
Drake Resources Limited

(ABN 12 108 560 069)

Annual Report

*For the Year Ended
30 June 2005*

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CORPORATE DIRECTORY

DIRECTORS

Brett Fraser	Non-Executive Chairman
Bob Beeson	Managing Director
Jay Stephenson	Non-Executive Director

COMPANY SECRETARY

Jay Stephenson

REGISTERED OFFICE

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SHARE REGISTRY

Computershare Investor Services Pty Ltd

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45 St Georges Terrace

PERTH WA 6000

Telephone 1300 557 010

Facsimile 08 9323 2033

E-mail web.queries@computershare.com.au

INDEPENDENT GEOLOGIST

Boonjarding Resources Ltd

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CANNINGTON WA 6107

Lot H, Level 7, Wisma Oceanic

Jalan OKK Awang Besar

87007 F.T. Labuan

East Malaysia

SOLICITORS

Steinepreis Paganin

Level 4

16 Milligan St

PERTH WA 6000

INVESTIGATING ACCOUNTANTS

Pendragon Capital Ltd

C/- Level 1

216 St Georges Terrace

PERTH WA 6000

AUDITOR

Rix Levy Fowler

Level 1, 12 Kings Park Road

WEST PERTH WA 6005

DIRECTORS' REPORT

Your Directors present their report on the Company and its controlled entities for the financial year ended 30 June 2005.

Directors

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

- Mr Brett Fraser - (appointed 30/03/04)
- Mr Jay Stephenson —(appointed 30/03/04)
- Mr Bob Beeson - (appointed 17/11/04)
- Mr Graham Nicol – (appointed 30/3/04 resigned 17/11/04)

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 30 March 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:

- Develop a portfolio of mineral exploration properties;
- Exploration of the Mt Carrington project in Drake NSW
- Exploration of the Mt Palmer project in Western Australia
- Exploration of the Lake Rebecca project in Western Australia

The following significant changes in the nature of the principal activities occurred during the financial year:

- The Company raised \$3,000,000 by issuing 15,000,000 fully paid ordinary shares on 31 March 2005.

There were no other significant changes in the nature of the economic entity's principal activities during the financial year.

Operating Results

The consolidated loss of the economic entity after providing for income tax amounted to \$153,141

Dividends Paid or Recommended

There were no Dividends Paid or Recommended during the financial year ended 30 June 2005

Review of Operations

The Company acquired a number of Exploration Licenses and Mining Leases after successfully raising \$3,000,000 and listing on the Australian Stock Exchange including:

Mt Carrington Project in Drake NSW

Mt Palmer Project in Western Australia

Lake Rebecca Project in Western Australia

The Company entered into a detailed exploration programme at Mt Carrington. The highlights of its exploration included:

Drake Resources now has granted tenements over 700 square kilometres in the Drake district in New South Wales, giving Drake a dominant land holding over the prospective Drake Volcanics.

Structural geological appraisal of the tenements has resulted in the development of a revised geological model for mineralisation, which has led to the identification of targets for drill testing in the area.

Reprocessing, plotting and review of airborne magnetic, radiometric and DIGHEM electromagnetic survey data has

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DIRECTORS' REPORT

defined geophysical anomalies for follow up on the ground.

Validation and interpretation of the Mt Carrington database has progressed substantially with the plotting and review of some 400 drill sections; these data have clearly indicated locations with the potential to increase the resources at Mt Carrington

A 1300m drill program is planned for mid October to evaluate gold, silver and base metal targets at the Kylo, Guy Bell, Lady Hampden, Gladstone and White Rock Prospects

Financial Position

The net assets of the economic entity have increased by \$3,622,445 from 30 June 2004 to \$3,657,490 in 2005. This increase/decrease has largely resulted from the following factors:

- Share issues raising \$217,000 through the issue of 2,170,000 shares as seed capital between 30 June 2004 and 30 November 2004.
- Share issues raising \$3,000,000 through the issue of 15,000,000 shares under the Prospectus dated 23 December 2004.
- Acquisition of Mt Carrington Project from Cazaly Resources Limited on 31 March 2005 for a consideration of \$1,050,000 payable as \$150,000 cash and 4,500,000 shares at 20 cents per share.
- Acquisition of Mt Palmer Exploration Licence 77/1064 from Red Bluff Pty Ltd on 31 March 2005 for a consideration of \$55,000 payable as \$15,000 cash and 200,000 shares at 20 cents per share.
- Acquisition of Mt Palmer Mining Lease 77/406 from Maincoast Pty Ltd on 31 March 2005 for a consideration of \$55,000 payable as \$15,000 cash and 200,000 shares at 20 cents per share.
- Acquisition of Lake Rebecca Project from Maincoast Pty Ltd on 31 March 2005 for a consideration of \$11,000 payable as \$1000 cash and 50,000 shares at 20 cents per share.

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) The Company listed on the Australian Stock Exchange on 31 March 2005 after raising \$3,000,000 through the issue of 15,000,000 shares under the Prospectus dated 23 December 2005
- (b) The Company began exploration at Mt Carrington Project

After Balance Date Events

The Company issued 1,000,000 25 cent incentive options to a key consultant on 21 July 2005 exercisable on or before 30 June 2008.

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Future Developments, Prospects and Business Strategies

Drake will continue to explore its Mt Carrington Project with a Drill Programme planned for mid to late September 2005. The primary resources of Mt Carrington include Gold, Silver and Copper.

Further exploration of the Mt Palmer and Lake Rebecca projects in Western Australia will occur.

Exploration will begin at Drake's Altona Uranium project in Western Australia.

Environmental Issues

The Company is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

Information on Directors

Mr Brett Fraser	— Chairman (Non-Executive).
Qualifications	— Fellow of Certified Practicing Accountants; Associate Securities Institute of Australia; 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	— 2,450,000 Ordinary Shares in Drake Resources Limited and options to acquire a further 750,000 ordinary shares.
Special Responsibilities	— Member of the Due Diligence Committee and Remuneration Committee.
Directorships held in other listed entities	— Current non-executive director of Brainytoys Limited.
Mr Bob Beeson	— Managing Director
Qualifications	— Bachelor of Science with Honours; PhD
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 750,000 ordinary shares.
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	— 1,950,000 Ordinary Shares in Drake Resources Limited and options to acquire a further 750,000 ordinary shares.
Special Responsibilities	— Member of Due Diligence Committee and Remuneration Committee

REMUNERATION REPORT

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

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

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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 after seeking professional advice from independent external consultants. 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 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.

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Details of Remuneration for Year Ended 30 June 2005

The remuneration for each Director and each of the three executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	Salary, Fees & Commissions	Superannuation Contribution	Cash Bonus	Non-cash Benefits	Options	Total
	\$	\$	\$	\$	\$	\$
Directors						
Brett Fraser (Appointed 30 March 2004)	36,000	675	-	-	-	36,675
Robert Beeson (Appointed 17 November 2004)	21,250	1,912	-	-	-	23,162
Jay Stephenson (Appointed 30 March 2004)	33,500	450	-	-	-	33,950
Graham Nicol (Appointed 30 March 2004 Resigned 17 November 2004)	-	-	-	-	-	-
	90,750	3,037	-	-	-	93,787
Specified Executives						
Chris Blain	7,500	675	-	-	-	8,175
	7,500	675	-	-	-	8,175

Fees paid to Brett Fraser and Mr Stephenson are paid to Wolfstar Group, a company controlled by Mr Fraser and Mr Stephenson. Refer to Note 20: Related Party Transactions for details.

Employment Contracts of Directors and Senior Executives

The employment conditions of the Managing Director, and specified executives are formalised in contracts of employment. Other than the Company Secretary, all executives are permanent employees of Drake Resources Limited.

The employment contracts stipulate a range of one to 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. Any options not exercised before or on the date of termination will lapse.

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DIRECTORS' REPORT

Meetings of Directors

During the financial year, 21 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	DIRECTORS' MEETINGS		DUE DILIGENCE COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
	Brett Fraser	11	11	5
Bob Beeson	7	7		
Jay Stephenson	11	11	5	5
Graham Nicol	3	3		

Indemnifying Officers or Auditor

The Company has paid premiums to insure each of the following 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 \$5,633 for Bob Beeson, \$5,633 for Brett Fraser and \$5,633 for Jay Stephenson.

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	2,250,000
21 July 2005	30 June 2008	\$0.25	1,000,000
			3,250,000

Non-audit Services

There were nil non-audit services provided by the auditors during the financial year.

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Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2005 has been received and can be found on page 11 of the Directors' Report.

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



Brett Fraser
Chairman

Dated this 29th day of September 2005.

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AUDITOR'S INDEPENDENCE DECLARATION



RIX LEVY FOWLER
CHARTERED BUSINESS ADVISORS

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF DRAKE RESOURCES LIMITED

Partners
Phillip Rix FCA
Jon Carcich CA
George Lazarou CA
Ranko Matic CA

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This declaration is made in connection with our audit of the financial report of Drake Resources Limited for the year ended 30 June 2005 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 this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

RIX LEVY FOWLER
Chartered Business Advisors

RANKO MATIC
Partner

DATED at PERTH this 29th day of September 2005



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STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity	
		2005	2004
Revenue from Ordinary Activities	2	26,165	1
Registry Fees		(12,676)	
Accounting and Audit Fees		(5,050)	
Insurance		(19,315)	
Legal Costs		(7,022)	
Director Fees		(12,500)	
People Costs		(31,637)	
Contractors and Consultants		(30,727)	
Computers and Software		(10,689)	
Travel and Accommodation		(29,118)	
Other expenses from ordinary activities		(20,573)	(11,829)
 (Loss)/Profit from ordinary activities before income tax expense	3	 (153,142)	 (11,828)
 Income tax expense	4	 -	 -
 Net (Loss)/Profit		 (153,142)	 (11,828)
 Total changes in equity other than those resulting from transactions with owners as owners		 (153,142)	 (11,828)
 Basic earnings per share (cents per share)	7	 (1.1)	
Diluted earnings per share (cents per share)	7	(0.9)	

The accompanying notes form part of these financial statements.

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Note	Economic Entity	
		2005	2004
CURRENT ASSETS			
Cash at Bank	8	2,282,090	417
Receivables	9	35,592	10,306
TOTAL CURRENT ASSETS		2,317,682	10,723
NON-CURRENT ASSETS			
Property, plant and equipment	10	23,912	
Other financial assets	11	120,000	
Other Assets	12	1,301,308	25,322
TOTAL NON-CURRENT ASSETS		1,445,220	25,322
TOTAL ASSETS		3,762,902	36,045
CURRENT LIABILITIES			
Payables	13	99,803	1,000
Provisions	14	5,609	
TOTAL CURRENT LIABILITIES		105,412	1,000
TOTAL LIABILITIES		105,412	1,000
NET ASSETS		3,657,490	35,045
EQUITY			
Contributed equity	15	3,822,460	46,873
Accumulated Losses	16	(164,970)	(11,828)
TOTAL EQUITY		3,657,490	35,045

The accompanying notes form part of these financial statements.

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity	
		2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(112,669)	(12,262)
Payments for exploration and evaluation		(54,567)	-
Interest received		26,165	1
Net cash provided by (used in) operating activities	18a	(141,071)	(12,261)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(25,215)	-
Purchase of exploration assets		(217,628)	(24,122)
Purchase of Investments		(120,000)	-
Net cash provided by (used in) investing activities		(362,843)	(24,122)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares net of cost		2,785,587	36,800
Net cash provided by (used in) financing activities		2,793,587	36,800
Net increase in cash held		2,281,673	417
Cash at 1 July 2004		417	-
Cash at 30 June 2005	8	2,282,090	417

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(a) Income Tax

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences that arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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.

(b) Property, Plant, and Equipment

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

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 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. Properties held for investment purposes are not subject to depreciation. 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	33%

(c) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave, and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other 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.

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

(d) Cash

For the purpose of the statement of cash flows, cash includes:

— cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and

(e) 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).

(f) 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.

(g) Investments

Shares in listed companies held as current assets are valued by directors at those shares' market value at each balance date. The gains or losses, whether realised or unrealised, are included in profit from ordinary activities before income tax.

Non-current investments are measured on the cost basis. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-listed investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(h) 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 which 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(i) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(j) Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The Company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. An AIFRS committee is overseeing and managing the economic entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The Directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the economic entity's AIFRS committee.

i. Impairment of Assets

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.

The economic entity has reassessed its impairment testing policy and tested all assets for impairment as at 1 July 2005. There are no adjustments to Net Profit required.

ii. Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

The economic entity has determined that there are no adjustments to Net Profit required.

iii. Share based payments – AASB2

The Director's have options in the economic entity. The economic entity will be required to recognise an expense, over the vesting period, for options issued in its Statement of Financial Performance. The standard applies to all share based payments after 7 November 2002 which have not vested as at 1 January 2005. This treatment will result in an increase in expenses in the Statement of Financial Performance. No tax deduction will be allowed for the amount expensed. The adjustment to be made is a reduction in Net Profit of \$11,250 and an increase in equity and reserves of the same amount..

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NOTE 2: REVENUE

	Note	Economic Entity	
		2005 \$	2004 \$
Operating activities			
— Interest received	2a	26,165	1
Total Revenue		<u>26,165</u>	<u>1</u>
(b) Interest revenue from:			
— Financial Institutions		26,165	1

NOTE 3: PROFIT FROM ORDINARY ACTIVITIES

	Note	Economic Entity	
		2005	2004
Profit from ordinary activities before income tax		(153,142)	(11,828)
(a) Expenses			
Depreciation of non-current assets:			
— plant and equipment		1,303	-
Total depreciation		<u>1,303</u>	<u>-</u>
Rental expense on operating leases		2,400	-
(b) Significant Revenues and Expenses			
The following significant revenue and expense items are relevant in explaining the financial performance:			
People Costs		31,637	-
Consultancy		30,727	-
Computers and Software		10,689	-
Share Registry and Listing Fees		12,676	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 4: INCOME TAX EXPENSE

	Economic Entity	
	2005	2004
	\$	\$
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2004: 30%)	(45,942)	(3,548)
Future income tax benefits in respect of tax losses have not been brought to account. These benefits will only be realised if the conditions for deductibility set out in Note 1 occur.	45,942	3,548
Income tax attributable to economic entity	-	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION

(a) Names and positions held of Directors and Specified Executives in office at any time during the financial year are:

Directors

Brett Fraser Chairman — Non-Executive
 Bob Beeson Managing Director
 Jay Stephenson Director — Non-Executive & Company Secretary

Specified Executives

Chris Blain Technical Advisor

(b) Directors' Remuneration

2005	Primary				Post Employment	Equity	Other	Total
	Salary, Fees & Commissions	Super-annuation Contribution	Cash Bonus	Non-Cash Benefits	Super-annuation	Options		
Brett Fraser	36,000	675	-	-	-	-	-	36,675
Bob Beeson	21,250	1,912	-	-	-	-	-	23,162
Jay Stephenson	33,500	450	-	-	-	-	-	33,950
Graham Nicol	-	-	-	-	-	-	-	-
	90,750	3,037	-	-	-	-	-	93,787

(c) Specified Executives' Remuneration

Chris Blain	7,500	675	-	-	-	-	-	8,175
	7,500	675	-	-	-	-	-	8,175

The service and performance criteria set to determine remuneration are included per Note (d).

2004	Primary				Post Employment	Equity	Other	Total
	Salary, Fees & Commissions	Super-annuation Contribution	Cash Bonus	Non-Cash Benefits	Super-annuation	Options		
Brett Fraser	-	-	-	-	-	-	-	-
Bob Beeson	-	-	-	-	-	-	-	-
Jay Stephenson	-	-	-	-	-	-	-	-
Graham Nicol	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Specified Executives' Remuneration								
Chris Blain	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

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(d) Options and Rights Holdings

Number of Options Held by Specified Directors and Executives

	Balance 1.7.2005	Granted as Remun- eration	Options Exercised*	Net Change Other*	Balance 30.6.2005	Total vested 30.6.2005	Total Exercisable 30.6.2005	Total Unexercis- able 30.6.2005
Directors								
Brett Fraser	750,000	-	-	-	750,000	750,000	750,000	-
Bob Beeson	750,000	-	-	-	750,000	750,000	750,000	-
Jay Stephenson	750,000	-	-	-	750,000	750,000	750,000	-
Graham Nicol	-	-	-	-	-	-	-	-
Specified Executives								
Chris Blain	-	-	-	-	-	-	-	-

e. Shareholdings

Number of Shares Held by Parent Entity Directors and Specified Executives

	Balance 1.7.2004	Received as Remun- eration	Options Exercised	Net Change Other*	Balance 30.6.2005
Directors					
Brett Fraser	2,450,000	-	-	-	2,450,000
Bob Beeson	500,000	-	-	-	500,000
Jay Stephenson	1,950,000	-	-	-	1,950,000
Graham Nicol	-	-	-	-	-
Specified Executives					
Chris Blain	100,000	-	-	-	100,000
Total	5,000,000	-	-	-	5,000,000

* Net change other refers to shares purchased or sold during the financial year.

(e) Remuneration Practices

The Company's policy for determining the nature and amount of emoluments of Board members and senior executives of the Company is as follows:

The employment contracts stipulate a range of one to three month resignation periods. The Company may terminate an employment contract without cause by providing 3 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. Any options not exercised before or on the date of termination will lapse.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 6: AUDITORS' REMUNERATION

	Economic Entity	
	2005	2004
	\$	\$
Remuneration of the auditor of the parent entity for:		
— auditing the financial reports	5,000	1,000
	5,000	1,000

NOTE 7: EARNINGS PER SHARE

	Economic Entity	
	2005	2004
	\$	\$
(a) Reconciliation of earnings to net profit or loss		
Net profit	(153,142)	(11,828)
Earnings used in the calculation of basic EPS	(153,142)	(11,828)
Earnings used in the calculation of dilutive EPS	(153,142)	(11,828)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	14,153,336	6,068,902
Weighted average number of options outstanding	2,250,000	2,250,000
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	16,403,336	8,318,902
(c) Classification of securities		
The following securities have been classified as potential ordinary shares and are included in determination of dilutive EPS:		
— options outstanding	2,250,000	2,250,000

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 8: CASH ASSETS

	Note	Economic Entity	
		2005	2004
		\$	\$
Cash at bank		2,282,090	417
		2,282,090	417
Reconciliation of Cash			
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:			
Cash		2,282,090	417
		2,282,090	417

NOTE 9: RECEIVABLES

	Note	Economic Entity	
		2005	2004
		\$	\$
CURRENT			
Sundry Debtors			8,873
GST Receivable		35,592	1,433
		35,592	10,306

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

Economic Entity

	2005	2004
	\$	\$
PLANT AND EQUIPMENT		
NON-CURRENT		
Plant and equipment		
At cost	25,215	-
Accumulated depreciation	(1,303)	-
	23,912	-
Total Property, Plant and Equipment	23,912	-

(a) Movements in Carrying Amounts

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

	Plant and Equipment	Total
Economic Entity:		
Balance at the beginning of year	-	-
Additions	25,215	25,215
Depreciation expense	(1,303)	(1,303)
Carrying amount at the end of year	23,912	23,912

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 11: OTHER FINANCIAL ASSETS

	Economic Entity	
	2005	2004
	\$	\$
NON-CURRENT		
Investments in ASX listed companies at cost	120,000	-

NOTE 12: OTHER ASSETS

	Economic Entity	
	2005	2004
	\$	\$
NON-CURRENT		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phases – at cost	1,300,108	24,122
Company formation costs	1,200	1,200
	1,301,308	25,322

The value of the Company's interest in exploration and evaluation expenditure is dependent upon:

- The continuance of the Company's rights to tenure of areas of interest;
- The results of possible future exploration; and
- The recoupment of costs through successful development and exploitation of the areas of interest, or alternatively by their sale.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 13: PAYABLES	Notes	Economic Entity	
		2005	2004
		\$	\$
CURRENT			
Trade creditors		50,687	1,000
Accrued Expenses		38,591	
Unearned Interest		10,525	-
		99,803	1,000

NOTE 14: PROVISIONS	Notes	Economic Entity	
		2005	2004
		\$	\$
CURRENT			
Employee Entitlements		5,609	-
		5,609	-
Number of employees at year end		2	

NOTE 15: CONTRIBUTED EQUITY	Note	Economic Entity	
		2005	2004
		\$	\$
	19a		

(a) Ordinary shares

At the beginning of the reporting period	46,853	-
Shares issued during the year post consolidation		
— 2,170,000 between 1 July 04 and 30 November 2004	217,000	-
— 4,950,000 on 31 March 2005	990,000	
— 15,000,000 on 31 March 2005	3,000,000	-
Transaction costs relating to share issues	(431,390)	-
Shares cancelled during the year	(3)	
At reporting date	3,822,460	46,853

	No.	No.
At the beginning of the reporting period	7,880,003	
Shares issued during the year		
1 July 2004 - November 2004	2,170,000	
31 March 2005	15,000,000	
31 March 2005	4,950,000	
Shares cancelled during year	(3)	

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NOTE 15: CONTRIBUTED EQUITY	Note	Economic Entity	
		2005	2004
		\$	\$
At reporting date		30,000,000	7,880,003

(b) Options

At 30 June 2005, there were 2,250,000 (30 June 2004: 2,250,000) un-issued ordinary shares for which options were outstanding.

NOTE 16: ACCUMULATED LOSSES	Note	Economic Entity	
		2005	2004
		\$	\$
Accumulated losses at the beginning of the financial year		(11,828)	-
Net loss attributable to the members of the parent entity		(153,142)	(11,828)
Accumulated losses at the beginning of the financial year		(164,970)	(11,828)

NOTE 17: SEGMENT REPORTING

The Company operated solely in one segment during the financial year.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 18: CASH FLOW INFORMATION

	Economic Entity	
	2005	2004
	\$	\$
(a) Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax		
Profit from ordinary activities after income tax	(153,142)	(11,828)
Cash flows excluded from profit from ordinary activities attributable to operating activities		
Non-cash flows in profit from ordinary activities		
Depreciation	1,303	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
Increase/(decrease) in receivables	(25,285)	(1,433)
Increase/(decrease) in other assets	(68,358)	-
Increase/(decrease) in payables	88,278	1,000
Increase/(decrease) in provisions	16,133	-
Cash flow from operations	(141,071)	(12,261)
(b) Non-cash Financing and Investing Activities		
(i) Share Issue		
4,500,000 ordinary shares were issued at \$0.20 as part of the consideration for the Mt Carrington Project		
(ii) Share Issue		
200,000 ordinary shares were issued at \$0.20 as part of the consideration for Mt Palmer ML 77/406		
(ii) Share Issue		
200,000 ordinary shares were issued at \$0.20 as part of the consideration for Mt Palmer EL 77/1064		
(ii) Share Issue		
50,000 ordinary shares were issued at \$0.20 as part of the consideration for the Lake Rebecca Project		

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 19: TENEMENT EXPENDITURE COMMITMENTS

In order to maintain rights of tenure to mining tenements subject to these agreements, the Company would have the following minimum exploration expenditure requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases, are not provided for in the financial statements and are payable:

	2005	2004
	\$	\$
Not longer than one year	63,500	0
Longer than one year, but not longer than five years	40,000	0
Longer than five years	10,000	0
	<hr/>	<hr/>
	113,500	0

If the Company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

NOTE 20: EVENTS SUBSEQUENT TO REPORTING DATE

The Company issued 1,000,000 25 cent incentive options to a key consultant on 21 July 2005 exercisable on or before 30 June 2008.

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NOTE 21: RELATED PARTY TRANSACTIONS

	Economic Entity	
	2005	2004
	\$	\$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
Jay Stephenson, a non-executive Director of Drake Resources supplies the office space for Drake and receives rent from Drake.	2,400	
Wolfstar Group Pty Ltd		
Brett Fraser, a non-executive Chairman of Drake Resources Limited, is a Director and Joint Shareholder with Jay Stephenson of Wolfstar Group Pty Ltd. Mr Stephenson provides Company Secretarial and Chief Financial Officer duties to Drake Resources Ltd, as well as providing corporate advisory advice during the listing process.	57,000	-
<i>Total Fees to Wolfstar Group Pty Ltd included the following items:</i>		
Fees related to Corporate Advisory payable to Wolfstar Group for work related to listing process	45,000	-
Fees related to Company Secretarial services provided by Jay Stephenson.	12,000	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 22: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities comprises:

2005	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Fixed Interest maturing over 1 to 5 years	Non- interest bearing	2005 total
	\$	\$	\$	\$	\$
Financial assets					
Cash Assets	2,282,090	-	-	-	2,282,090
Receivables	-	-	-	35,592	35,592
	2,282,090	-	-	35,592	2,317,682
Weighted average					
Interest rate	5.18%				
Financial Liabilities					
Payables	-	-	-	99,803	99,803
	-	-	-	99,803	99,803
Weighted average interest rate					
Net financial assets	2,282,090	-	-	(64,211)	2,217,879
2004	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Fixed Interest maturing over 1 to 5 years	Non- interest bearing	2004 total
	\$	\$	\$	\$	\$
Financial assets					
Cash Assets	417	-	-	-	417
Receivables	-	-	-	10,283	10,283
	417	-	-	10,283	10,700
Weighted average					
Interest rate	2.25%				
Financial Liabilities					
Payables	-	-	-	1,000	1,000
	-	-	-	1,000	1,000
Weighted average interest rate					
Net financial assets	417	-	-	9,283	9,700

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 23: COMPANY DETAILS

The registered office of the Company is:

Drake Resources Ltd
6/34 York Street
NORTH PERTH WA 6006

The principal place of business is:

Drake Resources
6/34 York Street
NORTH PERTH WA 6006

Drake Resources Limited
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DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

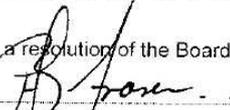
The Directors of the Company declare that:

- 1 The financial statements and notes, as set out on pages 12 to 32 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 2005, and of the performance for the year ended on that date of the Company and economic entity;
- 2 The Chief Executive Officer and Chief Finance 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 Directors' 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.

At the date of this declaration, there are reasonable grounds to believe that the companies that are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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

Chairman


Brett Fraser

Dated this 29 day of September 2005

INDEPENDENT AUDITOR'S REPORT



Independent Auditor's Report

To the Members of Drake Resources Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Drake Resources Limited (the company), for the year ended 30 June 2005.

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 financial position, and of its performance as represented by the results of its operations and cash flows.

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

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

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

Independence

We are independent of the Company, and have met the 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 declaration set out on page 11 of the financial report has not changed as at the date of providing our audit opinion.

Partners
Phillip Rix FCA
Jon Carcich CA
George Lazarou CA
Ranko Matic CA

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Drake Resources Limited
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Independent Auditor's 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 financial position as at 30 June 2005 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



RIX LEVY FOWLER
Chartered Business Advisors



RANKO MATIĆ
Partner

DATED at PERTH this 29th day of September 2005

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.

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CORPORATE GOVERNANCE STATEMENT

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 geology, accountancy, marketing, stockbroking, and manufacturing.

Experience

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

Meetings

The Board meets 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.

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CORPORATE GOVERNANCE STATEMENT

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.

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CORPORATE GOVERNANCE STATEMENT

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, 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.

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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 Brett Fraser and Jay Stephenson.

Directors' Remuneration

Further information on Directors' and executives' remuneration is set out in the Directors' Report and note 5 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 2004 to 30 June 2005, the Company complied with each of the Ten Essential Corporate Governance Principles and Best Practice Recommendations published by the ASX Corporate Governance Council, except for the following Recommendations(See General Comment below):

Recommendations 2.1; 2.2; 4.2; 4.3; 4.4.

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.

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ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1 Shareholding

(a) Distribution of Shareholders

Category (size of holding)	Number Ordinary
1 – 1,000	960
1,001 – 5,000	19,125
5,001 – 10,000	1,554,676
10,001 – 100,000	6,794,699
100,001 – and over	21,630,540
	30,000,000

(b) The number of shareholdings held in less than marketable parcels is 4.

(c) Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

(d) 20 Largest Shareholders — Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. Cazaly Resources Limited	4,500,000	15.00%
2. Almamater Pty Ltd	1,950,000	6.50%
3. William Brooks	1,930,000	6.43%
4. Pinewood Asset Pty Ltd	1,750,000	5.83%
5. Carabooda Pty Ltd	1,000,000	3.33%
6. Estancia Management Pty Ltd	850,000	2.83%
7. Siong Mun Yeo	800,000	2.67%
8. Lanzerac Nominees Pty Ltd	756,500	2.52%
9. Ling Yih Hoon	700,000	2.33%
10. Tyler Street Holdings Pty Ltd	700,000	2.33%
11. Robert Beeson	500,000	1.67%
12. Classy Investments	500,000	1.67%
13. Gracefield Nominees Pty Ltd	500,000	1.67%
14. Hayes Mining Pty Ltd	500,000	1.67%
15. Cerilnus Tan	500,000	1.67%
16. Chee Seng Loo	400,000	1.33%
17. Cazaly Resources Limited	350,000	1.17%

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18	Maincoast Pty Ltd	250,000	0.83%
19.	Monti Minerals	250,000	0.83%
20.	David Mulroney and Elisabeth Mulroney	250,000	0.83%
		18,936,500	63.11%

2 The name of the Company Secretary is Jay Richard Stephenson

3 The address of the principal registered office in Australia is 6/34 York Street NORTH PERTH WA 6006.
Telephone (08) 9228 0703.

4 Registers of securities are held at the following addresses

Western Australia	Computershare Registry Services Level 2, 45 St Georges Terrace PERTH WA 6000
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5 Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

6 Unquoted Securities

Options over Un-issued Shares

A total of 3,250,000 options are on issue. 1,000,000 options are on issue to 1 holders of ordinary securities.
2,250,000 options are on issue to 3 Directors.