

EAGLE BAY RESOURCES N.L.

A.C.N. 051 212 429

ANNUAL REPORT 2006

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CORPORATE DIRECTORY

DIRECTORS	Anthony Rechner James B Craib John T Roy
SECRETARY	Linda Bell
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ACN	051 212 429
AUDITORS	Stantons International Level 1 1 Havelock Street West Perth Western Australia 6005
BANKERS	ANZ Bank 1275 Hay Street, West Perth Western Australia 6005
STOCK EXCHANGE	The Company's shares are quoted on the official list at the Australian Stock Exchange Ltd, ASX Code EBR
SHARE REGISTRY	Advanced Share Registry 110 Stirling Highway Nedlands WA 6009 Telephone (08) 9389 8033
SOLICITORS	Salter Power Level 2, 6 Kings Park Road, West Perth Western Australia

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CHAIRMAN'S REPORT

Dear Shareholders

Exploration has continued at a slightly slower pace this year but a number of our projects are about to come to fruition and are summarised below.

THE COMPANY'S ACTIVITIES

1 URANIUM/COPPER/GOLD EXPLORATION

CULTANA JOINT VENTURE EL3547 and EL 3538

Whyalla South Australia

Minotaur Exploration Ltd had agreed to operate the first phase drilling over the Falcon™ defined target CO1 to 7 and is negotiating a drilling window which does not interfere with operations in the Cultana Army Training Area or Native Title.

1.1 EL 3547 (Cultana) EBR 75%

EL 3547 (Cultana), encompassing an area of 792km² was granted to Eagle Bay Resources and Minotaur Exploration Ltd on 19th April 2006 for 1 year and expires 18th April 2007, subject to renewal.

The Cultana basement inlier is a rare tectonic feature along the eastern margin of the Gawler Craton, and is in the transitional zone between exposed basement further south (Moonter-Wallaroo) to totally concealed basement further north (Carrapateena-Olympic Dam). Exposed basement within the Cultana Inlier includes Gawler Range Volcanics, Hiltaba Suite granite intruded by abundant NW-trending Neoproterozoic dolerite dykes (Gairdner Dyke Swarm) and extrusive equivalent (Beda Volcanics).

Geophysically, the volcanic intrusives and extrusives are moderately to highly magnetic, but all other units have very low degrees of magnetisation. Much of the exposed Cultana Inlier is associated with low gravity values with only the exposed Hiltaba Suite granite having slightly higher gravity values. However, a large, and areally extensive, gravity high occurs west of the prominently defined, faulted western margin of the Cultana Inlier. The main regional gravity feature has not been tested by previous mineral explorations drillholes, and is thought to be caused by Mesoproterozoic basement representing a westwards continuation of Grawler Range Volcanics (GRV) and Hiltaba Suite exposed within the inlier, but where lithologies and/or alteration present are significantly denser.

The gravity feature is a classic target of being large, right locality, potentially right rocks, discrete geophysical feature, totally concealed and not previously drill tested.

1.2 EL 3538 (Myall Creek) EBR 50%

The Myall Creek area is adjacent and west of the Cultana area and is characterised by an extensive pebble layer of angular pebbles of Gawler Range Volcanics and Hiltaba Granite with primary copper mineralisation over an area in excess of 10 square kilometres which the literature says is locally derived from the Cultana Inlier. This pebble shedding off the volcanically active inlier was investigated with two trial electro-magnetic geophysical lines which identified higher grade pods which will be the subject of further geophysical testing prior to drilling.

2. OIL AND GAS EXPLORATION

2.1 VIC/P47 – GIPPSLAND BASIN OFFSHORE VICTORIA EBR 25%

Successful production tests at Longtom-3 which is the adjacent tenement to VIC/P47 have demonstrated for the first time that sandstone reservoirs in the Emperor Subgroup can flow gas at commercial rates.

Over the last week, Longtom-3 operator Nexus Energy Limited announced a number of strong test results, including estimated flow rates of over 75 million cubic feet of gas per day.

It has long been known that the Emperor Subgroup contains hydrocarbons in the Gippsland Basin. However, recognition of the commercial potential of these resources has been limited due to the low permeability of the sandstones and the lack of a successful flow test.

The Longtom-3 result demonstrates that the use of modern 3D seismic can identify gas bearing reservoirs in the Emperor Subgroup and that, with the application of advanced drilling techniques, these reservoirs can produce gas at high flow rates.

Overall, the potential for commercially viable Emperor Subgroup gas developments has been significantly increased – an outcome which has wide-ranging, positive implications for EBR.

In Vic/P47, the 1989 Judith-1 gas discovery is on-trend with Longtom and shares many of its characteristics. The Judith feature is covered by the same 3D seismic survey as Longtom and exhibits similar seismic amplitude responses to gas filled reservoirs. Conceptual appraisal / development projects for Judith will now be investigated.

A 3D seismic interpretation of the Longtom No1 look a like Judith No.1 is being conducted by the operator.

2.2 VIC/P41 GIPPSLAND BASIN OFFSHORE VICTORIA EBR 17.5%

A major 3D seismic survey has been completed and some six potential farminees are reviewing the data with a view to earning an interest in the permit by drilling. Eagle Bay has already farmed out the majority of its cost of the next well.

2.3 PEL-182 ONSHORE PETROLEUM EXPLORATION – COOPER BASIN, S.A – EBR 50.1% AND OPERATOR)

This 1745 sq km Petroleum Exploration Licence – previously held by Santos and located on the prospective but under explored northern margin of the Cooper Basin – was won by your company in 4Q 2004, after strong and competitive bidding from six companies. The Native Title Tribunal approved Eagle Bay's proposal on 15th July 2005 and Environmental Agreements were finalised in August 2006.

EBR has entered into a farm-out agreement with AuDAX, whereby AuDAX will earn 49.9% by free carrying EBR through expenditures of \$4.75MM in this permit. A further farmout has been granted to the Australian Oil Company Ltd (AOC) over a 12.5% interest in the permit which requires AOC to meet 25% of drilling and development costs for the first 5 wells. Farminees and the driller (White Sands) are currently in default of cash calls and their position is under review.

Geological and Geophysical Review (G&G)

EBR contracted Eric Tucker consulting group in Adelaide and Sydney, using very experienced Cooper Basin geologists and geophysicists, to conduct an overall new interpretation of all existing geological and seismic data in the permit.

A review of this work has confirmed the prospectivity of this area, with numerous (11) targets identified, and has highlighted at least 3 major areas for the proposed drilling of up to 4 new exploration wells in 2006. These areas are detailed below together with Eric Tucker's size estimates which would only apply if hydrocarbons were present.

1. Sarahlyn No 1
 - Jurassic Oil plays in the NE of the permit
 - P50 reserves of 9.5 MMBO cumulative
2. Jasmine No 1 and Michelle No 1
 - Permian and Triassic stratigraphic oil plays in the western half of permit
 - P50 reserves of 10.0 MMBO cumulative
3. Vanessa No 1
 - Permian Gas plays in the SE of the permit – low risk
 - P50 reserves of 15 BCF Gas
4. Emily No 1
 - Drilled in 2006 and produced minor high quality crude oil. Cased and suspended pending possible completion

3. ULEY GRAPHITE MINE - PORT LINCOLN, SA (EBR 100%)

History of Company's Graphite Mine

The Uley Graphite project contains a world class resource of high grade flake graphite. Uley is located 23km from Port Lincoln and is well served by existing infrastructure including an established deep water port. Some \$14 million has been spent on mining and the processing plant. A joint venture partner is negotiating to farm into the project.

4. NICKEL EXPLORATION

EBR is negotiating to farm into a number of exploration licences over known nickel mineralisation.

Disclaimer:

The hard rock and mineral information in this report is based on information compiled by Mr Anthony Rechner who is a geologist of the company and a Competent Person as described in Appendix 5A to the ASX Listing Rules. The report accurately reflects the information compiled by Mr Anthony Rechner. This is not a report which can comply with the JORC code.

The Oil and Gas information on PEL-182 in this report is based on information compiled by Mr Ian R Barr who is a geophysicist of the company and a Competent Person as described in Appendix 5A to the ASX Listing Rules. The report accurately reflects the information compiled by Mr Ian R Barr.

Both Mr Eric Tucker and Mr I R Barr and most other publicly listed oil exploration companies use the words "P50 Reserves" in regard to an undrilled exploration prospect. These words indicate the unrisks oil or gas potential of a prospect if oil or gas is present and do not comply with the definition of reserves as set out in the JORC code which is a reporting code for mineral and coal exploration not for oil and gas exploration.

Statements attributed to 3rd parties do not necessarily reflect the opinions of Eagle Bay Resources but are statements by qualified people on the public record and are included for completeness of the company's obligations under continuous disclosure.

The contents of this report are not and should not be used as a substitute for independent professional advice in making an investment decision involving Eagle Bay Resources NL or any of its associated entities. Eagle Bay Resources NL shall not be liable and the reader shall indemnify the company and its Directors for any loss or damage caused by or owing directly or indirectly as a result of the reader's use of the information contained within the documents that comprise this report without first accessing professional advice.

Chapter 19 "definitions" of the ASX listing rules indicate a "pre hydrocarbon reserve stage" however no hydrocarbons are claimed to be present.



ANTHONY RECHNER
CHAIRMAN

Dated: 29 September 2006

DIRECTORS' REPORT

The directors present the following report for the financial year ended 30 June 2006.

DIRECTORS

The directors of Eagle Bay Resources N.L. at any time during or since the end of the financial year are:

Anthony Rechner *BSc, MAusIMM* (Chairman) a founder director since April 1991

Mr Rechner, holds a Bachelor of Science degree in Geology and Physics from the University of Adelaide, South Australia. He is a Fellow of the Australasian Institute of Mining and Metallurgy with over thirty years experience in Australia and overseas working in petroleum search, mineral exploration and mining.

Mr Rechner's previous involvement as Chairman and Managing Director of Windsor Resources N.L., Brunswick N.L. and Geographe Resources Ltd resulted in these companies evolving from small explorers to major producers at Mount Percy, Galtee More and Chalice respectively. Mr Rechner was Operations Manager for West Australian Petroleum and Chevron Oil in North Africa. Within the prior three years, Mr Rechner has not been a director of any other publicly listed company other than Falcon Minerals Ltd from which he retired after the discovery of the Olympia nickel deposit with WMC/BHPB and the acquisition of a major shareholding in Falcon Minerals Ltd by Jubilee Mines.

James Benton Craib *JP CPA* (Non-executive Director) a founder director since April 1991

Mr Craib is an accountant who was formerly responsible for the accounting and Company Secretarial functions of Eagle Bay Resources N.L., Falcon Minerals Ltd and Geographe Resources Ltd. He has had considerable experience as an accountant, mainly in the industrial and production sectors. His application of that experience to the requirements of the Company has been invaluable. Within the prior three years, Mr Craib has not been a director of any other publicly listed company other than Falcon Minerals Ltd.

John Thomas Roy *P.Eng* (Non-Executive Director) appointed 20 December 2005

Mr Roy is a Professional Engineer with 30 years of technical, operation and management experience in the drilling sector of the oil and gas industry. He has managed complex operations in Canada, Australia, North Africa, Asia and Europe. Industry training and experience was firstly gained as an employee of Gulf Oil and Petro-Canada. For the past 20 years Mr Roy has worked as an independent consultant to the industry as owner and sole director of Seawell Engineering Ltd providing skills necessary to plan and execute exploration and development projects for over 20 client operating companies.

Richard Edward Diermayer *Dip. Leg. Stud.* (Executive Director) a founder director since April 1991

Mr Diermayer resigned on 20 December 2005.

As at the date of this report the directors hold the following beneficial interests in the capital of the Company:

	Shares		Options	
	In own name	In other names	In own name	In other names
A Rechner	51	30,823,131	-	2,252,010
J T Roy	1,000,000	-	1,000,000	-
J B Craib	37,200	1,109,500	1,000,000	-

COMPANY SECRETARY

Linda Bell *BA (Hons), ACA, ACIS* (Company Secretary) appointed 31 January 2006

Ms Linda Bell is a Chartered Secretary and Chartered Accountant who has nine years experience in public listed companies. Previously Ms Bell worked for the Australian Securities and Investments Commission and in the accounting profession. Prior to 31 January 2006, Mr Graham Anderson was the Company Secretary.

PRINCIPAL ACTIVITIES

The consolidated entity is actively engaged in exploration for oil and gas and minerals and continues to care for and maintain the Uley graphite mine in South Australia with a view to bringing it into commercial production. There have been no significant changes in the nature of these activities during the year.

REVIEW OF OPERATIONS AND RESULTS

Details of the operations of the consolidated entity are set out in the Chairman's Report on pages 2 to 4.

The consolidated entity incurred an after tax operating loss of \$2,601,202 (2005: loss \$2,567,227).

DIVIDENDS

No dividend is recommended for the current year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

1. During the year 2,818,432 options expiring 31 March 2006 were converted at 12 cents per option.
2. The Company issued a total of 3,250,000 free unlisted employee options to directors and executives and 1,000,000 free listed short dated options to its Oil and Gas Manager.

The short dated options were listed on the ASX with an exercise price of 12 cents, expiring 31 March 2006.

The employee options are unlisted with an exercise price of 15 cents, expiring 30 June 2010.

In the opinion of the directors, there were no other significant changes in the state of affairs of the consolidated entity that occurred during the year under review not disclosed in this report or in the financial statements.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since the year end, \$450,000 has been received from Oil Basins Limited which completed the total amount due of \$500,000 pursuant to the farm in agreement for Oil Basins Limited to acquire a 7.5% interest in VIC P41.

Apart from the above, no matters have arisen since 30 June 2006 that have significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2006, of the consolidated entity constituted by Eagle Bay Resources N.L. and the entities it controls from time to time; or
- (b) the results of those operations; or

the state of affairs, in financial years subsequent to 30 June 2006, of the consolidated entity other than disclosed in Note 21 to the financial statements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the consolidated entity have been set out in the accompanying Chairman's Report on pages 2 to 4.

Further information on the likely developments and expected results of operations of the consolidated entity have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the negotiations.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2006.

There were four directors meetings during the year and four circulating resolutions pursuant to the company's constitution. The number of meetings attended by each director was as follows:

	Attended	Eligible to Attend
A Rechner	4	4
J B Craib	4	4
J T Roy	4	4
R E Diermajer	-	-

ENVIRONMENTAL ISSUES

The Company's policy is to comply with all relevant legislation and best practice conventions in respect of its exploration and mining activities on the tenements it holds.

SHARE OPTIONS

Unissued shares

As at the date of this report unissued ordinary shares of Eagle Bay Resources N.L. under options are as follows:

Date of Expiry	Exercise Price	Number
30 June 2009	15 cents	31,288,345
30 June 2010	15 cents	3,250,000

During the year ended 30 June 2006, 2,818,432 shares were issued on the exercise of options at an exercise price of 12 cents each and 31,650,647 options expired.

Since the year end, no ordinary shares of Eagle Bay Resources N.L. have been issued on the exercise of options.

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

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for all directors and executives of the Company.

Remuneration Policy

The policy of the Company is to pay remuneration of directors and senior executives in cash and in amounts in line with employment market conditions relevant in the mining industry. Minor amounts of employee fringe benefits in the form of employee meals and entertainment are provided as a part of the executives' way of conducting business. In addition, options were granted during the year to link executive rewards to shareholder value.

The Company's performance, and hence that of its directors and executives, is measured in terms of:

1. Company share price growth;
2. Cash raised;
3. Exploration carried out; and
4. Farm-in expenditure attracted.

Non Executive Director Remuneration

The maximum aggregate annual remuneration payable in non-executive fees is currently \$150,000 p.a. as approved by shareholders on 31 March 2006. However, current remuneration is less than this maximum amount.

There are currently two non-executive directors and they each receive remuneration of \$36,000 p.a.

Senior Manager and Executive Director Remuneration

Objective

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

- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the company; and
- Ensure total remuneration is competitive by market standards.

Generally, compensation is provided by the Company to its executive officers, by way of salary and stock option grants. The overall objective is to ensure that executive compensation is fair and reasonable and sufficient to attract and retain qualified and experienced executives.

Structure

Fixed remuneration consists of base cash remuneration and statutory superannuation entitlements. Longer term discretionary remuneration consists of stock option grants. Remuneration levels are based on an overall assessment of individual performance and Company performance.

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The Company believes that encouraging its executives and employees to become shareholders is the best way of aligning their interest to those of its shareholders. In addition, equity participation is a cost effective and efficient incentive as compared to cash bonuses or increased remuneration, particularly given the Company's pre-production status.

The contracts for service between the company and directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement directors and executives are paid employee benefit entitlements accrued to date of retirement. The company may terminate the contracts without cause by providing one month's written notice. Termination payments (if applicable) 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.

Employment Contracts

Anthony Rechner

Term of Agreement – contract expires in September of each year with options to renew.

Consultancy payments of \$240,000 to be reviewed annually by the Board, plus annual directors fees, inclusive of statutory superannuation, of \$36,000, to be reviewed annually by the Board.

Details of the nature and amount of the remuneration of the Directors and highest paid Executives is as follows:

Compensation of Key Management Personnel (Consolidated)

Directors & Named Executives' Remuneration							
	SHORT TERM		POST EMPLOYMENT		EQUITY	TOTAL	% Remuneration consisting of options for the year
	Salary & Fees	Non-Monetary	Super-annuation	Prescribed Benefits	Options (A)	\$	
Directors							
Anthony Rechner - Executive Chairman							
2006	266,161	34,951	2,355	-	27,600	331,067	8.3
2005	230,250	28,732	-	-	57,600	345,314	18.2
Richard Diermajer - Managing Director (resigned 20 December 2005)							
2006	35,435	-	826	-	-	36,261	-
2005	83,000	935	-	-	28,800	112,735	25.5
John Roy - Non Executive Director (appointed 20 December 2005)							
2006	17,578	-	1,582	-	27,600	46,760	59.0
2005	-	-	-	-	-	-	-
Jim Craib - Non Executive Director							
2006	26,161	-	2,355	-	27,600	56,116	49.2
2005	20,000	-	-	-	14,400	34,400	41.9
Executives							
Paul Fromson - Company Secretary (Resigned 23 September 2004)							
2006	-	-	-	-	-	-	-
2005	5,216	-	-	-	-	5,216	-
Graham Anderson - Company Secretary (Appointed 12 October 2004, resigned 31 January 2006)							
2006	21,000	-	-	-	-	21,000	-
2005	27,000	-	-	-	7,200	34,200	21.0
Ian Barr - Manager Oil & Gas							
2006	199,000	-	-	-	30,000	229,000	13.1
2005	161,000	-	-	-	28,800	189,800	15.2
Linda Bell - Company Secretary (Appointed 31 January 2006)							
2006	60,868	-	5,478	-	6,900	73,246	9.4
2005	-	-	-	-	-	-	-
TOTAL							
2006	626,203	34,951	12,596	-	119,700	793,450	
2005	526,466	29,667	-	-	136,800	692,933	

SHARE OPTIONS

(A) Options granted to directors' and officers of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in Eagle Bay Resources Ltd to the following directors and executives of the Company as part of their remuneration.

	Grant Date	Number of options granted	Value per option at grant date	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Total value of options granted exercised & lapsed during the year	% Remuneration consisting of options for the year
Directors								
Anthony Rechner	31-3-06	1,000,000	2.76 cents	27,600	-	-	27,600	8.34 %
John Roy	31-3-06	1,000,000	2.76 cents	27,600	-	-	27,600	59.02 %
Jim Craib	31-3-06	1,000,000	2.76 cents	27,600	-	-	27,600	49.18 %
Executives								
Linda Bell	31-3-06	250,000	2.76 cents	6,900	-	-	6,900	9.42 %
Ian Barr	10-1-06	1,000,000	3.00 cents	30,000	-	30,000	30,000	13.10 %

All options were granted during the financial year, no options have been granted since the end of the financial year.

INDEMNIFICATION

There are indemnities for directors however there are no insurances in regard to their positions.

Mr Anthony Rechner, Chairman and Managing Director of the company, has been charged with a series of offences alleging false and misleading statements in 2003 in relation to the Cultana joint venture project in South Australia. The company has made a provision of \$500,000 in the accounts, based upon the lawyers' estimate of costs. In the event that Mr Rechner is found guilty, he will reimburse any costs incurred by the company.

NON-AUDIT SERVICES

During the year Stantons International, the consolidated entity's auditor, has performed certain other services in addition to their statutory duties. The remuneration for these services is disclosed in Note 15.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the directors of the consolidated entity, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reason:

- (a) the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional Independence*, as they did not involve reviewing or auditing the auditors own work, acting in a management or decision making capacity for the consolidated entity, acting as an advocate for the consolidated entity or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 20.

Signed in accordance with a resolution of the directors dated this 29th day of September 2006.



A. RECHNER
Director

CORPORATE GOVERNANCE STATEMENT

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Eagle Bay Resource NL ("the Company") have adhered to the principles of corporate governance. A description of the main corporate governance practices is set out below. Unless otherwise stated, the practices were in place for the entire year.

Board of Directors

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

As the Board acts on behalf of shareholders, it seeks to identify the expectations of shareholders, as well as other ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The primary responsibilities of the Board include:

- formulation and approval of the strategic direction, objectives and goals of the Company;
- monitoring the financial performance of the Company, including approval of the Company's financial statements;
- ensuring that adequate internal control systems and procedures exists and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed;
- the review of performance and remuneration of Executive Directors; and
- the establishment and maintenance of appropriate ethical standards.

The responsibility for the operation and administration of the Company is carried out by one of the Directors, who operates in an executive capacity, supported by senior professional staff. The Board ensures that this team is suitably qualified and experienced to discharge their responsibilities, and assesses on an ongoing basis the performance of the management team, to ensure that management's objectives and activities are aligned with the expectations and risks identified by the board.

The Directors of the Company are as follows:

Anthony Rechner, BSc, MAusIMM (Executive Chairman) – a director since 10th April 1991

Mr Rechner (age 59), holds a Bachelor of Science degree in Geology and Physics from the University of Adelaide, South Australia. He is a Fellow of the Australasian Institute of Mining and Metallurgy with over thirty years experience in Australia and overseas working in petroleum search, mineral exploration and mining.

Mr Rechner's previous involvement as Chairman and Managing Director of Windsor Resources N.L., Brunswick N.L. and Geographe Resources Ltd resulted in these companies evolving from small explorers to major producers at Mount Percy, Galtee More and Chalice respectively. Mr Rechner was Operations Manager for West Australian Petroleum and Chevron Oil in North Africa and was previously Chairman of Falcon Minerals Ltd.

James Benton Craib JP CPA (Non-executive Director) – a director since 10th April 1991

Mr Craib (age 68) is an accountant who was previously responsible for the accounting and company secretarial functions of Eagle Bay Resources N.L., Falcon Minerals Ltd and Geographe Resources Ltd. He has had considerable experience as an accountant, mainly in the industrial and production sectors. His application of that experience to the requirements of the Company has been invaluable. Mr Craib was also a director of Falcon Minerals Ltd.

John Thomas Roy (Non-Executive Director) – a director since 20th December 2005

Mr Roy (age 57) is a Professional Engineer with 30 years of technical, operation and management experience in the drilling sector of the oil and gas industry. He has managed complex operations in Canada, Australia, North Africa, Asia and Europe. Industry training and experience was firstly gained as an employee of Gulf Oil and Petro-Canada. For the past 20 years Mr Roy has worked as an independent consultant to the industry as owner and sole director of Seawell Engineering Ltd providing skills necessary to plan and execute exploration and development projects for over 20 client operating companies.

Richard Diermajer (Executive Director) – resigned as a Director 20th December 2005

Independent Directors

Under ASX guidelines none of the current board is considered to be independent directors. Mr Rechner is an executive director, Mr Craib is a former employee of the company and Mr John Roy holds securities in the company. The ASX guidelines deem them not to be independent by virtue of their positions or former positions or security holding. The Board is satisfied that the structure of the Board is appropriate for the size of the company and the nature of its operations and is a cost effective structure for managing the company.

Communication to Market & Shareholders

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors and the Company. Information is communicated to shareholders and the market through:

- the Annual Report which is distributed to all shareholders;
- other periodic reports which are lodged with ASX and available for shareholder scrutiny;
- other announcements made in accordance with ASX Listing Rules;
- special purpose information memoranda issued to shareholders as appropriate; and
- the Annual General Meeting and other meetings called to obtain approval for board action as appropriate.

Board Composition

When the need for a new director is identified, selection is based on the skills and experience of prospective directors, having regard to the present and future needs of the Company. Any director so appointed must then stand for election at the next General Meeting of the Company.

Terms of Appointment as a Director

The constitution of the Company provides that a Director other than the Managing Director may not retain office for more than three calendar years or beyond the third annual general meeting following his or her election, whichever is longer, without submitting for re-election. One third of the Directors must retire each year and are eligible for re-election. The Directors who retire by rotation at each annual general meeting are those with the longest length of time in office since their appointment or last election.

Board Committees

In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly audit matters, the nomination of new Directors and the setting, or review, of remuneration levels of Directors and senior executives are reviewed by the Board as a whole and approved by resolution of the Board (with abstentions from relevant Directors where there is a conflict of interest). Where the Board considers that particular expertise or information is required, which is not available from within their number, appropriate external advice may be taken and reviewed prior to a final decision being made by the Board.

Remuneration

Remuneration and other terms of employment of executives, including executive directors, are reviewed periodically by the Board having regard to performance, relevant comparative information and, where necessary, independent expert advice. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Company's operations.

The terms of engagement and remuneration of executive directors is reviewed periodically by the Board. Where the remuneration of a particular executive director is to be considered, the director concerned does not participate in the discussion or decision-making.

Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

Share Trading

Dealings are not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act 2001 prohibits the purchase or sale of securities whilst a person is in possession of inside information.

Code of Conduct

In view of the size of the Company and the nature of its activities, the Board has considered that an informal code of conduct is appropriate to guide executives, management and employees in carrying out their duties and responsibilities.

External Auditors

In late 2003 the Board reviewed the appointment of the external auditor and conducted a tender process for the appointment of the external auditor. As a result the company sought and obtained shareholder approval and changed its external auditor to Stanton Partners (now operating as Stantons International). The previous auditors had been in place for approximately 5 years and had conducted thorough and professional audits. However the Board considered that a change after a 5 year term would contribute to good corporate governance.

ASX Core Principles of Corporate Governance and ASX Guidelines

Australian Stock Exchange Ltd (ASX) has published 10 core principles of corporate governance which it believes underlie good corporate governance together with guidelines to satisfy those core principles. Under ASX listing rules, listed companies are required to provide a statement in their annual reports outlining the extent to which they have followed these best practice guidelines. In the following table the ASX core principles and guidelines are listed in the left hand column, and the company's comment/response is listed in the right hand column.

<p>ASX Principle 1: Lay Solid Foundations <i>Recognise and publish the respective roles and responsibilities of the board and management</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>1.1 Formalise and disclose the functions reserved to the Board and those delegated to management</p>	<p>The Board is comprised of an Executive Chairman and two Non Executive Directors. Management of the company is carried out by the executive director with little or no delegation to staff. The full board meets on a regular basis for both management and board meetings. The current board meets approximately once a month.</p>
<p>ASX Principle 2: Board Structure <i>Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>2.1 A majority of Board members should be independent directors</p>	<p>None of the three directors are independent according to the ASX definition of independence due to one director being executive, one of the non executive directors being a former employee and the other holding shares in the company. In view of the size of the company and the nature of its activities the Board considers that the current Board is a cost effective and practical method of directing and managing the company.</p>
<p>2.2 The chairperson should be an independent director</p>	<p>As stated above the chairman is an executive director and is not considered independent under the ASX definition. The company is mindful of the costs and availability of experienced non- executive independent chairman and is satisfied the current Board structure is appropriate for the size of the company and the nature of its activities.</p>
<p>2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual</p>	<p>As stated above the company operates with an Executive Chairman and Managing Director. The Executive Chairman fulfils the role of Chief Executive Officer.</p>

<p>2.4 The Board should establish a nomination committee</p>	<p>In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly the nomination of new Directors and the setting, or review, of remuneration levels of Directors and senior executives are reviewed by the Board as a whole and approved by resolution of the Board (with abstentions from relevant Directors where there is a conflict of interest).</p>
<p>2.5 The information indicated in Guide to reporting on Principle 2 should be provided. (See Guide Notes at end of table)</p>	<p>Not applicable.</p>
<p>ASX Principle 3: Ethical and responsible decision-making <i>Actively promote ethical and responsible decision-making</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>3.1 The Company should establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to the practices necessary to maintain confidence in the company's integrity, and the responsibility and accountability of individuals for reporting or investigating reports of unethical practices</p>	<p>We are seeking to establish a formal code of conduct to guide executives, management and employees in carrying out their duties and responsibilities.</p>
<p>3.2 Disclose the policy concerning trading in company securities by directors, officers and employees</p>	<p>The Company policy is that of the Corporations Law and ASX Listing Rules which state that dealings are not permitted at any time whilst in the possession of price sensitive information not already available to the market.</p>
<p>3.3 Provide the information indicated in Guide to Reporting on Principles. (See Guide Notes at end of table)</p>	<p>Not applicable – see above.</p>
<p>ASX Principle 4: Financial reporting integrity <i>Have a structure in place to independently verify and safeguard the integrity of the company's financial reporting</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>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</p>	<p>The Managing Director and Company Secretary are required to sign a declaration addressing the integrity of the financial statements and maintenance of financial records in accordance with s286 of the Corporations Act.</p>

<p>4.2 The Board should establish an audit committee</p>	<p>In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly audit matters are reviewed by the Board as a whole and approved by resolution of the Board (with abstentions from relevant Directors where there is a conflict of interest).</p>
<p>4.3 Structure the audit committee so that it consists of:</p> <ul style="list-style-type: none"> - Only non-executive directors - A majority of independent directors - An independent chairperson who is not the chairperson of the Board - At least three members 	<p>Not applicable – see above.</p>
<p>4.4 Create a formal operating charter for the audit committee</p>	<p>Not applicable – see above.</p>
<p>4.5 Understand and provide the information indicated in the Guide to reporting on Principle 4. (See Guide Notes at end of table)</p>	<p>Not applicable – see above.</p>
<p>ASX Principle 5: Timely and balanced disclosure <i>Promote timely and balanced disclosure of all material matters concerning the company</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance</p>	<p>Due to its size and structure the Board is able to meet on a regular basis for both management and board meetings to ensure compliance with ASX Listing Rule disclosure requirements. The full Board is accountable for ASX compliance.</p>
<p>5.2 Understand and provide the information indicated in the Guide to Reporting on Principle 5. (See Guide Notes at end of table)</p>	<p>See above.</p>
<p>ASX Principle 6: Shareholder rights <i>Respect the rights of shareholders and facilitate the effective exercise of those rights</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings</p>	<p>See the section on Communication to Market and Shareholders.</p>
<p>6.2 Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the audit and the preparation and content, of the auditor’s report</p>	<p>It is company policy that the auditor attends the AGM and part of the agenda is the tabling of the accounts and inviting shareholders to ask the directors or the auditor any questions about the report including the audit report.</p>

<p>ASX Principle 7: Risk Management <i>Establish a sound system of risk oversight and management and internal control</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>7.1 The Board or appropriate board committee should establish policies on risk oversight and management</p>	<p>In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees would contribute little to its effective management. Accordingly risk oversight and management issues and policies are reviewed by the Board as a whole and approved by resolution of the Board (with abstentions from relevant Directors where there is a conflict of interest).</p>
<p>7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that:</p> <p>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</p> <p>7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects</p>	<p>The Managing Director and Company Secretary are required to sign a declaration addressing the integrity of the financial statements and maintenance of financial records in accordance with s286 of the Corporations Act.</p> <p>As above</p>
<p>7.3 Information indicated in the Guide to Reporting on Principle 7 should be understood and provided. (See Guide Notes at end of table)</p>	<p>Not applicable for reasons stated above</p>
<p>ASX Principle 8: Enhanced Performance <i>Fairly review and actively encourage enhanced board and management effectiveness</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>8.1 Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives</p>	<p>Due to the size and structure of the Board a formal evaluation process is not conducted.</p> <p>The Company operates with two full time employees. The company uses consultants for geological functions and pays market rates for experienced professionals.</p>
<p>ASX Principle 9: Remunerate fairly <i>Ensure that the level and composition of remuneration is sufficient and reasonable and its relationship to corporate and individual performance is defined</i></p>	<p>Comment/Response by Company</p>

<p>ASX Recommendations</p> <p>9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of these policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.</p>	<p>The company does not have a remuneration policy other than to ensure that Directors, staff and consultants are paid market rates in accordance with their qualifications, experience and contribution to the company. Directors' remuneration for both executive and non executive directors is compared to other "junior explorers" as a guide to industry rates.</p> <p>There are no schemes of retirement benefits.</p>
<p>9.2 The Board should establish a remuneration committee</p>	<p>In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly remuneration matters are reviewed by the Board as a whole and approved by resolution of the Board (with abstentions from relevant Directors where there is a conflict of interest).</p>
<p>9.3 The structure of non-executive directors' remuneration should be clearly distinguished from that of executives</p>	<p>Executive directors are paid consulting fees to entities which they control and these consulting arrangements are governed by formal contracts. Directors' fees are paid separately to all Directors. The different types of remuneration including fringe benefits, superannuation, consulting fees and directors' fees are all clearly outlined in the Annual Report.</p>
<p>9.4 Ensure equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders</p>	<p>All Directors, executives and staff equity-based remuneration has been made only in accordance with shareholder resolution.</p>
<p>9.5 Ensure information indicated in ASX Guide to Reporting on Principle 9 is understood and provided. (See Guide Notes at end of table)</p>	<p>See above</p>
<p>ASX Principle 10: Interest of Stakeholders <i>Recognise the legal and other obligations of all legitimate stakeholders</i></p>	<p>Comment/Response by Company</p>
<p>ASX Recommendations</p> <p>10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders</p>	<p>In view of the size of the Company and the nature of its activities, the Board has considered that an informal code of conduct is appropriate to guide executives, management and employees in carrying out their duties and responsibilities.</p>

ASX Guide to Reporting on Principles

ASX rules requires that the following material should be included in the corporate governance section of the annual report:

- Principles 1 to 10 inclusive - an explanation of any departure from best practice recommendations 1.1 to 10.1
- Principle 2 - the skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report.
- Principle 2 - The names of the directors considered by the board to constitute independent directors and the company's materiality thresholds.
- Principle 2 - A statement as to whether there is a procedure agreed by the board for directors to take independent professional advice at the expense of the company.
- Principle 2 - The term of office held by each director in office at the date of the annual report
- Principle 2 - The names of members of the nomination committee and their attendance at meetings of the committee.
- Principle 4 - Details of the names and qualifications of those appointed to the audit committee, or, where an audit committee has not been formed, those who fulfill the functions of an audit committee.
- Principle 4 - The number of meetings of the audit committee and the names of the attendees.
- Principle 8 - Whether a performance evaluation for the board and its members has taken place in the reporting period and how it was conducted.
- Principle 9 - Disclosure of the company's remuneration policies referred to in best practice recommendation 9.1 and in Box 9.1.
- Principle 9 - The names of the members of the remuneration committee and their attendance at meetings of the committee.
- Principle 9 - The existence and terms of any schemes for retirement benefits, other than statutory superannuation, for non-executive directors.

ASX guidelines also recommend that the following material should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section:

- Principle 1 - a statement of matters reserved for the board or a summary of the board charter or a statement of delegated authority to management.
- Principle 2 - A description of the procedure for the selection and appointment of new directors to the board.
- Principle 2 - The charter of the nomination committee or a summary of the role, rights, responsibilities and membership requirements for that committee.
- Principle 2 - The nomination committee's policy for the appointment of directors.
- Principle 3 - Any applicable code of conduct or a summary of its main provisions. This disclosure may be the same as that required under principle 10.
- Principle 3 - The trading policy or a summary of its main provisions.
- Principle 4 - The audit committee charter.
- Principle 4 - Information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.
- Principle 5 - A summary of the policies and procedures designed to guide compliance with Listing Rule disclosure requirements.
- Principle 6 - A description of the arrangements the company has to promote communication with shareholders.
- Principle 7 - A description of the company's risk management policy and internal compliance and control system.
- Principle 8 - A description of the process for performance evaluation of the board, its committees and individual directors, and key executives.
- Principle 9 - The charter of the remuneration committee or a summary of the role, rights, responsibilities and membership requirements for that committee.
- Principle 10 - Any applicable code of conduct or a summary of its main provisions.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF EAGLE BAY RESOURCES NL

SCOPE

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash-flows, accompanying notes to the financial statements, and the directors' declaration for Eagle Bay Resources NL (the Company) and the consolidated entity for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during the year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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 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

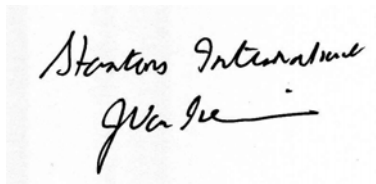
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

AUDIT OPINION

In our opinion, the financial report of Eagle Bay Resources NL is in accordance with:

- a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

STANTONS INTERNATIONAL (Authorised Audit Company)

The image shows a handwritten signature in black ink over a light-colored background. The signature appears to read "J P Van Dieren". Above the signature, the words "Stantons International" are written in a cursive, handwritten style.

J P Van Dieren
Director

Perth, Western Australia
29 September 2006

29 September 2006

Board of Directors
Eagle Bay Resources NL
1st Floor
14 Outram Street
WEST PERTH WA 6005

Dear Sirs

RE: EAGLE BAY RESOURCES NL

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Eagle Bay Resources NL.

As Audit Director for the audit of the financial statements of Eagle Bay Resources NL for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

STANTONS INTERNATIONAL
(Authorised Audit Company)



John Van Dieren
Director

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Eagle Bay Resources N.L, I state that in the opinion of the directors:

- (a) The financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - 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
 - complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2006.

On behalf of the Board



A. RECHNER
Director

Perth, Western Australia
29th September 2006

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	CONSOLIDATED		PARENT ENTITY	
		2006	2005	2006	2005
		\$	\$	\$	\$
Continuing Operations					
Revenue	3	312,202	282,655	308,841	281,745
Depreciation of plant & equipment	4 (b)	(26,252)	(35,755)	(18,851)	(27,598)
Exploration expenditure written off	4 (b)	(1,326,663)	(2,160,385)	(1,326,663)	(2,160,385)
Provision against loan to controlled entity	4 (b)	-	-	(57,191)	(124,234)
Occupancy expenses	4 (b)	(44,140)	(24,019)	(37,930)	(17,216)
Legal fees	4 (b)	(533,844)	-	(533,844)	-
Provision for doubtful debts	4 (b)	(178,380)	-	(178,380)	-
Administration expenses		(804,125)	(629,723)	(736,242)	(562,360)
Expenses from ordinary activities		(2,913,404)	(2,849,882)	(2,889,101)	(2,891,793)
(Loss) before income tax expense		(2,601,202)	(2,567,227)	(2,580,260)	(2,610,048)
Income tax expense	5	-	-	-	-
Net (loss) attributable to members of parent entity	13	(2,601,202)	(2,567,227)	(2,580,260)	(2,610,048)
Basic loss per share	23	(1.14)	(1.43)		

Diluted loss per share is not disclosed as it does not represent an inferior view of the economic entity's performance.

The above income statements should be read in conjunction with the accompanying notes

**BALANCE SHEET
AS AT 30 JUNE 2006**

	Note	CONSOLIDATED		PARENT ENTITY	
		2006	2005	2006	2005
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents		4,191,565	6,772,607	4,152,861	6,719,888
Trade and other receivables	6	221,285	72,267	220,611	71,474
TOTAL CURRENT ASSETS		4,412,850	6,844,874	4,373,472	6,791,362
NON-CURRENT ASSETS					
Property, plant & equipment	8	150,000	181,676	111,886	135,894
Other financial assets	7	25,833	-	25,833	-
TOTAL NON-CURRENT ASSETS		175,833	181,676	137,719	135,894
TOTAL ASSETS		4,588,683	7,026,550	4,511,191	6,927,256
CURRENT LIABILITIES					
Trade & other payables	10	625,978	928,554	623,640	925,356
Provisions	11	58,000	50,000	58,000	50,000
TOTAL CURRENT LIABILITIES		683,978	978,554	681,640	975,356
TOTAL LIABILITIES		683,978	978,554	681,640	975,356
NET ASSETS		3,904,705	6,047,996	3,829,551	5,951,900
EQUITY					
Contributed equity	12	23,000,632	22,662,421	23,000,632	22,662,421
Accumulated losses	13	(19,359,627)	(16,758,425)	(19,434,781)	(16,854,521)
Reserves	13	263,700	144,000	263,700	144,000
TOTAL EQUITY		3,904,705	6,047,996	3,829,551	5,951,900

The above balance sheets should be read in conjunction with the accompanying notes.

EAGLE BAY RESOURCES N.L. ANNUAL REPORT 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments to suppliers and employees	(3,160,290)	(2,045,555)	(3,057,463)	(1,981,309)
Interest received	309,006	135,180	278,841	135,180
Net cash outflow from operating activities (Note b)	(2,851,284)	(1,910,375)	(2,778,622)	(1,846,129)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of plant	3,196	23,183	-	22,273
Proceeds from sale of investments	-	657,942	-	657,942
Payments for plant and equipment	(45,332)	(156,230)	(43,594)	(136,634)
Payments for investments	(25,833)	(520,000)	(25,833)	(520,000)
Loans to controlled entities	-	-	(57,191)	(124,234)
Net cash inflow/(outflow) from investing activities	(67,969)	4,895	(126,618)	(100,653)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares net of raising costs	338,211	6,150,764	338,212	6,150,764
Net cash inflow from financing activities	338,211	6,150,764	338,212	6,150,764
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
	(2,581,042)	4,245,284	(2,567,028)	4,203,982
Cash and cash equivalents at the beginning of the financial year (Note a)	6,772,607	2,527,323	6,719,888	2,515,906
Cash and cash equivalents at the end of the financial year (Note a)	4,191,565	6,772,607	4,152,860	6,719,888

NOTES

(a)

Cash and cash equivalents includes:

Cash at Bank	268,844	6,002,337	230,139	5,949,618
Term Deposits	3,922,721	770,270	3,922,721	770,270
	4,191,565	6,772,607	4,152,860	6,719,888

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

(b)

Reconciliation of net cash outflow from operating activities to operating (loss) after tax

Operating (loss) after income tax	(2,601,202)	(2,567,227)	(2,580,260)	(2,610,048)
Disposal of fixed asset	-	-	-	(13,650)
Profit on sale of plant	3,196	(9,532)	-	(8,623)
Profit on sale of investments	-	(137,942)	-	(137,942)
Increase in provision for rehabilitation of mine property	8,000	4,000	8,000	4,000
Depreciation	26,252	35,755	18,851	27,598
Exploration expenditure incurred	(134,016)	-	(129,631)	-
Share based payments	119,700	144,000	119,700	144,000
Provision against loans to controlled entities	-	-	57,191	124,234
Provision for doubtful debts	178,380	-	178,380	-
Increase/(Decrease) in trade & other payables	(302,576)	680,343	(301,716)	683,279
(Increase)/Decrease in trade & other receivables	(149,018)	(59,772)	(149,137)	(58,977)
Net cash outflow from operating activities	(2,851,284)	(1,910,375)	(2,778,622)	(1,846,129)

The above cash flow statement should be read in conjunction with the accompanying notes.

**Statement of Changes in Equity
FOR THE YEAR ENDED 30 JUNE 2006**

CONSOLIDATED	Issued capital	Accumulated losses	Other reserves	Total equity
	\$	\$	\$	\$
At 1 July 2004	16,511,656	(14,191,197)	-	2,320,459
Issue of share capital	6,150,765	-	-	6,150,765
Cost of share based payment	-	-	144,000	144,000
Profit/(loss) for the period	-	(2,567,228)	-	(2,567,228)
At 30 June 2005	22,662,421	(16,758,425)	144,000	6,047,996

CONSOLIDATED	Issued capital	Accumulated losses	Other reserves	Total equity
	\$	\$	\$	\$
At 1 July 2005	22,662,421	(16,758,425)	144,000	6,047,996
Profit/(loss) for the period	-	(2,601,202)	-	(2,601,202)
Cost of share based payment	-	-	119,700	119,700
Exercise of options	338,211	-	-	338,211
At 30 June 2006	23,000,632	(19,359,627)	263,700	3,904,705

Statement of Changes in Equity (continued)
FOR THE YEAR ENDED 30 JUNE 2006

PARENT	Issued capital	Accumulated losses	Other reserves	Total equity
	\$	\$	\$	\$
At 1 July 2004	16,511,656	(14,244,473)	-	2,267,183
Issue of share capital	6,150,765	-	-	6,150,765
Cost of share based payment	-	-	144,000	144,000
Profit/(loss) for the period	-	(2,610,048)	-	(2,610,048)
At 30 June 2005	22,662,421	(16,854,521)	144,000	5,951,900

PARENT	Issued capital	Accumulated losses	Other reserves	Total equity
	\$	\$	\$	\$
At 1 July 2005	22,662,421	(16,854,521)	144,000	5,951,900
Profit/(loss) for the period	-	(2,580,260)	-	(2,580,260)
Cost of share based payment	-	-	119,700	119,700
Exercise of options	338,211	-	-	338,211
At 30 June 2006	23,000,632	(19,434,781)	263,700	3,829,551

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. CORPORATE INFORMATION

The financial report of Eagle Bay Resources N.L. (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 29th September 2006.

Eagle Bay Resources N.L. is a no liability company incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

The nature of the operations and principal activities of the Group are described in note 22.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on the accruals and historical cost basis, except for financial assets and liabilities which have been measured at fair value.

The financial report is presented in Australian dollars.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and loss for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 2(d).

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Eagle Bay Resources and its controlled entities ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Eagle Bay Resources has control.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

(ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimate and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes option pricing model.

The Group measure the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted.

Mineral Exploration and Evaluation

Acquisition, exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Costs of this nature are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
- ii) exploration and evaluation activities in the area have not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Exploration and evaluation expenditure which does not satisfy this criteria is written off.

(iii) Interest in joint venture operation

The Group's investment in its joint venture operation is accounted for by writing off its contributions to exploration expenditure in the income statement. The Group's interest in its joint venture operation was previously accounted for by recognising the Group's assets and liabilities from the joint venture, as well as expenses incurred by the Group and the Group's share of income earned from the joint venture, in the consolidated financial statements. The change in accounting policy is consistent with the Group's policy on exploration expenditure as set out in note 2(c)(iv) and also reflects that the Group is free carried on certain of the initial exploration costs in the joint venture.

(iv) Exploration expenditure

Exploration, evaluation and relevant acquisition costs are accumulated separately for each area of interest. They comprise acquisition costs, direct exploration and evaluation costs and an appropriate portion of related overhead expenditure. They do not include general overhead or administrative expenditure not having a specific nexus with a particular area of interest.

Costs of this nature are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
- ii) exploration and evaluation activities in the area have not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Exploration and evaluation expenditure which does not satisfy this criteria is written off.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Ultimate recoupment of capitalised expenditure in respect of areas in the exploration and/or evaluation stage is dependent upon successful development and commercial exploitation or alternatively sale, of the respective areas.

Once a decision has been taken to proceed with mine development, all past and future exploration expenditure in respect of that area of interest is aggregated and reclassified as Mine Properties.

(v) Mine Properties

Mine properties represent the accumulation of all exploration, evaluation, and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which a decision to commence mining of a mineral resource has been taken.

Where further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property, only when substantial economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

The net carrying value of each mine property is reviewed regularly and, to the extent to which this value exceeds its recoverable amount that excess is fully provided against in the financial year in which this is determined. The expected net cash flows included in determining recoverable amount are discounted to their present value.

(vi) Foreign currency translation

Both the functional and presentation currency of Eagle Bay and its Australian subsidiaries is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

(vii) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is subsequently the same or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

(viii) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

The carrying amount of plant and equipment is reviewed annually by the directors to ensure it is not in excess of recoverable amount from those 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 been discounted to their present values in determining recoverable amounts.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – over 3 to 10 years

(ix) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(x) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

(xi) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xii) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

These benefits are in the form of options and all issues of options to related parties are subject to shareholder approval.

The cost of these equity-settled transactions are measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-based transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Eagle Bay Resources ('market conditions').

The costs of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-based transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xiii) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(xiv) Income tax

- (a) Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the sheet date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

- (b) Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(xv) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(xvi) Leases

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.

(xvii) Employee benefits

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual 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.

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

(c) IMPACT OF ADOPTION OF AIFRS

AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations

AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Designation of previously recognised financial instruments

Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

Share-based payment transactions

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

(i) Reconciliation of total equity under AGAAP to that under AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS*.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

	CONSOLIDATED		PARENT ENTITY	
	30 June 2005 \$	1 July 2004 \$	30 June 2005 \$	1 July 2004 \$
Total equity under AGAAP	6,097,996	2,366,459	6,001,900	2,313,183
<i>Adjustments to equity</i>				
Provision for rehabilitation (A)	(50,000)	(46,000)	(50,000)	(46,000)
Adjustments to reserves	144,000	-	144,000	-
Recognition of share-based payments	(144,000)	-	(144,000)	-
Total equity under AIFRS	<u>6,047,996</u>	<u>2,320,459</u>	<u>5,951,900</u>	<u>2,267,183</u>

(A) Under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', a full provision for restoration will be recorded where there is a legal or constructive obligation to do so, or where it is more likely than not that such an obligation has arisen from a past event. In establishing the provision, AIFRS requires the likely cash outflows to be discounted to present value. Upon adoption to AIFRS, there is an adjustment to raise a provision for rehabilitation for the Eagle Bay Graphite mine site.

(ii) Reconciliation of loss after tax under AGAAP to that under AIFRS

	CONSOLIDATED	PARENT ENTITY
	Year ended 30 June 2005 \$	Year ended 30 June 2005 \$
Loss after tax as previously reported	(2,419,227)	(2,462,048)
Provision for rehabilitation (A)	(4,000)	(4,000)
Recognition of share-based payment expense (B)	(144,000)	(144,000)
Profit/(loss) after tax under AIFRS	<u>(2,567,227)</u>	<u>(2,610,048)</u>

(A) Under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', a full provision for restoration will be recorded where there is a legal or constructive obligation to do so, or where it is more likely than not that such an obligation has arisen from a past event. In establishing the provision, AIFRS requires the likely cash outflows to be discounted to present value. Upon adoption to AIFRS, there is an adjustment to raise a provision for rehabilitation for the Eagle Bay Graphite mine site.

(B) Under AASB 2 'Share Based Payments', the company recognizes the fair value of the options granted to directors, employees and contractors as remuneration and performance incentives as an expense on a pro-rata basis in the income statement. Share based payment costs are not recognised under AGAAP.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

EAGLE BAY RESOURCES N.L. ANNUAL REPORT 2006

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
3 REVENUE				
Interest received/receivable	279,006	135,180	278,841	135,180
Gain on sale of plant	3,196	9,533	-	8,623
Gain on sale of investment	-	137,942	-	137,942
Joint Venture contribution income	30,000	-	30,000	-
	<u>312,202</u>	<u>282,655</u>	<u>308,841</u>	<u>281,745</u>
4 LOSS BEFORE INCOME TAX EXPENSE				
(a) Individually significant expenses/(revenues) included in loss before income tax expense				
Proceeds on sale of property plant & equipment	5,200	23,183	-	22,273
Carrying amount of property sold	(2,004)	(13,650)	-	(13,650)
Net gain	<u>3,196</u>	<u>9,533</u>	<u>-</u>	<u>8,623</u>
Proceeds on sale of investments	-	657,942	-	657,942
Carrying amount of investments sold	-	(520,000)	-	(520,000)
Net gain	<u>-</u>	<u>137,942</u>	<u>-</u>	<u>137,942</u>
Exploration expenditure written-off in respect of areas of interest not satisfying the criteria to be carried forward in the balance sheet or abandoned	1,326,663	2,160,385	1,326,663	2,160,385
b) Loss before income tax expense has been arrived after charging the following items:				
Depreciation of plant & equipment	26,252	35,755	18,851	27,598
Exploration expenditure written off	1,326,663	2,160,385	1,326,663	2,160,385
Provision against loan to controlled entity	-	-	57,191	124,234
Occupancy expenses	44,140	24,019	37,930	17,216
Legal fees	533,844	-	533,844	-
Provision for doubtful debts	178,380	-	178,380	-
Share based payments expense	119,700	144,000	119,700	144,000
Carrying value of sale of assets	-	533,650	-	533,650
Employee benefits expense	265,618	106,631	224,234	148,545

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

5 INCOME TAX

	Consolidated		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
Numerical reconciliation of income tax expense to prima facie tax payable				
Loss from ordinary activities before income tax expense	(2,601,202)	(2,567,227)	(2,580,260)	(2,610,048)
Prima facie tax benefit on loss from ordinary activities at 30% (2005: 30%)	(780,361)	(770,168)	(774,078)	(783,014)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
- Provision against loans to controlled entities	-	-	17,157	37,270
- Accrued income	998	(998)	998	(998)
- Share-based payments	35,910	43,200	35,910	43,200
- Capital raising costs	(41,637)	(49,398)	(41,637)	(49,398)
- Permanent	1,672	-	1,672	-
- Provisions	(1,277)	-	(1,277)	-
- Doubtful debts	53,514	-	53,514	-
- Tax depreciation timing adjustments	(14,329)	(16,358)	(85)	(413)
- Rehabilitation provision	2,400	1,200	2,400	1,200
Tax effect of current year tax losses for which no deferred tax asset has been recognised				
Income tax expense	743,110	792,522	705,426	752,153
	-	-	-	-
Unrecognised temporary differences				
Deferred tax assets (at 30%)				
<i>On income tax account</i>				
Capital raising costs	94,184	135,820	94,184	135,820
Tax depreciation	109,354	123,687	38	122
Carry forward tax losses	7,344,985	6,601,875	5,036,428	4,331,002
	<u>7,548,523</u>	<u>6,861,382</u>	<u>5,130,650</u>	<u>4,466,944</u>
Capital tax losses	<u>525,988</u>	<u>525,988</u>	<u>108,722</u>	<u>108,722</u>

As at 30 June 2006 the consolidated entity had estimated gross revenue tax losses of \$24,483,283 (2005: \$22,006,249) and estimated gross capital losses of \$1,753,293 (2005: \$1,753,293) available to offset against future taxable income. These tax losses have not been brought to account as the benefit cannot be regarded as being virtually certain of realisation.

The benefit of tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the tax legislation; and

no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

EAGLE BAY RESOURCES N.L. ANNUAL REPORT 2006

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
6 TRADE AND OTHER RECEIVABLES				
Current				
GST refund due	19,478	68,188	18,804	67,395
Prepayments	2,741	1,953	2,741	1,953
Other receivables	377,446	2,126	377,446	2,126
Provision for doubtful debts	(178,380)	-	(178,380)	-
	<u>221,285</u>	<u>72,267</u>	<u>220,611</u>	<u>71,474</u>
7 OTHER FINANCIAL ASSETS				
Non-current				
Shares in unlisted companies	25,833	-	25,833	-
Shares in controlled entities – at cost (refer Note 19)	-	-	3,228,050	3,228,050
Less: provision for diminution in value	-	-	(3,228,050)	(3,228,050)
Loans to controlled entities	-	-	4,748,013	4,690,822
Less provision for non-recovery	-	-	(4,748,013)	(4,690,822)
	<u>25,833</u>	<u>-</u>	<u>25,833</u>	<u>-</u>

The Company holds 361,667 (2005: nil) of the common shares of Oil Basins Limited. These shares are carried in the financial statements at fair value.

EAGLE BAY RESOURCES N.L. ANNUAL REPORT 2006

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
8 PROPERTY, PLANT & EQUIPMENT				
Plant & equipment at cost	269,678	295,400	152,243	170,048
Less: Accumulated depreciation	(119,678)	(113,724)	(40,357)	(34,154)
	<u>150,000</u>	<u>181,676</u>	<u>111,886</u>	<u>135,894</u>
Mine Properties at cost	3,567,448	3,567,448	-	-
Capital works	1,336,322	1,336,322	-	-
	<u>4,903,770</u>	<u>4,903,770</u>	-	-
Less Provision for diminution in value	(4,903,770)	(4,903,770)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Property, plant and equipment	<u>150,000</u>	<u>181,676</u>	<u>111,886</u>	<u>135,894</u>
Movements in property, plant and equipment:				
Balance at beginning of the year	181,676	74,851	135,894	26,858
Additions	45,331	156,230	43,594	150,284
Disposals	(50,755)	(13,650)	(48,751)	(13,650)
Depreciation expense	(26,252)	(35,755)	(18,851)	(27,598)
Balance at end of year	<u>150,000</u>	<u>181,676</u>	<u>111,886</u>	<u>135,894</u>

The directors have provided for a diminution of the assets comprising the Uley graphite project. The mine continues to be held on a care and maintenance basis, with minor refurbishment being carried out pending a decision to re-commence production.

9 EXPLORATION EXPENDITURE

Exploration expenditure incurred net of refunds received on mineral tenements and joint ventures	1,326,663	2,160,385	1,326,663	2,160,385
Less: expenditure written off	(1,326,663)	(2,160,385)	(1,326,663)	(2,160,385)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Capitalised exploration expenditure represents the accumulated cost of acquisition and subsequent cost of exploration and evaluation of the properties less amounts written off and provided for.

10 TRADE AND OTHER PAYABLES

Other creditors and accruals (i)	<u>625,978</u>	<u>928,554</u>	<u>623,640</u>	<u>925,356</u>
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(i) Other creditors and accruals are non-interest bearing and are normally settled on 30 day terms

(ii) There is one full time executive director (2005 – two) and two employees (2005 – one) at reporting date.

11 PROVISIONS

Rehabilitation at Uley Graphite Mine	<u>58,000</u>	<u>50,000</u>	<u>58,000</u>	<u>50,000</u>
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

12 CONTRIBUTED EQUITY	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	NUMBER OF SHARES		\$	\$
(a) Issued and fully paid up capital Ordinary Shares	230,577,999	227,759,567	23,000,632	22,662,421

(b) Movements in issued and paid up ordinary capital of the Company during the past year were as follows:

	NUMBER OF SHARES		\$	\$
Balance at the beginning of year	227,759,567	158,098,424	22,662,421	16,511,656
Issues				
– Pro rata issue at 9 cents each (2005: 9 cents each)	-	56,939,475	-	5,124,553
– Placement at 11 cents each (2005: 11 cents each)	-	12,720,000	-	1,399,200
– Conversion of options	2,818,432	1,668	338,211	225
– Capital raising costs	-	-	-	(373,213)
Balance at the end of year	230,577,999	227,759,567	23,000,632	22,662,421

The Company also has on issue 31,288,345 long dated listed options exercisable at 15 cents per option expiring 30 June 2009 and 3,250,000 unlisted employee options exercisable at 15 cents per option expiring 30 June 2010.

13 RESERVES AND ACCUMULATED LOSSES

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$		\$	
Accumulated losses:				
Balance at the beginning of the year	(16,758,425)	(14,191,197)	(16,584,521)	(14,244,473)
Net loss attributable to members of the parent entity	(2,601,202)	(2,567,228)	(2,580,260)	(2,610,048)
Balance at the end of the year	(19,359,627)	(16,758,425)	(19,434,781)	(16,854,521)
Reserves:				
<i>Share-based payments reserve</i>				
Balance at the beginning of the year	144,000	-	144,000	-
Option expense	119,700	144,000	119,700	144,000
Balance at the end of the year	263,700	144,000	263,700	144,000

Nature and purpose of reserves

The share-based payments reserve is used to recognise the fair value of options issued.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

14. REMUNERATION OF DIRECTORS AND SPECIFIED EXECUTIVES

a) Details of Key Management Personnel

Names and positions held of parent entity directors and executives in office at any time during the financial year are:

Directors

Mr A Rechner	Chairman and Managing Director
Mr J Craib	Non-Executive Director
Mr J T Roy	Non-Executive Director *
Mr R E Diermajer	Executive Director **

Executive

Mr I B Barr	Manager Oil & Gas
Ms L R Bell	Company Secretary ***
Mr G Anderson	Company Secretary ****

* Appointed 20 December 2005

** Retired 20 December 2005

*** Appointed 31 January 2006

**** Retired 31 January 2006

b) Compensation of Key Management Personnel (Consolidated)

The policy of the Company is to pay remuneration of directors and senior executives in cash and in amounts in line with employment market conditions relevant in the mining industry. Minor amounts of employee fringe benefits in the form of employee meals and entertainment are provided as a part of the executives' way of conducting business. In addition, options were granted during the year to link executive rewards to shareholder value.

The Company's performance, and hence that of its directors and executives, is measured in terms of:

1. Company share price growth;
2. Cash raised;
3. Exploration carried out; and
4. Farm-in expenditure attracted.

NON EXECUTIVE DIRECTOR REMUNERATION

The maximum aggregate annual remuneration payable in non-executive fees is currently \$150,000 p.a. as approved by shareholders on 31 March 2006.

There are currently two non-executive directors and they each receive remuneration of \$36,000 p.a.

Full details are detailed in the table below.

SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION

Objective

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

- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the company; and
- Ensure total remuneration is competitive by market standards.

Generally, compensation is provided by the Company to its executive officers, by way of salary and stock option grants. The overall objective is to ensure that executive compensation is fair and reasonable and sufficient to attract and retain qualified and experienced executives.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Structure

Fixed remuneration consists of base cash remuneration and statutory superannuation entitlements. Longer term discretionary remuneration consists of stock option grants. Remuneration levels are based on an overall assessment of individual performance and Company performance.

The Company believes that encouraging its executives and employees to become shareholders is the best way of aligning their interest to those of its shareholders. In addition, equity participation is a cost effective and efficient incentive as compared to cash bonuses or increased remuneration, particularly given the Company's pre-production status.

The contracts for service between the company and directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement directors and executives are paid employee benefit entitlements accrued to date of retirement. The company may terminate the contracts without cause by providing one month's written notice. Termination payments (if applicable) 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.

Employment Contracts

Anthony Rechner

Term of Agreement – contract expires in September of each year with options to renew.

Consultancy payments of \$240,000 to be reviewed annually by the Board, plus annual directors fees, inclusive of statutory superannuation, of \$36,000, to be reviewed annually by the Board.

Details of the nature and amount of the remuneration of the Directors and highest paid Executives is as follows:

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Compensation of Key Management Personnel (Consolidated)

Directors & Named Executives' Remuneration							
	SHORT TERM		POST EMPLOYMENT		EQUITY	TOTAL	% Remuneration consisting of options for the year
	Salary & Fees	Non-Monetary	Super-annuation	Prescribed Benefits	Options (A)	\$	
Directors							
Anthony Rechner - Executive Chairman							
2006	266,161	34,951	2,355	-	27,600	331,067	8.3
2005	230,250	28,732	-	-	57,600	345,314	18.2
Richard Diermajer - Managing Director (resigned 20 December 2005)							
2006	35,435	-	826	-	-	36,261	-
2005	83,000	935	-	-	28,800	112,735	25.5
John Roy - Non Executive Director (appointed 20 December 2005)							
2006	17,578	-	1,582	-	27,600	46,760	59.0
2005	-	-	-	-	-	-	-
Jim Craib - Non Executive Director							
2006	26,161	-	2,355	-	27,600	56,116	49.2
2005	20,000	-	-	-	14,400	34,400	41.9
Executives							
Paul Fromson - Company Secretary (Resigned 23 September 2004)							
2006	-	-	-	-	-	-	-
2005	5,216	-	-	-	-	5,216	-
Graham Anderson - Company Secretary (Appointed 12 October 2004, resigned 31 January 2006)							
2006	21,000	-	-	-	-	21,000	-
2005	27,000	-	-	-	7,200	34,200	21.0
Ian Barr - Manager Oil & Gas							
2006	199,000	-	-	-	30,000	229,000	13.1
2005	161,000	-	-	-	28,800	189,800	15.2
Linda Bell - Company Secretary (Appointed 31 January 2006)							
2006	60,868	-	5,478	-	6,900	73,246	9.4
2005	-	-	-	-	-	-	-
TOTAL							
2006	626,203	34,951	12,596	-	119,700	793,450	
2005	524,466	29,667	-	-	136,800	692,933	

Compensation of Key Management Personnel (By Category)

	Consolidated		Parent Entity	
	2006	2005	2006	2005
Short-Term	661,154	556,133	661,154	556,133
Post Employment	12,596	-	12,596	-
Equity	119,700	136,800	119,700	136,800
	793,450	692,933	793,450	692,933

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Compensation Options Granted and Vested During the Year (Consolidated)

30 June 2006	Terms & Conditions for Each Grant						
	Vested Number	Granted Number	Grant Date	Value per Option at Grant Date	Exercise Price \$	First Exercise Date	Last Exercise Date
Directors							
A Rechner	1,000,000	1,000,000	31.3.06	2.76 cents	15 cents	31.3.06	30.6.10
J Craib	1,000,000	1,000,000	31.3.06	2.76 cents	15 cents	31.3.06	30.6.10
J Roy	1,000,000	1,000,000	31.3.06	2.76 cents	15 cents	31.3.06	30.6.10
Executives							
I Barr	1,000,000	1,000,000	10.1.06	3.00 cents	12 cents	10.1.06	31.3.06
L Bell	250,000	250,000	31.3.06	2.76 cents	15 cents	31.3.06	31.6.10
Total	<u>4,250,000</u>	<u>4,250,000</u>					

30 June 2005	Terms & Conditions for Each Grant						
	Vested Number	Granted Number	Grant Date	Value per Option at Grant Date	Exercise Price \$	First Exercise Date	Last Exercise Date
Directors							
A Rechner	2,000,000	2,000,000	29.3.05	2.88 cents	12 cents	29.3.05	31.3.06
J Craib	500,000	500,000	29.3.05	2.88 cents	12 cents	29.3.05	31.3.06
R Diermajer	1,000,000	1,000,000	29.3.05	2.88 cents	12 cents	29.3.05	31.3.06
Executives							
I Barr	1,000,000	1,000,000	29.3.05	2.88 cents	12 cents	29.3.05	31.3.06
G Anderson	250,000	250,000	29.3.05	2.88 cents	12 cents	29.3.05	31.3.06
Total	<u>4,750,000</u>	<u>4,750,000</u>					

Transactions with Directors or Director Related Entities

Consultancy services

Mr A Rechner is a director and shareholder of Tangram Pty Ltd which has provided exploration and administrative consultancy services to the Company on normal terms and conditions. Amounts paid to this company during the year in respect of professional services rendered are included in remuneration of directors.

EAGLE BAY RESOURCES N.L. ANNUAL REPORT 2006

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Shareholdings

Year Ended 30 June 2006						
Number of Shares held by Directors & Specified Executives						
	Balance 1 July 2005	Received as Remuneration	Options Exercised	Net Change Other	Balance at date of resignation	Balance 30 June 2006
Directors						
Anthony Rechner	9,089,702	-	-	5,223,002	-	14,312,704
Richard Diermajer *	3,209,754	-	-	233,334	3,443,088	-
Jim Craib	1,348,954	-	-	(202,254)	-	1,146,700
John Roy **	-	-	-	1,000,000	-	1,000,000
Specified Executive						
Graham Anderson ***	-	-	-	-	-	-
Linda Bell ****	-	-	-	19,500	-	19,500
Ian Barr	-	-	-	-	-	-
TOTAL	13,648,410	-	-	6,273,582	3,443,088	16,478,904

* Retired 20 December 2005

** Appointed 20 December 2005

*** Retired 31 January 2006

**** Appointed 31 January 2006

Year Ended 30 June 2005					
Number of Shares held by Directors & Specified Executives					
	Balance 1 July 2004	Received as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2005
Directors					
Anthony Rechner	9,089,702	-	-	-	9,089,702
Richard Diermajer	2,582,315	-	-	627,439	3,209,754
Jim Craib	1,348,954	-	-	-	1,348,954
Specified Executive					
Graham Anderson	-	-	-	-	-
Ian Barr	-	-	-	-	-
TOTAL	13,020,971	-	-	627,439	13,648,410

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Option holdings

Year Ended 30 June 2006							
Number of Options held by Directors & Specified Executives							
	Balance 1 July 2005	Granted as Remuneration	Options Exercised	Net Change Other *	Balance 30 June 2006	Exercisable at 15 cents by 30 June 2010	Exercisable at 15 cents by 30 June 2009
Directors							
Anthony Rechner	2,000,000	1,000,000	-	(747,990)	2,252,010	1,000,000	1,252,010
Richard Diermajer	1,000,000	-	-	(1,000,000)	-	-	-
Jim Craib	500,000	1,000,000	-	(500,000)	1,000,000	1,000,000	-
John Roy	-	1,000,000	-	-	1,000,000	1,000,000	-
Specified Executives							
Graham Anderson	250,000	-	-	(250,000)	-	-	-
Linda Bell	-	250,000	-	-	250,000	250,000	-
Ian Barr	1,000,000	1,000,000	-	(2,000,000)	-	-	-
TOTAL	4,750,000	4,250,000	-	(4,497,990)	4,502,010	3,250,000	1,252,010

*These options expired without being exercised

Year Ended 30 June 2005							
Number of Options held by Directors & Specified Executives							
	Balance 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2005	Exercisable at 15 cents by 30 June 2010	Exercisable at 15 cents by 30 June 2009
Directors							
Anthony Rechner	-	2,000,000	-	-	2,000,000	2,000,000	-
Richard Diermajer	-	1,000,000	-	-	1,000,000	1,000,000	-
Jim Craib	-	500,000	-	-	500,000	500,000	-
Specified Executives							
Graham Anderson	-	250,000	-	-	250,000	250,000	-
Ian Barr	-	1,000,000	-	-	1,000,000	1,000,000	-
TOTAL	-	4,750,000	-	1,252,010	4,750,000	4,750,000	-

15 REMUNERATION OF AUDITORS

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Auditors of parent entity:				
Audit and review of financial report	32,315	11,595	32,315	11,595
Other services (tax)	2,585	3,000	2,585	3,000
	<u>34,900</u>	<u>14,595</u>	<u>34,900</u>	<u>14,595</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

16 CONTINGENT LIABILITIES

Mr Anthony Rechner, Chairman and Managing Director of the company, has been charged with a series of offences in relation to statements made in 2003 by the company in relation to the Cultana joint venture project in South Australia. The company has made a provision in the accounts of \$500,000 based on the lawyers' estimates of costs. Actual costs could be considerably different from the amount provided but cannot be accurately quantified at this point in time. In the event that Mr Rechner is found guilty, he will reimburse any costs incurred by the company. These charges are being vigorously defended. If the action against Mr Rechner is successful, the company may incur a potential liability which is unquantifiable at this time.

17 COMMITMENTS

Exploration Commitments

In order to maintain current rights to tenure to exploration and mining tenements, the consolidated entity has the following discretionary exploration expenditure requirements up until expiry of leases. These obligations, which may be varied from time to time and which are subject to renegotiation upon expiry of the lease are not provided for in the financial report and are payable:

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Not later than one year	325,000	1,716,000	325,000	1,716,000
After one year but less than two years	987,000	787,000	987,000	787,000
After two years but less than five years	4,562,000	3,075,000	4,562,000	3,075,000
After five years	-	-	-	-
	<u>5,874,000</u>	<u>5,578,000</u>	<u>5,874,000</u>	<u>5,578,000</u>

Within the oil and gas industry it is common practice for companies to farm-out, transfer or sell a portion of their exploration rights to third parties or to relinquish some exploration and mining tenements altogether, and as a result obligations will be significantly reduced or extinguished altogether. During the year the Company concluded a number of farm-out agreements which resulted in the company only being responsible for a share of the work programs. The farm-in partners also expended considerable funds on the permits during the year which resulted in work programs for certain years being met. The end result is a large reduction in the Company's work program obligations.

The above commitments table reflects these significant farm-in agreements entered into during the year and also the work commitments during the year and clarifies the reduction in commitments reported in the prior year.

These figures do not include the Joint Venture Exploration Commitments disclosed in note 25.

Operating Lease Commitments

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Not later than one year	13,705	32,891	13,705	32,891
After one year but not later than five years	-	13,705	-	13,705
	<u>13,705</u>	<u>46,596</u>	<u>13,705</u>	<u>46,596</u>

There is one operating lease being a rental lease on the Company's premises. The lease expires on 30 November 2006. The lease will be renewed or a lease for new premises entered into.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

18 RELATED PARTIES

Wholly-owned Group Transactions

Eagle Bay Resources N.L. provides working capital to all its wholly-owned subsidiaries aggregating \$57,191 which has been provided against during the financial year. Transactions between the parent entity and the wholly-owned subsidiaries consist of interest free unsecured loans which have no fixed repayment terms.

Other related party transactions

Please refer to notes 14 and 19.

19 INVESTMENT IN CONTROLLED ENTITIES

Details of investments in the ordinary share capital of controlled entities is as follows:

Name of Entity	Place of Incorporation	Equity Holding		Cost of Parent Entity's Investment	
		2006	2005	2006	2005
Parent Entity		%	%	\$	\$
Eagle Bay Resources N.L.	Australia			-	-
Controlled Entities					
Tarcoola Gold Limited	Australia	100	100	3,228,050	3,228,050
Eagle Bay Graphite Pty Ltd	Australia	100	100	-	-
				3,228,050	3,228,050

20 PLACE OF INCORPORATION

The Company and its controlled entities are domiciled and incorporated in Australia and its principal place of business is Perth, Western Australia.

21 EVENTS SUBSEQUENT TO REPORTING DATE

Since the year end, \$450,000 has been received from Oil Basins Limited which completed the total amount due of \$500,000 pursuant to the farmin agreement for Oil Basins Limited to acquire a 7.5% interest in VIC P41.

Apart from the above, there has not arisen in the interval between 30 June 2006 and the date of this report any matter, item, transaction or event of a material or unusual nature, that in the opinion of the directors of the Company, would significantly affect the operations of the Economic Entity, the results of those operations or the state of affairs of the Economic Entity in subsequent financial years.

22 SEGMENT REPORTING

The operations of the consolidated entity involve a single industry segment being that of mining and mineral exploration within Australia.

23 EARNINGS/(LOSS) PER SHARE

	2006	2005
	Cents per Share	
a) Basic loss per share	(1.14)	(1.43)
b) Net loss used in calculating - Basic loss per share	\$ (2,601,202)	\$ (2,567,227)
c) Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	Number 228,423,311	Number 178,849,625

* Diluted loss per share is not disclosed as it does not show an inferior position.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

24 FINANCIAL INSTRUMENTS

a) Interest Rate Risk Exposures

The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return.

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Floating Interest rate		Fixed Interest Less than 1 year		Non-interest Bearing		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets								
Cash and cash equivalents	268,844	6,002,337	3,922,721	770,270	-	-	4,191,565	6,772,607
Trade and other receivables	-	-	-	-	218,544	70,314	218,544	70,314
	<u>268,844</u>	<u>6,002,337</u>	<u>3,922,721</u>	<u>770,270</u>	<u>218,544</u>	<u>70,314</u>	<u>4,410,109</u>	<u>6,842,921</u>
Interest rate	4.50%	2%	5.54%	5.50%				
Financial Liabilities								
Trade and other payables	-	-	-	-	625,978	928,554	625,978	928,554
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>625,978</u>	<u>928,554</u>	<u>625,978</u>	<u>928,554</u>
Interest rate		-		-		-		
Net financial assets/(liabilities)	<u>268,844</u>	<u>6,002,337</u>	<u>3,922,721</u>	<u>770,270</u>	<u>(407,434)</u>	<u>(858,240)</u>	<u>3,784,131</u>	<u>5,914,367</u>

b) Credit Risk Exposures

The economic entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the economic entity's maximum exposure to credit risk.

c) Net Fair Values

The financial assets and liabilities included in current assets and current liabilities in the statement of financial position are carried at amounts that approximate net fair values.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

25 INTEREST IN JOINT VENTURE OPERATIONS

EBR has entered into a farm-out Agreement with AuDAX, whereby AuDAX will earn 49.9% by free carrying EBR through expenditures of \$4.75 million in this permit. A further farmout has been granted to the Australian Oil Company Ltd (AOC) over a 12.5% interest in the permit which requires AOC to meet 25% of drilling and development costs for the first 5 wells. Farminees and the driller (White Sands) are currently in default of cash calls and their position is under review.

For the year ended 30 June 2006, the contribution of the joint venture to the operating loss of the Company and the consolidated entity was nil (2005: \$898,060). The value of the Company's 50.1% share of oil and gas mined during the year was nil (2004: nil).

As stated in note 2(c)(iii), the Group's investment in its joint venture operation is accounted for by writing off its contributions to exploration expenditure in the income statement. The Group's interest in its joint venture operation was previously accounted for by recognising the Group's assets and liabilities from the joint venture, as well as expenses incurred by the Group and the Group's share of income earned from the joint venture, in the consolidated financial statements. The change in accounting policy is consistent with the Group's policy on exploration expenditure as set out in note 2(c)(iv) and also reflects that the Group is free carried on certain of the initial exploration costs in the joint venture.

Joint Venture Exploration Commitments

On the assumption the contractual obligations of all JV parties are met in a timely fashion the consolidated entity has the following exploration expenditure requirements to comply with the work program provided in the joint venture agreement. These obligations, are not provided for in the financial report and are payable:

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Not later than one year	1,500,000	1,500,000	1,500,000	1,500,000
After one year but less than two years	1,975,000	1,975,000	1,975,000	1,975,000
After two years but less than five years	5,000,000	6,500,000	5,000,000	6,500,000
After five years	-	-	-	-
	<u>8,475,000</u>	<u>9,975,000</u>	<u>8,475,000</u>	<u>9,975,000</u>

26 SHARE BASED PAYMENTS

The expense recognised in the income statement in relation to share-based payments is disclosed in note 4.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2006 No.	2006 WAEP	2005 No.	2005 WAEP
Outstanding at the beginning of the year	5,000,000	0.12	-	-
Granted during the year	4,250,000	0.14	5,000,000	0.12
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(6,000,000)	0.12	-	-
Outstanding at the end of the year	<u>3,250,000</u>	<u>0.15</u>	<u>5,000,000</u>	<u>0.12</u>
Exercisable at the end of the year	3,250,000	0.15	5,000,000	0.12

The outstanding balance as at 30 June 2006 is represented by:

- 3,250,000 options over ordinary shares with an exercise price of \$0.15 each, exercisable until 30 June 2010

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The weighted average remaining contractual life for the share options outstanding as at 30 June 2006 is 4 years (2005: less than 1 year).

The exercise price for options outstanding at the end of the year was \$0.15 (2005: \$0.12).

The weighted average fair value of options granted during the year was 2.76 cents (2005: 2.88 cents).

The following table lists the inputs to the model used for the years ended 30 June 2005 and 30 June 2006:

	<u>2006</u>	<u>2005</u>
Dividend yield (%)	-	-
Expected volatility (%)	75%	75%
Risk-free interest rate (%)	5.255%	5.46%
Expected life of options (years)	4	1
Option exercise price (\$)	15 cents	12 cents
Weighted average share price at grant date (\$)	7.6 cents	11.5 cents

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The fair value of the cash-settled options is measured at the grant date using the Black-Scholes options pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss.

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STOCK EXCHANGE INFORMATION

The additional information set out below as it relates to shares and options was applicable at 29th September 2006.

SHARES

DISTRIBUTION OF SHAREHOLDINGS

Size of holding		Number of Holders	Number of Shares
1	-	1000	1,014
1,001	-	5000	507
5,001	-	10000	490
10,001	-	100000	1,505
100,001 and over			377
			<u>165,225,092</u>
			<u>3,893</u>
			<u>230,577,999</u>

Number of shareholders with less than a marketable parcel of \$500 at 5.3c per share 1,813.

TWENTY LARGEST SHAREHOLDERS

1 EERC Australasia Pty Ltd (EERC S/F)	28,319,110	12.281%
2 Avon Management Co Pty Ltd	3,209,754	1.409%
3 Omen Pty Ltd	2,504,021	1.084%
4 Mr Adrian Ernest Cocks (Illawong Investments A/C)	2,500,000	0.997%
5 Ambergate Nominees Pty Ltd	2,299,250	1.185%
6 Mr John Norman Kerr (Gloucester Aust Super Fund A/C)	2,240,308	0.971%
7 Reef Securities Ltd	2,161,105	0.937%
8 Peto Pty Ltd (The 1953 Super Fund (A/C)	2,066,667	0.896%
9 Alister John Forsyth	2,066,667	0.896%
10 Mr Alban Horst Hasslinger	2,000,000	0.867%
11 Tarmel Pty Ltd (Super Fund A/C)	1,890,459	0.819%
12 Century West Holdings Pty Ltd	1,800,000	0.780%
13 Mr Blair Broadbent & Mrs Susan Broadbent (Broadbent Family A/C)	1,795,000	0.778%
14 ANZ Nominees Limited (Cash Income A/C)	1,696,110	0.735%
15 Oxley Graeme Maley	1,695,510	0.735%
16 Lamonde Industries Pty Ltd (Dorizzi Super Fund A/C)	1,581,000	0.685%
17 Dover Gardens Pty Ltd	1,550,000	0.672%
18 Mrs Birgit Smythe	1,500,000	0.650%
19 Nefco Nominees Pty Ltd	1,500,000	0.650%
20 Mrs Christine Myra Whitesman	1,480,000	0.641%
Top 20 largest shareholders	65,854,961	
Total Shares Issued	230,577,999	

SUBSTANTIAL SHAREHOLDERS

Name	No of shares
EERC Australasia Pty Ltd and Omen Pty Ltd	30,823,131

VOTING RIGHTS

All ordinary shares issued by the Company carry one vote per share without restriction.

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OPTIONS Exercisable at 15 cents by 30 June 2009

DISTRIBUTION OF OPTIONHOLDINGS

Size of holding			Number of Holders	Number of Options
1	-	1000	94	50,025
1,001	-	5000	270	789,594
5,001	-	10000	118	904,738
10,001	-	100000	233	8,583,109
100,001 and over			59	20,960,879
			<u>774</u>	<u>31,288,345</u>

TWENTY LARGEST OPTIONHOLDERS

For options exercisable at 15 cents by 30th June 2009

1 TPIC Ltd	2,118,810	6.771%
2 Mr Alban Horst Hasslinger	2,005,000	6.408%
3 Mr Steven Jan Zielinski & Mrs Karen Lyn Zielinski	1,400,000	4.474%
4 Omen Pty Ltd	1,252,010	4.001%
5 Mr Adrian Ernest Cocks (Illawong Investments A/C)	1,126,000	3.598%
6 Synthe Pty Ltd	950,000	3.036%
7 Rosewarne Superannuation Pty Ltd	865,000	2.764%
8 Mr Peter Reynold Ironside (Ironside Super Fund A/C)	691,341	2.209%
9 Zero Nominees Pty Ltd	665,249	2.126%
10 Suwarna Corporation Pty Ltd	580,000	1.853%
11 UURO Pty Ltd	500,000	1.598%
12 Mr Donald Lawrence Valentino & Mrs Judith Ann Valentino	350,000	1.118%
13 Mr Peter Trevor Chappell	338,334	1.081%
14 Mr Nicolas Terranova	315,000	1.006%
15 Avon Management Co Pty Ltd	313,720	1.002%
16 Miss Rouchelle Wykes	300,000	0.958%
17 Peto Pty Lts (The 1953 Super Fund A/C)	283,334	0.905%
18 Mr Anthony Markland O'Connell & Mrs Bernice Dorothy O'Connell	250,000	0.799%
19 Menard Nominees Pty Ltd	250,000	0.799%
20 Western Logistics WA Pty Ltd	245,000	0.783%
Top 20 largest optionholders	14,798,798	
Total Options Issued	31,288,345	

TENEMENT SCHEDULE

PROJECT	TENEMENTS	EBR %	JOINT VENTURER
GOLD SA			
Tregalana	EL 3538 (formally EL 2800)	50%	Minotaur *
Whyalla	EL 3098	100%	Minotaur *
Cultana	EL 3547	75%	Minotaur *
PETROLEUM – VIC Gippsland Basin			
	VIC P41	17.5%	Bass Strait Oil & Gas* 45% Moby Oil & Gas Ltd 30% Oil Basins Ltd 7.5%
	VIC P47	25%	Bass Strait Oil & Gas* 40% Moby Oil & Gas Ltd 35%
	Gilbert	10%	Gippsland Offshore Petroleum Ltd
	Moby	25%	Gravity Capital Ltd
GRAPHITE (SA)			
Uley	ML5561	100%	
	ML5562	100%	
	EL 3414	100%	
	RL66 and RL67	100%	
PETROLEUM Cooper Basin	PEL – 182	37.6%*	Audax Resources Ltd 39.9% Australian Oil Company Ltd 12.5% White Sands Petroleum Ltd 10.0%

* Operator