chairperson, who is not Chairperson of the Board;*
- *At least three members.*

Recommendation 4.4: The Audit Committee should have a formal charter.

Integrity of Company's Financial Condition

The Company's Financial Controller and Company Secretary report in writing to the Audit Committee that the consolidated financial statements of the Company and its controlled entities for the half and full financial year present a true and fair view, in all material respects, of the Company's financial condition and operational results are in accordance with relevant accounting standards.

Audit Committee

The Company has a formal charter for an Audit Committee, however no Committee has been appointed to date. All members of the Board currently provide an active role in the following activities:

- Review the Company's accounting policies;
- Review the content of financial statements;
- Review the scope of the external audit, its effectiveness, and independence of the external audit;
- Ensure accounting records are maintained in accordance with statutory and accounting standard requirements;
- Monitor systems used to ensure financial and other information provided is reliable, accurate, and timely;
- Review the audit process with the external auditors to ensure full and frank discussion of audit issues;
- Present half and full year financial statements to the Board.

5. Make timely and balanced disclosure.

Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing rules disclosure requirements and to ensure accountability at a senior management level for that compliance.

Being a listed entity on the ASX, the Company has an obligation under the ASX Listing Rules to maintain an informed market with respect to its securities. Accordingly, the Company advises the market of all information required to be disclosed under the Rules which the Board believes would have a material affect on the price of the Company's securities.

The Company Secretary has been appointed as the person responsible for communication with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All shareholders receive a copy of the Company's annual report.

6. Respect the rights of shareholders.

Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company is committed to keeping shareholders fully informed of significant developments at the Company. In addition to public announcements of its financial statements and significant matters, the Company provides the opportunity for shareholders to question the Board and management about its activities at the Company's annual general meeting.

The Company's auditor, Rix Levy Fowler Accountants, will be in attendance at the annual general meeting and will also be available to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

7. Recognise and manage risk

Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management.

Recommendation 7.2: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that:

7.2.1 The statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

7.2.2 The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Board oversees the Company's risk profile. The financial position of the Company and matters of risk are considered by the Board on a daily basis. The Board is responsible for ensuring that controls and procedures to identify, analyse, assess, prioritise, monitor and manage risk are in place, being maintained and adhered to.

The financial controller and Company Secretary state in writing to the board that:

- The statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.
- The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

8. Encourage enhanced performance

Recommendation 8.1: Disclose the process for performance evaluation of the Board, its committees and individual Directors, and key executives.

Given the specific nature of the Company's activities, performance evaluation is an on-going process. Achievement of goals and business development and compliance issues is evaluated regularly on an informal basis.

9. Remunerate fairly and responsibly

Recommendation 9.1: Provide disclosure in relation to the Company's remuneration policies to enable investors to understand:

(i) the costs and benefits of the policies; and
(ii) the link between remuneration paid to Directors and key executives, and corporate performance.

Recommendation 9.2: The Board should establish a Remuneration Committee.

Recommendation 9.3: Clearly distinguish the structure of non-executive Directors' remuneration from that of executives.

Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

Principles used to determine the nature and amount of remuneration

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate to the results delivered. The framework aligns executive reward with the creation of value for shareholders, and conforms to market best practice.

The remuneration committee ensures that executive rewards satisfy the following key criteria for good reward governance practices:

- Competitiveness and reasonableness;
- Acceptability to the shareholders;
- Performance linked;
- Transparency;
- Capital management.

The Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Remuneration Committee

Members of the Remuneration Committee are or have been Mr Stephenson and Mr Fraser.

Directors' Remuneration

Further information on Directors' and executives' remuneration is set out in the Directors' Report and Note 6 to the financial statements.

10. Recognise the legitimate interests of stakeholders.

Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

Besides its accountability to its shareholders, the Company has expectations from a diverse group of stakeholders. The Company's Policies and Procedures Manual outlines expectations of Directors and employees in dealing with the Company's obligations to these interested parties. It outlines responsibilities with regard to areas such as the law, the Company, the Market, Clients, ASX Listing Rules and ASX Market Rules.

Departure from Best Practice Recommendations

From 1 July 2005 to 30 June 2006, the Company complied with each of the Ten Essential Corporate Governance Principles and Best Practice Recommendations published by the ASX Corporate Governance Council,

General comment: The Company is not included in the ASX/S&P All Ordinaries Index and, as such, is excepted from certain of the recommendations regarding non-executive Directors being on the Board and Committees. Furthermore, given the small size of the Company, the criteria for inclusion of non-executive Directors makes it difficult to attract suitable candidates – criteria such as not being a Director on another company's board and low remuneration by way of Director fees. However, the Board of Directors continues to review these matters.

DIRECTORS' REPORT

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

Directors

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

Mr Brett Fraser

Mr Robert Beeson

Mr Jay Stephenson

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

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Mr Jay Richard Stephenson — Master of Business Administration, Certified Management Accountant (CMA), was appointed as Company Secretary for Drake Resources Limited on 15 October 2004. Mr Stephenson also performs the role of Chief Financial Officer for the Company.

Principal Activities

The principal activities of the economic entity during the financial year were exploration of its tenements and search for new projects:

Operating Results

The consolidated loss of the economic entity after providing for income tax amounted to $163,920.

Dividends Paid or Recommended

There were no dividends paid or recommended during the financial year ended 30 June 2006.

Review of Operations

Corporate

Drake applied for a number of Uranium exploration licences between August 2005 and April 2006.

In May 2006 Drake sold its uranium tenements to Aura Energy Limited in May 2006 for $100,000 cash and shares at $0.20 for the value of $700,000. Drake also subscribed $100,000 for all the seed capital in Aura Energy Limited at $0.10 per share. Aura Energy Limited listed on 30 May 2006 after raising $5,000,000. Drake maintains an interest of 12.5% in Aura Energy Limited.

Exploration

A detailed review of the Companies exploration activities is set out in the section titled "Operations Review – Exploration" in this annual report.

Financial Position

The net assets of the economic entity have increased by $151,182 from 30 June 2005 to $3,808,672 in 2006. This increase has largely resulted from the following factors:

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

(a) On 31 March 2006 the Company completed the transaction to acquire the Heron Well Gold Project in Western Australia for 1,250,000 Ordinary Shares in the Company.

(b) On 4 April 2006, the Company acquired 1,000,000 Shares in Aura Energy Limited for $100,000.

(c) On 30 May 2006, the Company completed its sale of its Uranium tenements to Aura Energy and received $100,000 cash and 3,500,000 Shares in Aura. The transaction resulted in a net profit of $700,000.

Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report.

After Balance Date Events

On 11 September 2006, the Company entered into an alliance to explore with Zinifex Limited.

Information on Directors

Mr Brett Fraser	—	Chairman (Non-Executive).
Qualifications	—	Fellow of Certified Practicing Accountants; Fellow of the Financial Services Institute of Australasia; Grad Dip Finance, Securities Institute of Australia; Bachelor of Business (Accounting); International Marketing Institute - AGSM Sydney.
Experience	—	Board member since 30 March 2004.
Interest in Shares and Options	—	2,754,000 Ordinary Shares in Drake Resources Limited and options to acquire a further 2,250,000 ordinary shares.
Special Responsibilities	—	Member of the Due Diligence Committee and Remuneration Committee.
Directorships held in other listed entities	—	Current non-executive director and Chairman of Aura Energy Limited. Past non-executive director of Brainytoys Limited. No other Directorships in the past three years.

Dr Bob Beeson	—	Managing Director
Qualifications	—	Bachelor of Science with Honours; PhD; Member of the Australian Institute of Geoscientists
Experience	—	Geologist with over 30 years of global experience in base and precious metal exploration and development. Board member since 17 November 2004.
Interest in Shares and Options	—	500,000 Ordinary Shares in Drake Resources Limited and options to acquire a further 1,250,000 ordinary shares.
Directorships held in other listed entities	—	Current Managing Director of Aura Energy Limited. No other Directorships in the past three years.

Mr Jay Stephenson	—	Director (Non-Executive); Company Secretary
Qualifications	—	Certified Management Accountant; Member Australian Institute of Company Directors; Master of Business Administration
Experience	—	Board member since 30 March 2004
Interest in Shares and Options	—	2,085,000 Ordinary Shares in Drake Resources Limited and options to acquire a further 1,250,000 ordinary shares.
Special Responsibilities	—	Member of Due Diligence Committee and Remuneration Committee
Directorships held in other listed entities	—	Current non-executive Director of Aura Energy Limited. No other Directorships in the past three years.

DIRECTORS' REPORT

REMUNERATION REPORT (audited)

This report details the nature and amount of remuneration for each Director of Drake Resources Limited and for the executives receiving the highest remuneration.

A. Remuneration Policy

The remuneration policy of Drake Resources Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component, and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The Board of Drake Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and Directors to run and manage the economic entity, as well as create goal congruence between Directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the economic entity is as follows:

The remuneration policy, setting the terms and conditions for the executive Directors and other senior executives, was developed by the remuneration committee and approved by the Board. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives. The remuneration committee reviews executive packages annually by reference to the economic entity's performance, executive performance, and comparable information from industry sectors and other listed companies in similar industries.

Executives are also entitled to participate in the employee share and option arrangements.

The non-executive Directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to Directors and executives is valued at the cost to the Company and expensed. Options given to Directors and employees are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive Directors at the lower end of market rates for comparable companies for time, commitment, and responsibilities. The non-executive Directors have been provided with options that are meant to incentivise the non-executive Directors. The remuneration committee determines payments to the non-executive Directors and reviews their remuneration annually based on market practice, duties, and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to the performance of the economic entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

B. Details of Remuneration for Year Ended 30 June 2006 (audited) (continued)

Key Management Personnel of the Group

The key management personnel of the Group are the same as the Parent.

C. Service Agreements (unaudited)

The employment conditions of the Managing Director, Robert Beeson is formalised in a contract of employment.

The employment contract stipulates a three month resignation periods. The Company may terminate an employment contract without cause by providing three months written notice or making payment in lieu of notice, based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

D. Share-based compensation (audited)

Incentive Option Scheme

Options are granted under the Drake Resources Limited Incentive Option Scheme which was approved by shareholders at a general meeting on 24 November 2005. All staff and consultants of Drake are eligible to participate in the plan.

Options are granted under the plan for no consideration. Options are granted for a five year period.

A total of 540,000 options were granted to non key management personnel under the Incentive Option Scheme during the year.

Director Options

Options granted to Directors of Drake were issued in accordance with the Annual General Meeting held on 24 November 2005.

A total of 2,500,000 options were granted to Directors during the year.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
30 March 2004	1 July 2008	$0.30	$0.00500	30 March 2004
23 December 2005	30 June 2008	$0.25	$0.02848	23 December 2005
31 March 2006	31 March 2011	$0.25	$0.08130	31 March 2006

REMUNERATION REPORT (continued)

D. Share-based compensation (audited) (continued)

Options granted under the plan carry no dividend or voting rights.

The ability for the employee or consultant to exercise the options is restricted in accordance with the terms and conditions detailed in the Incentive Option Scheme.

Each option will automatically lapse if not exercised within five years of the date of issue. The exercise period may also be affected by other events as detailed in the terms and conditions detailed in the Incentive Option Scheme.

Details of options over ordinary shares in the Company provided as remuneration to each director of Drake Resources Limited are set out below. When exercisable, each option is convertible into one ordinary share of Drake Resources Limited.

Name	Number of options granted during the year		Number of options vested during the year	
	2006	2005	2006	2005
Directors of Drake Resources Limited				
Brett Fraser	1,500,000	750,000	1,500,000	750,000
Robert Beeson	500,000	750,000	500,000	750,000
Jay Stephenson	500,000	750,000	500,000	750,000

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected divided yield and the risk free interest rate for the term of the option.

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

(a) options are granted for no consideration
(b) exercise price: $0.25
(c) grant date: 23 December 2005
(d) expiry date: 30 June 2008
(e) share price at grant date: $0.145
(f) expected price volatility of the company's shares: 65%
(g) expected dividend yield: 0.0%
(h) risk-free interest rate: 5.310%

REMUNERATION REPORT (continued)

E. Additional information – unaudited (continued)

Share-based compensation: Options

The options issued under the Drake Resources Limited Incentive Option Scheme have been valued by an independent accounting firm using the Black Scholes method at $0.08130.

The options issued to Directors during the year as approved at the Annual General Meeting on 24 November 2005 have been valued by an independent accounting firm using the Black Scholes method at $0.02848.

Loans to Directors and Executives

There were no loans to Directors during the year.

Share options granted to Directors and the most highly remunerated officers

Options over unissued ordinary shares of Drake Resources Limited granted during or since the end of the financial year were issued to technical personnel only and not key management personnel.

The options were granted under the Drake Resources Incentive Option Scheme on 31 March 2006. Details of the options granted can be found in section D of the remuneration report on pages 18-20. No options have been granted since the end of the year.

Meetings of Directors

During the financial year, 6 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

			COMMITTEE MEETINGS			
	DIRECTORS' MEETINGS		DUE DILIGENCE COMMITTEE		REMUNERATION COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Brett Fraser	6	6	-	-	-	-
Robert Beeson	6	6	-	-	-	-
Jay Stephenson	6	6	-	-	-	-

Indemnifying Officers or Auditor

The Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The amount of the premium was $21,450 for all Directors.

DIRECTORS' REPORT

Options

At the date of this report, the un-issued ordinary shares of Drake Resources Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
30 April 2004	1 July 2008	$0.30	3,500,000
21 July 2005	30 June 2008	$0.25	1,000,000
23 December 2005	30 June 2008	$0.25	2,500,000
31 March 2006	31 March 2011	$0.25	540,000
			7,540,000

No person entitled to exercise the option has or has any right by virtue of the option to participate in any share issue of any other body corporate.

Environmental Regulations

In the normal course of business, there are no environmental regulations or requirements that the Company is subject to.

Non-audit Services

There were no non-audit services provided by the auditors during the financial year. The board would normally satisfy themselves prior to any non-audit services being provided that:

- all non-audit services are reviewed and approved by the audit 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.

Proceedings on Behalf of 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.

DIRECTORS' REPORT

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 24 of the Directors' Report.

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

B Fraser

Brett Fraser
Chairman

Dated this 28 Day of September 2006

RIX LEVY FOWLER
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To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

This declaration is made in connection with our audit of the financial report of Drake Resources Limited and controlled entities for the financial year ended 30 June 2006 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to the audit.

Yours faithfully

Rix Levy Fowler

RIX LEVY FOWLER
Chartered Business Advisors

RANKO MATIC
Partner

DATED at PERTH this 29th day of September 2006

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006	**2005**	**2006**	**2005**
		$	$	$	$
Revenue	3	887,833	26,165	887,833	26,165
Cost of Sales		(87,230)		(87,230)	
Registry and ASX Fees		(32,193)	(12,676)	(32,193)	(12,676)
Accounting and Audit Fees		(11,833)	(5,050)	(11,833)	(5,050)
Insurance		(16,379)	(19,315)	(16,379)	(19,315)
Legal Costs		(29,421)	(7,022)	(29,421)	(7,022)
Employee benefits expense		(311,086)	(44,141)	(311,086)	(44,141)
Rent		(9,600)	(2,400)	(9,600)	(2,400)
Depreciation		(7,509)	(1,303)	(7,509)	(1,303)
Contractors and Consultants		(107,920)	(30,727)	(107,920)	(30,727)
Public Relations and Advertising		(42,838)	-	(42,838)	-
Computers and Software		(48,777)	(10,689)	(48,777)	(10,689)
Travel and Accommodation		(62,898)	(29,118)	(62,898)	(29,118)
Exploration Expenses		(64,803)	-	(64,803)	-
Share Based Payments Expenses		(115,102)	(11,250)	(115,102)	(11,250)
Other expenses		(104,164)	(16,866)	(101,983)	(16,866)
Loss from continuing operations	4	(163,920)	(164,392)	(161,739)	(164,392)
Income tax benefit	5	-	-	-	-
Loss from continuing operations		(163,920)	(164,392)	(161,739)	(164,392)
Loss attributable to members of the parent entity		(163,920)	(164,392)	(161,739)	(164,392)
Overall Operations					
Basic earnings per share (cents per share)	8	(0.0054)	(1.1)		
Diluted earnings per share (cents per share)	8	(0.0054)	(1.1)		

The accompanying notes form part of these financial statements.

BALANCE SHEET AS AT 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	9	975,243	2,282,090	975,243	2,282,090
Trade and other receivables	10	27,001	35,592	27,001	35,592
TOTAL CURRENT ASSETS		1,002,244	2,317,682	1,002,244	2,317,682
NON-CURRENT ASSETS					
Property, plant and equipment	11	21,250	23,912	21,250	23,912
Financial assets	12	852,500	120,000	854,681	120,000
Other assets	13	2,009,588	1,301,308	2,009,588	1,301,308
TOTAL NON-CURRENT ASSETS		2,883,338	1,445,220	2,885,519	1,445,220
TOTAL ASSETS		3,885,582	3,762,902	3,887,763	3,762,902
CURRENT LIABILITIES					
Trade and other payables	14	76,910	105,412	76,910	105,412
TOTAL CURRENT LIABILITIES		76,910	105,412	76,910	105,412
TOTAL LIABILITIES		76,910	105,412	76,910	105,412
NET ASSETS		3,808,672	3,657,490	3,810,853	3,657,490
EQUITY					
Issued Capital	16	4,022,460	3,822,460	4,022,460	3,822,460
Option Premium Reserve	17	126,352	11,250	126,352	11,250
Accumulated Losses		(340,140)	(176,220)	(337,959)	(176,220)
TOTAL EQUITY		3,808,672	3,657,490	3,810,853	3,657,490

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

Economic Entity	Note	$ Share Capital Ordinary	$ Accumulated Losses	$ Option Premium Reserve	$ Total
Balance at *1.7.2004*		46,873	(11,828)	-	35,045
Shares issued during the year		3,775,587	-	-	3,775,587
Profit attributable to members of parent entity		-	(164,392)	-	(164,392)
Share based payments reserve		-	-	11,250	11,250
Balance at *30.6.05*		3,822,460	(176,220)	11,250	3,657,490
Shares issued during the year – net of costs		200,000	-	-	200,000
Profit attributable to members of parent entity		-	(163,920)	-	(163,920)
Share based payments reserve		-	-	115,102	115,102
Balance at *30 June 2006*		4,022,460	(340,140)	126,352	3,808,672

Parent Entity	Note	$ Share Capital Ordinary	$ Accumulated Losses	$ Option Premium Reserve	$ Total
Balance at *1.7.2004*		46,873	(11,828)	-	35,045
Shares issued during the year		3,775,587	-	-	3,775,587
Profit attributable to members of parent entity		-	(164,392)	-	(164,392)
Share based payments reserve		-	-	11,250	11,250
Balance at *30.6.05*		3,822,460	(176,220)	11,250	3,657,490
Shares issued during the year – net of costs		200,000	-	-	200,000
Profit attributable to members of parent entity		-	(161,739)	-	(161,738)
Share based payments reserve		-	-	115,102	115,102
Balance at *30 June 2006*		4,022,460	(337,959)	126,352	3,810,854

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006	**2005**	**2006**	**2005**
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(779,200)	(112,669)	(777,019)	(112,669)
Payments for exploration and evaluation		(551,756)	(54,567)	(551,756)	(54,567)
Interest received		82,783	26,165	82,783	26,165
Net cash used in operating activities	19a	(1,248,173)	(141,071)	(1,245,992)	(141,071)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(4,847)	(25,215)	(4,847)	(25,215)
Purchase of exploration assets		(21,327)	(217,628)	(21,327)	(217,628)
Purchase of investments		(32,500)	(120,000)	(34,681)	(120,000)
Net cash used in investing activities		(58,674)	(362,843)	(60,855)	(362,843)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares net of cost		-	2,785,587	-	2,785,587
Net cash used in (provided by) financing activities		-	2,785,587	-	2,785,587
Net increase/(decrease) in cash held		(1,306,847)	2,281,673	(1,306,847)	2,281,673
Cash at 1 July 2005		2,282,090	417	2,282,090	417
Cash at 30 June 2006	9	975,243	2,282,090	975,243	2,282,090

The accompanying notes form part of these financial statements.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers the economic entity of Drake Resources Limited and controlled entities and Drake Resources Limited as an individual parent entity. Drake Resources Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Drake Resources Limited and controlled entities, and Drake Resources Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Drake Resources Limited and controlled entities, and Drake Resources Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Drake Resources Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Refer to Note 28 for further details on changes in accounting policy.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

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

(a) Principles of Consolidation

A controlled entity is any entity controlled by Drake Resources Limited. Control exists where Drake Resources Limited 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 Drake Resources Limited to achieve the objectives of Drake Resources Limited. A list of controlled entities is contained in Note 15 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

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

Investments in subsidiaries are accounted for at cost in the individual financial statements of Drake Resources Limited.

(b) Exploration and Development Expenditure

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(c) 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 the tax rates that have been enacted or are substantially enacted by the balance sheet date.

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the 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.

(d) Property, Plant, and Equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis.

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

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

Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20%
Computers	33%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

amount is greater than its estimated recoverable amount.

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

(e) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(f) Cash and cash equivalents

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

(g) Revenue

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

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

(h) Goods and Services Tax (GST)

Revenues, expenses, and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian 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 statement of financial position are shown inclusive of GST.

(i) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity 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 economic 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.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(j) 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. 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.

Partners
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Jon Carcich CA
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Independent Audit Report

To the Members of Drake Resources Limited

Scope

The financial report and directors' responsibility
The financial report comprises the income statement, balance sheet, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Drake Resources Limited (the company) and Drake Resources Limited (the consolidated entity) for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during the period.

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

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

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

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

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

Independence

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

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

Independent Audit Report
To the Members of Drake Resources Limited *(CONTINUED)*

Audit Opinion

In our opinion, the financial report of Drake Resources Limited 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.

RIX LEVY FOWLER
Chartered Business Advisors

RANKO MATIC
Partner

DATED at PERTH this 29th day of September 2006