

LEGEND

MINING LIMITED



ANNUAL REPORT 2006

COMPANY DIRECTORY

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CHAIRMAN'S REPORT

Dear Shareholder,

During the course of 2006, your Directors made considerable progress to restructure the Company's finances, to simplify and strengthen its balance sheet and to assemble a first class exploration and corporate management team. In July 2006 Legend's major shareholder Mr Mark Creasy (per Yandal Investments Pty Ltd), converted his secured convertible note and exercised the resultant options, thereby raising \$5 million. As part of this refinancing, Legend completed an underwritten 1-for-3 rights issue to raise \$6.12 million, which together with the \$5 million from the Yandal options being exercised, raised a total of \$11.12 million.

In addition, in December 2006 Legend completed a \$5 million placement to sophisticated and professional investors.

At Gidgee, Legend's technical team turned its focus from near mine to the exploration of the broader Gidgee tenement holdings, which cover approximately 2,850km² of the Gum Creek Greenstone Belt. Of particular interest was the relatively untested Western Trend where a total of 45,000 metres of drilling was completed.

At Mt Gibson, Legend completed an eight hole diamond drilling program. This was the first dedicated assessment of the base metal potential at Mt Gibson which has resulted in a robust predictive geological model.

At year end, Legend had combined mineral resources of over 1 million ounces of gold, albeit uneconomic at current gold prices. It does however provide considerable leverage to both exploration success and/or further increases in the gold price.

In the Pilbara, Legend completed its first VTEM survey over 25% of its land holdings with six anomalies (base metals targets) being delineated. Follow up exploration work, including a second VTEM survey and a drilling program, is planned for 2007.

Legend now faces a solid, well funded future, with a new well credentialed management team, and with significant tenement holdings at each of its three major projects. In addition, there are production facilities and infrastructure under care and maintenance at Gidgee and Mt Gibson.

I would like to take this opportunity to thank the Legend Board and staff for their hard work during 2006 and look forward to their continued support in 2007.



Chairman
16th March 2007

DIRECTORS' REVIEW OF ACTIVITIES

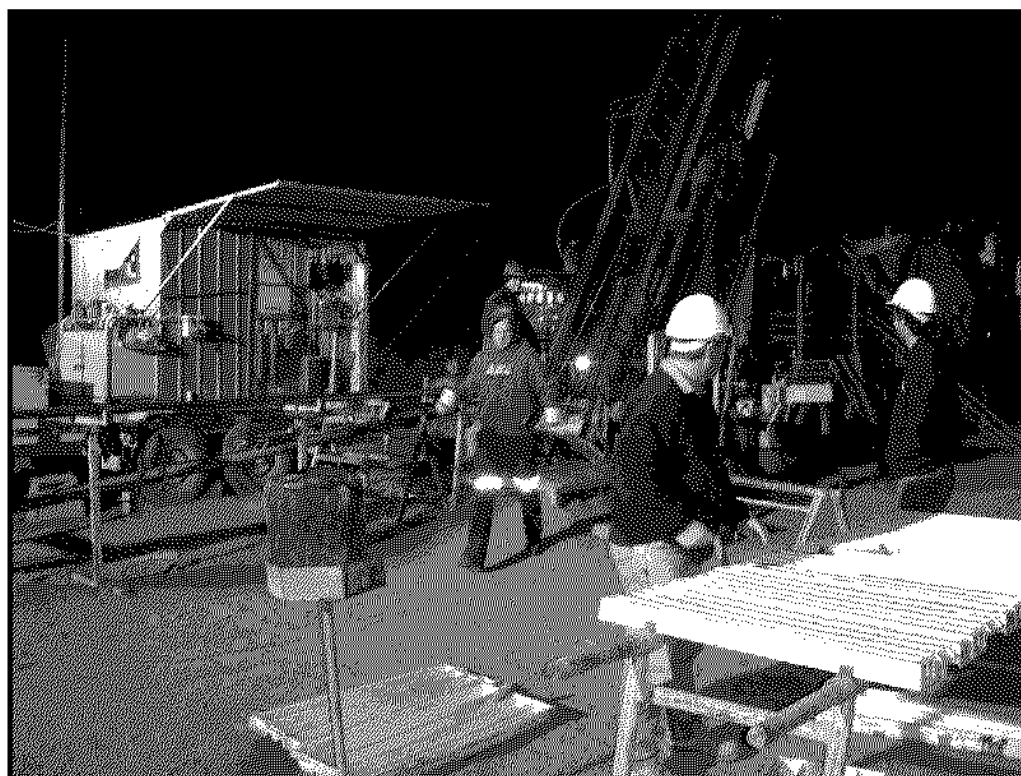
PROJECTS AND PRINCIPAL EXPLORATION TARGET TYPES (METAL GROUPS)

Legend Mining Limited (Legend) owns and operates three major mineral exploration projects in Western Australia (Figure 1), two of which have substantial, wholly-owned mining infrastructure (mill, crusher, accommodation units, airstrip).

Legend Projects - 2006

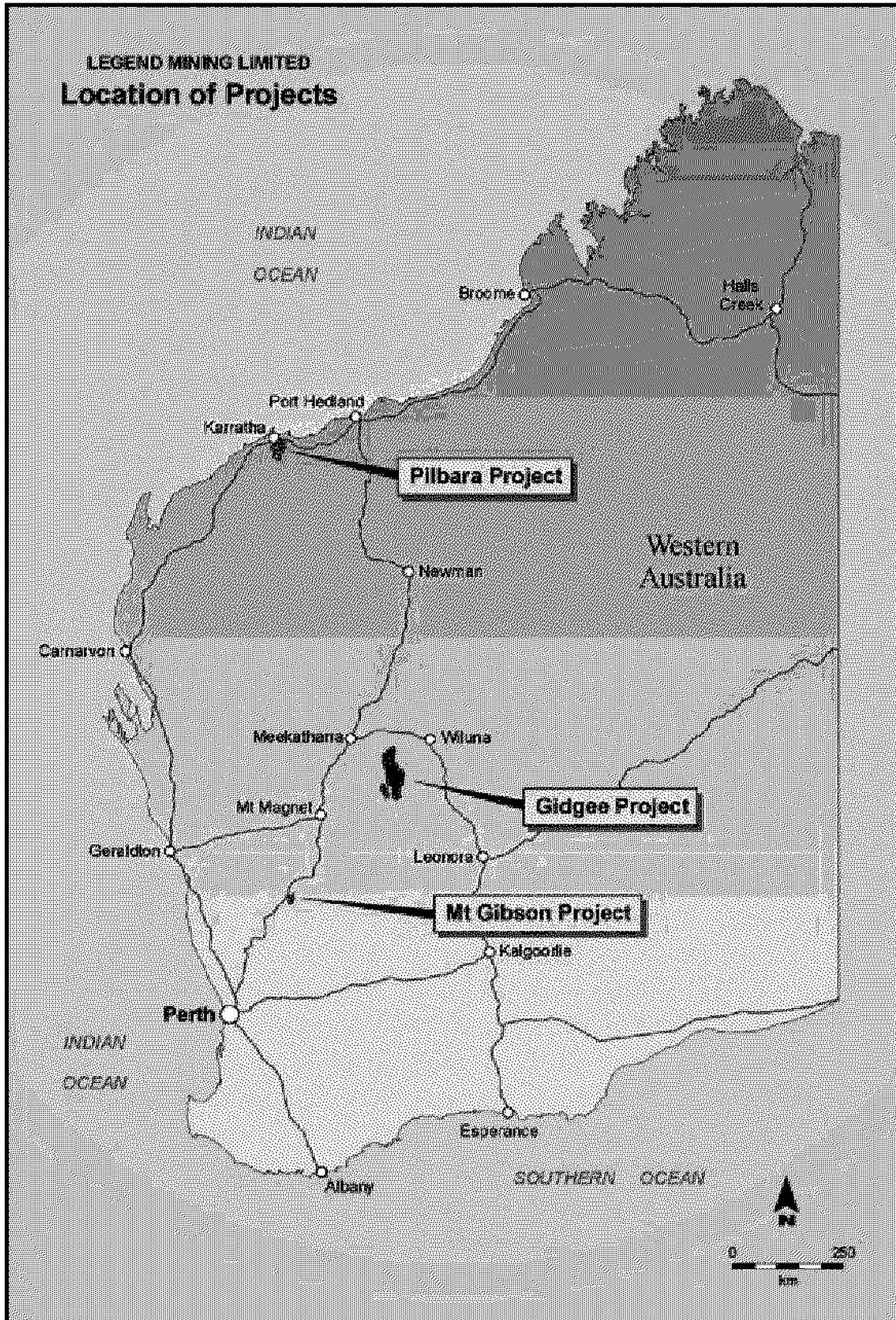
PROJECT	TARGET METAL GROUPS	INFRASTRUCTURE
Pilbara	nickel-copper, zinc-copper, copper-gold	no
Gidjee	gold	yes
Mt Gibson	zinc-copper-gold	yes

Night-Shift Diamond Drilling at Mt Gibson



DIRECTORS' REVIEW OF ACTIVITIES

Figure 1 Location of Projects



DIRECTORS' REVIEW OF ACTIVITIES

PILBARA PROJECT

Legend's Pilbara Project area lies between 7km and 50km south of Karratha in the northwest of Western Australia (Figure 1). The company holds exploration rights through granted tenements, tenement applications and joint venture agreements over 724km² of land in the emerging West Pilbara base metal district. A breakdown of land equity interests is tabulated below:-

PILBARA PROJECT EQUITY INTERESTS	AREA (km ²)
Legend (100%)	565
Radio Hill Joint Venture: Legend earning 70% from Australian Nickel Mines NL	141
Munni Munni Joint Venture: East Coast Minerals NL 69.88% - Legend 30.12%	18
TOTAL	724

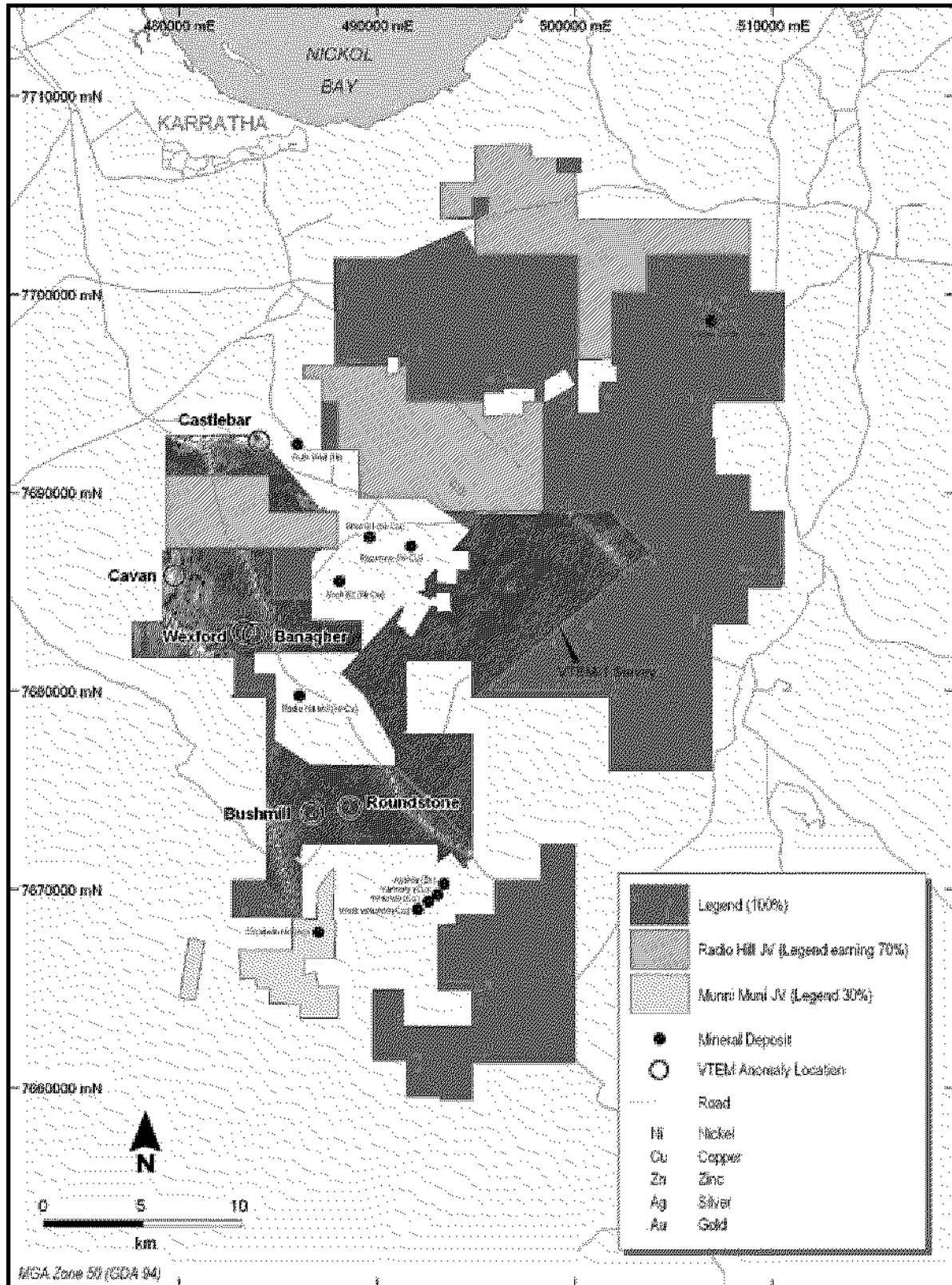
Legend consolidated its exploration land position in the Pilbara during most of 2006 and on the 5 October 2006 announced the recommencement of active field programs. An airborne Versatile Time-Domain Electro-Magnetic (VTEM) survey was flown over an area of approximately 180km², which led to the delineation of six new base metal targets. The location of these targets is shown on Figure 2 and a brief description of each is tabulated below:-

TARGET	BRIEF DESCRIPTION
Bushmill	Discrete VTEM anomaly in an area of thin soil cover on the sheared western margin of the Maitland Complex. Anomaly may represent a nickel-copper sulphide deposit within 100m of surface.
Roundstone	Discrete VTEM anomaly in an area of thin alluvium cover on the northern margin of the Maitland Complex near the intersection of east-trending and northeast-trending mafic dykes. Anomaly may represent a nickel-copper sulphide deposit within 100m of surface.
Wexford & Banagher	Two discrete VTEM anomalies 500m apart located near the lower contact of the Dingo Complex. Historical exploration conducted in 1971 in the general area identified gossans (oxidised sulphide) that assayed up to 0.39% nickel and 0.37% copper. Anomaly may represent nickel-copper sulphide deposits within 100m of surface.
Cavan	Located 1.5km west of the known limits of the Dingo Complex, this broad VTEM anomaly is located in an area of alluvium cover and coincides with the interpreted position of a major shear. The magnetic anomaly at the same location could reflect a buried intrusive complex. The source of this anomaly is interpreted to be deeper than 150m below surface.
Castlebar	VTEM anomaly located 2km west of the Ruth Well nickel-copper deposit. Historical exploration conducted in 1998 reported surface samples containing up to 5.8% copper, 600m to the north of the centre of the VTEM anomaly. Anomaly may represent either a copper or nickel-copper sulphide deposit within 100m of surface.

Legend is currently working to expedite the grant of exploration licences and plans to conduct follow-up ground Electromagnetic Surveys over each target in early 2007. Drilling is scheduled to commence in the second Quarter 2007 subject to the grant of exploration title. A second VTEM survey (VTEM-2) has also been scheduled for early 2007.

DIRECTORS' REVIEW OF ACTIVITIES

Figure 2 Pilbara Project Area Showing VTEM Anomalies



DIRECTORS' REVIEW OF ACTIVITIES

GIDGEE PROJECT

The Gidgee Project area is located 640km northeast of Perth, Western Australia (Figure 1) and comprises a consolidated land holding of 2,850km² that covers approximately 80% of the Gum Creek Greenstone Belt.

Over 1.3 million ounces of gold has been produced from the Gum Creek Greenstone Belt, which remains one of the most productive gold districts of the Southern Cross Province. Rocks of the Southern Cross Province are also prospective for nickel although very little nickel exploration has ever been conducted in the Gum Creek Greenstone Belt.

The Gidgee Project area is centred around the 650,000 tonnes per annum (tpa) Gidgee mill, which is currently on care and maintenance. At the end of 2005 it became apparent that the gold resource of 2.58 million tonnes (Mt) grading 5.91 grams per tonne (g/t) would not convert into reserve at the prevailing gold price. Therefore, the principal exploration strategy in 2006 became the search for, and discovery of a new oxide gold deposit that could underpin the recommissioning of the Gidgee mill. The goal was to make a discovery that had the potential to deliver a reserve life of greater than three years.

Exploration in 2006 focussed on the Castor, Helios and North Splay target areas located in the northwest of the project area (Figure 3) on land acquired through the acquisition of Gidgee Resources Limited in November 2004. The aim of this exploration was to delineate new gold systems using rapid reconnaissance exploration drilling. Drilling statistics for the 85km² covered by this program are tabulated below:-

Drilling Statistics - 2006

TYPE	NO. OF HOLES	TOTAL METRES	AVERAGE DEPTH	HOLE DENSITY
Aircore	802	45,887	57m	12 – 20 per km ²

The results from this drilling program were generally disappointing, although a number of zones of low-order gold anomalism were identified. No follow-up of these anomalies is planned at this stage as any new gold resource in this area is unlikely to have a positive impact on the recommissioning of the Gidgee mill.

Other priority target areas (e.g. Victory Splay, Figure 3) could not be accessed in 2006 while the tenements remained in application. Grant of this additional exploration title is expected in the first half of 2007.

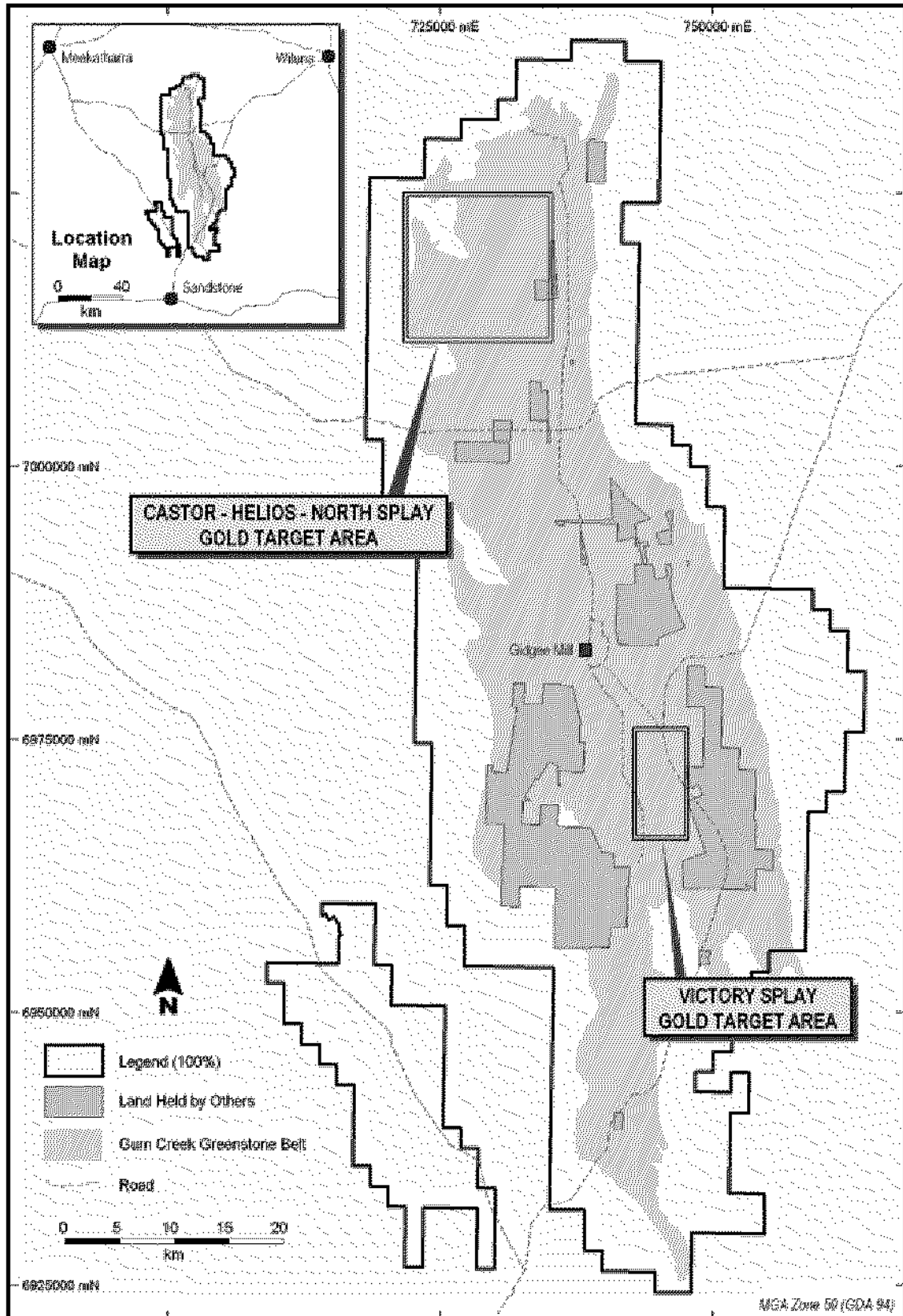
Legend is absolutely committed to a disciplined approach to gold exploration in the Gum Creek Greenstone Belt and will only follow-up gold anomalies that have a reasonable probability of delivering gold resource that may convert into reserve at the prevailing gold price.

In 2007, gold exploration is planned to move into new target areas (e.g. Victory Splay) closer to the Gidgee mill, subject to the grant of exploration licences.

Work has also commenced on unlocking value from the nickel potential.

DIRECTORS' REVIEW OF ACTIVITIES

Figure 3 Gidgee Project Area Showing Gold Target Areas



DIRECTORS' REVIEW OF ACTIVITIES

MT GIBSON

The Mt Gibson project is located 290km northeast of Perth in Western Australia (Figure 1), and was acquired from Oroya Mining Limited in November 2005, principally to pursue the untested volcanic-hosted massive sulphide deposit potential (VHMS, predominant metals include zinc-copper-gold) beneath the oxide gold pits.

The Mt Gibson project is situated 100km south of the world-class Golden Grove VHMS deposit owned by Oxiana Limited, and in common with Golden Grove, falls within the Yalgoo-Singleton Greenstone Belt in the southern Murchison Province.

Mt Gibson operated for 12 years as a gold mine from 1986 following the discovery of gold in surface laterite. The operation produced 870,000 ounces of gold from 16.5Mt of ore at an average grade of 1.68g/t. Legend, through a study conducted by Dr S Carras of Carras Mining Pty Ltd, estimated the residual gold Mineral Resource (Indicated and Inferred) to be 8.7Mt at 1.98g/t gold for 559,000 ounces. This Mineral Resource does not convert into Mineral Reserve at the prevailing gold price and the operation remains on care and maintenance.

Base Metals

Legend conducted an eight hole diamond drilling program in 2006, which represented the first dedicated assessment of the base metal potential beneath the plus 5km long near-surface zinc anomaly broadly coincident with the main line of open pits. This plus 500ppm zinc anomaly had been defined by approximately 7,000 shallow holes drilled to evaluate the near-surface laterite gold deposit. Importantly, prior to the work by Legend, only 21 holes had ever been drilled deeper than 300m vertically beneath the zinc anomaly, and these were designed to test gold targets. Of the holes that were drilled, Barrick hole BGRCD-009 drilled in early 2004, returned 4m at 13.4% Zn from 775m to 779m.

Legend's 2006 drilling results support the premise that Mt Gibson represents a large, fertile VHMS mineral system with potential to host a base metal orebody. The predictive geological model developed from this drilling has led to the identification of important trends (vectors) to new opportunities within this large base metal system. All eight holes contain visible zinc sulphide, principally associated with sedimentary units layered within the volcanic sequence. Significant zinc intercepts and an overview of the interpreted geology is presented in Figure 5. Drilling statistics are tabulated below:-

Drilling Statistics - 2006

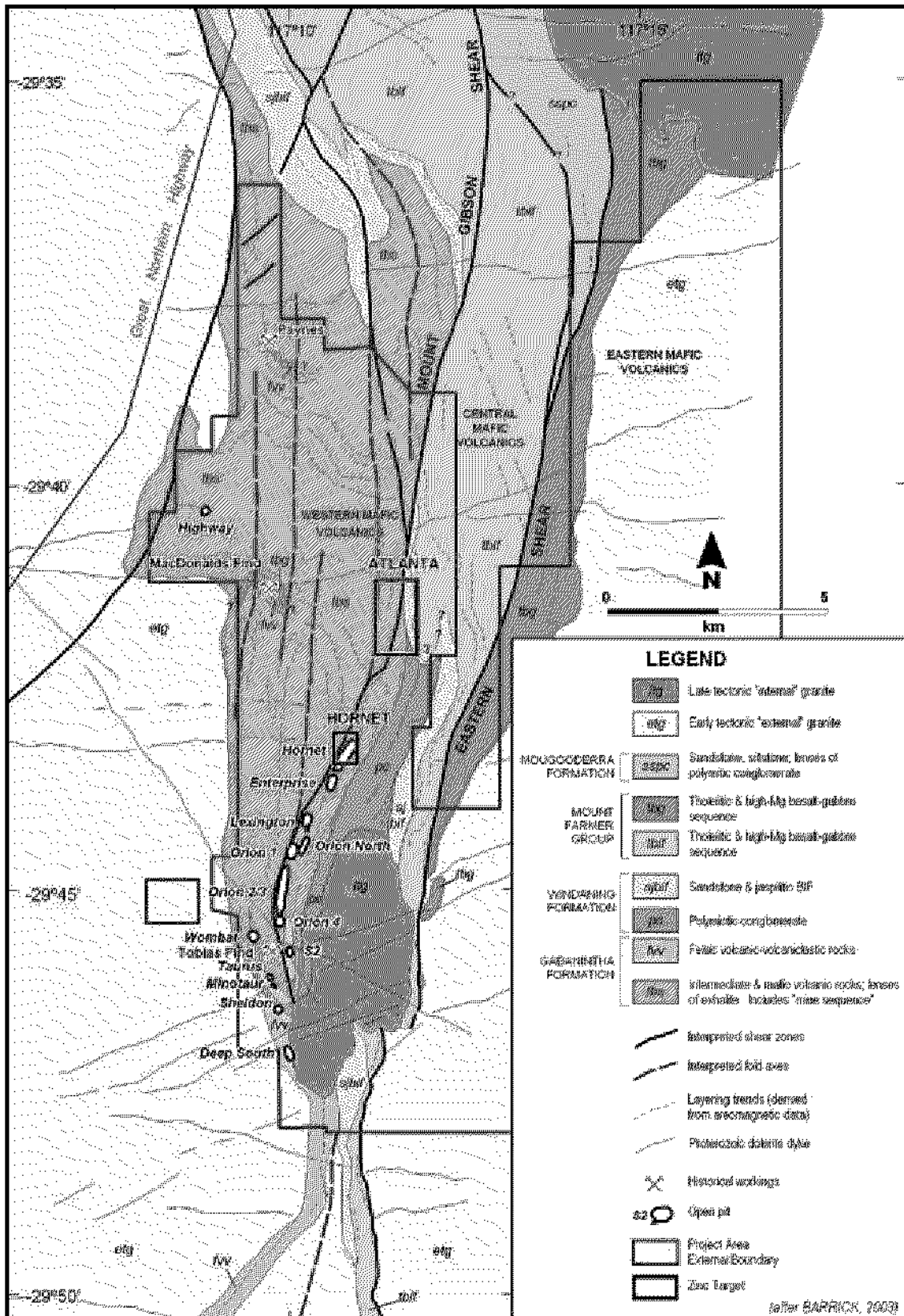
NO. OF HOLES	RC PRE-COLLAR	DIAMOND	TOTAL METRES
8	552m	5,426m	5,978m

Hornet Target Zone: This target zone (Figures 4 & 5) is interpreted to represent a robust discovery opportunity due to the presence of boron-rich exhalite (rock type known to be associated with several major base metal deposits) and elevated zinc geochemistry which are interpreted to be located on or near a basin margin fault. Follow-up drilling is scheduled in 2007.

Atlanta Target Zone: This target zone (Figure 4) is more conceptual in nature and is interpreted to represent another basin-margin structure – a geological setting similar to Hornet, although drilling is required to develop and confirm aspects of the predictive model.

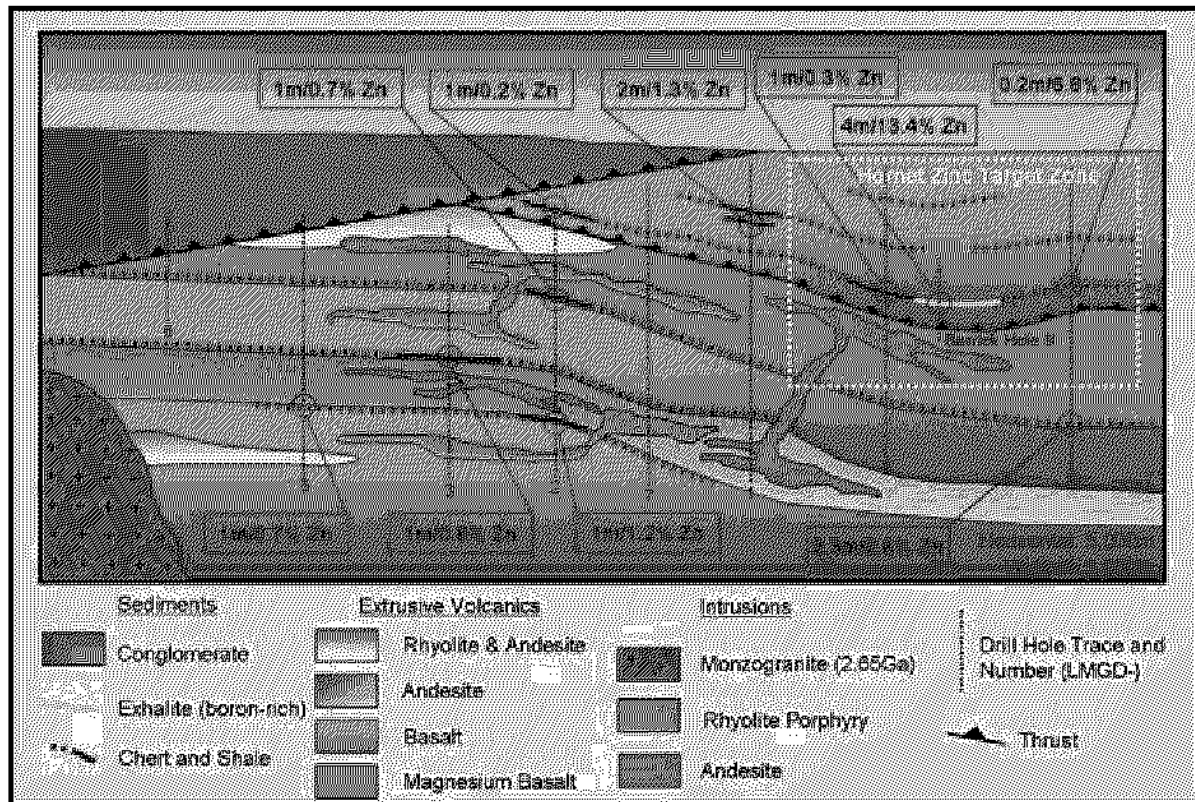
DIRECTORS' REVIEW OF ACTIVITIES

Figure 4 Mt Gibson Project Area Showing District Geology and Zinc Targets



DIRECTORS' REVIEW OF ACTIVITIES

Figure 5 Mt Gibson Schematic Longsection Showing Significant Zinc Intercepts



Gold

During the course of the deep drilling for base metals, a number of plus 6g/t gold intercepts were identified (Table 1) associated with the following vein types:-

Type 1: steep-dipping veins, also anomalous in lead and zinc, and aligned with the principal shear fabric, which are interpreted to reflect remobilized syngenetic mineralization.

Type 2: relatively flat-lying to shallow dipping veins that are not anomalous in copper, lead or zinc, which are interpreted to represent a later, overprinting gold event.

The wide-separation of adjoining holes and the relatively narrow widths of most veins makes it difficult to develop a vein array model. However, a program to drill test the relatively flat-lying, high-grade, gold-bearing quartz veins as a possible underground mining opportunity is being considered.

DIRECTORS' REVIEW OF ACTIVITIES

Mt Gibson (Gold) Continued

Table 1 Mt Gibson Gold Intercepts Above 6g/t Gold

HOLE NUMBER	FROM (m)	TO (m)	INTERVAL (m)	GOLD (g/t)
LMGD-002	446	447	1	17.6
LMGD-003	202	203	1	47.9
LMGD-005	310	311	1	6.8
LMGD-005	456	457	1	7.3
LMGD-005	716	719	3	37.0
LMGD-007	495	496	1	19.8
LMGD-007	709	710	1	18.8

Sampling based on nominal 1m intervals of half-NQ core. Gold (Au) determined by fire assay with ICP/OES finish. Samples assayed at Ultra Trace Pty Ltd, Perth.

REVIEW OF 2006 MINERAL PRODUCTION

GIDGEE

The Mill remained on care and maintenance for the entire period and no ore was mined or processed. Residual gold was recovered from the processing circuit and Legend's portion (552 ounces) was sold for \$449,752.

MT GIBSON

The Mill remained on care and maintenance for the entire period and no ore was mined or processed.

DIRECTORS' REVIEW OF ACTIVITIES

STATEMENT OF RESOURCES

SUMMARY

The Mineral Resource inventory has been reviewed by Dr S Carras of Carras Mining Pty Ltd, an acknowledged expert in this field.

In 2006, the Mineral Resource inventory was downgraded by 20,500 ounces (2%) compared to the estimate at the 31 December 2005. This was principally due to a reassessment of the Gidgee Mineral Resource which took into account the following:-

- reinterpretation of the shape of the Premium lode
- re-estimation of costs and underground mining method.

A summary of the total Mineral Resource inventory at the 31 December 2006 is tabulated below:-

TOTAL MINERAL RESOURCE - 31 DECEMBER 2006

PROJECT	MEASURED (Au ozs)	INDICATED (Au ozs)	INFERRED (Au ozs)	TOTAL (Au ozs)
Gidgee	9,000	288,300	192,300	489,600
Mt Gibson	0	547,200	11,800	559,000
Total (ozs)	9,000	835,500	204,100	1,048,600

Au ozs: ounces of contained gold

GIDGEE

CHANGE IN GIDGEE MINERAL RESOURCE DURING THE 12 MONTHS TO 31 DECEMBER 2006

RESOURCE CATEGORY	31 DECEMBER 2005	31 DECEMBER 2006
Measured (Au ozs)	9,000	9,000
Indicated (Au ozs)	312,900	288,300
Inferred (Au ozs)	188,200	192,300
TOTAL	510,100	489,600

MT GIBSON

The Mt Gibson Mineral Resource estimate remains unchanged when compared to 31 December 2005.

DIRECTORS' REVIEW OF ACTIVITIES

GIDGEE PROJECT - MINERAL RESOURCES – 31 DECEMBER 2006

Prospect	JORC Classification	Tonnes (t)	Grade (g/t)	Au (ozs)	COG (g/t)	Comments
OPEN-PIT NON-REFRACTORY RESOURCE						
Premium	Indicated	374,000	2.78	33,400	Note 1	MMW and MD applied. (0m to 120m depth)
Swift	Indicated	504,000	3.08	50,000	Note 1	MMW and MD applied. (0m to 100m depth)
Howards	Indicated	50,000	3.79	6,100	1.3	Based on pit shells and mine design.
Eagles Peak	Indicated	13,000	3.46	1,400	1.2	Based on pit shells and mine design.
Orion	Indicated	22,000	3.04	2,200	1.3	Based on pit shells and mine design.
Deep South	Indicated	20,000	3.02	1,900	1.2	Based on pit shells and mine design.
Toedter	Indicated	41,000	3.38	4,500	1.3	Based on pit shells and mine design.
Specimen Well	Indicated	24,000	5.35	4,100	1.3	Based on pit shells and mine design.
TOTAL INDICATED		1,048,000	3.07	103,600		

UNDERGROUND NON-REFRACTORY RESOURCE						
Swan Bitter	Measured	27,000	10.42	9,000	3.0	MMW and MD applied.
TOTAL MEASURED		27,000	10.42	9,000		
Swan Bitter	Indicated	29,000	10.71	10,000	3.0	MMW and MD applied.
Premium	Indicated	147,000	12.80	60,300	3.0	MMW and MD applied. (120m to 250m depth)
Omega	Indicated	31,000	9.20	9,200	3.0	
TOTAL INDICATED			11.97	79,500		
Swan Bitter	Inferred	65,000	7.96	16,600	3.0	MMW and MD applied.
Swift	Inferred	93,000	9.20	27,500	3.0	MMW and MD applied. (80m to 130m depth)
Kingfisher	Inferred	390,000	6.80	85,300	3.0	
Premium	Inferred	14,000	9.00	4,100	3.0	
TOTAL INFERRED		562,000	7.39	133,500		

UNDERGROUND REFRACTORY RESOURCE						
Wilson	Indicated	448,000	7.30	105,200	3.5	MD applied. Above 230m depth.
Wilson	Inferred	286,000	6.40	58,800	3.5	MD applied. Below 230m depth.
TOTAL REFRACTORY		734,000	6.95	164,000		

TOTAL MEASURED	27,000	10.42	9,000
TOTAL INDICATED	1,703,000	5.26	288,300
TOTAL INFERRED	848,000	7.06	192,300

TOTAL RESOURCE	2,578,000	5.91	489,600
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Mineral Resources are estimated using open-cut mining parameters unless otherwise stated.

MD = mining dilution, MMW = minimum mining width, COG = lower cut-off grade.

Note 1 (see table above): COGs are 1.0g/t in Oxide and Transitional material and 1.5g/t in Fresh material.

DIRECTORS' REVIEW OF ACTIVITIES

MT GIBSON PROJECT - MINERAL RESOURCES – 31 DECEMBER 2006

Prospect	JORC Classification	Tonnes (t)	Grade (g/t)	Au (ozs)	COG (g/t)	Comments
Saratoga	Indicated	1,747,000	1.76	98,900	1.0	MMW and MD applied.
Orion 2/3	Indicated	2,681,000	1.92	166,000	1.0	MMW and MD applied.
Enterprise	Indicated	411,600	1.92	25,400	1.0	MMW and MD applied. Enterprise, Enterprise West and Yorktown were previously reported as Midway.
Enterprise West	Indicated	449,900	1.76	25,500	1.0	
Yorktown	Indicated	494,200	1.67	26,500	1.0	
Hornet	Indicated	1,167,000	2.05	77,000	1.0	MMW and MD applied.
Capricorn	Indicated	269,900	2.25	19,500	1.0	MMW and MD applied.
Mt Gibson Laterite	Indicated	116,000	1.15	4,300	1.0	
Highway South	Indicated	111,000	2.73	9,800	1.0	Internally diluted.
Aquarius	Indicated	85,700	2.59	7,100	1.0	Internally diluted.
Orion 1	Indicated	524,000	2.03	34,200	1.0	Undiluted.
Howler	Indicated	380,600	2.55	31,200	1.0	Internally diluted.
Tobias Find	Indicated	130,400	2.58	10,800	1.0	Internally diluted.
Sheldon	Indicated	105,200	3.25	11,000	1.0	Internally diluted.
TOTAL INDICATED		8,673,500	1.96	547,200		
Orion 2/3 Underground	Inferred	60,500	4.40	8,600	3.0	MMW and MD applied.
Hornet Underground	Inferred	20,000	5.00	3,200	3.0	
TOTAL INFERRED		80,500	4.55	11,800		
TOTAL INDICATED+INFERRED		8,754,000	1.98	559,000		

Mineral Resources are estimated using open-cut mining parameters unless otherwise stated.

MD = mining dilution, MMW = minimum mining width, COG = lower cut-off grade.

The information relating to Exploration in this report is based on data compiled by Mr Robert Perring, a Member of the Australian Institute of Geoscientists, whose services are provided through Quadramin. Mr Perring has sufficient relevant experience in the styles of mineralisation and types of deposits under consideration and in the activity he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code) and consents to the inclusion of the information in the form and context in which it appears.

The information on Mineral Resources at Mt Gibson and Gidgee contained in this report is based on data compiled by Dr S Carras of Carras Mining Pty Ltd, a Fellow of The Australasian Institute of Mining and Metallurgy. Dr Carras has sufficient experience which is relevant to the style of mineralisation and types of deposits under consideration and in the activity he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and consents to the inclusion of the information in the form and context in which it appears.

DIRECTORS' REVIEW OF ACTIVITIES

CORPORATE ACTIVITIES

Rights Issue and Refinancing

Resolutions concerning a new capital raising, comprising a 1-for-3 non-renounceable rights issue and a debt-for-equity swap to raise a combined total of \$11.12 million, were approved by shareholders at the Annual General Meeting in Perth on 30th May 2006. The debt-for-equity swap involved the early conversion of the convertible note held by Mr Mark Creasy's Yandal Investments Pty Ltd (Yandal) and the immediate exercise of 125 million options issued to Yandal as a result of the conversion. In addition and as approved by shareholders, Yandal was granted 125,000,000 early conversion options as consideration for the early exercise of the convertible note options. At Yandal's request 25,000,000 of these early conversion options were issued to Messrs Ryan, Wilson and Perring (see item 4 below). The fully underwritten rights issue Prospectus dated 6 June 2006 closed on 7 July 2006. Legend completed this rights issue to raise \$6.12 million on 20 July 2006. The following securities were issued pursuant to this fund raising:

1. 125,000,000 fully paid ordinary shares, resulting from the conversion by Yandal of the \$5,000,000 Convertible Note.
2. 125,000,000 fully paid ordinary shares, resulting from the exercise of options attaching to the convertible note at an exercise price of 4 cents and an expiry date of 31st May 2009, being exercised on the 20th July 2006.
3. 100,000,000 unlisted options with an exercise price of 4 cents and an expiry date of 31st July 2008 to Yandal.
4. 25,000,000 unlisted options with an exercise price of 4 cents and an expiry date of 31st July 2008 to Messrs Ryan (15,000,000 options), Wilson (5,000,000 options) and Perring (5,000,000 options), directors of the Company.
5. 152,886,107 fully paid ordinary shares at 4 cents.
6. 152,886,107 listed options with an exercise price of 4 cents and an expiry date of 31st July 2008.
7. 7,500,000 unlisted options, with an exercise price of 4 cents and an expiry date of 31st July 2008 to Findlay & Co Stockbrokers.

Repayment of Debt to Yandal

In July 2006, following completion of the rights issue and refinancing, Legend repaid to Yandal \$3,000,000 and all outstanding interest. As a consequence of this repayment, all mortgages and security held by Yandal over the assets of the Company were withdrawn and discharged.

Placement

In December 2006 Legend completed a \$5 million placement to sophisticated and professional investors. The following securities were issued:

62,500,000 fully paid ordinary shares at 8 cents each.

CORPORATE GOVERNANCE STATEMENT

Legend is committed to implementing and maintaining the highest standards of corporate governance. In determining what those standards should involve, Legend has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. Legend is pleased to advise that its practices are largely consistent with those of the ASX guidelines. Where Legend did not have certain policies or committees recommended by the ASX Corporate Governance Council in place for the entire reporting period, we have identified when such policies or committees were introduced. Where Legend has not adopted the relevant recommendation, the reasons are set out below.

1. BOARD OF DIRECTORS

1.1 Role of Board

The Legend Board of Directors (the Board) is responsible for setting the strategic direction and establishing and overseeing the policies and financial position of Legend, and monitoring the business and affairs on behalf of its shareholders, by whom the Directors are elected and to whom they are accountable.

Further, the Board takes specific responsibility for:-

- the appointment and removal of the Managing Director and the Company Secretary,
- the final approval of management's development of corporate strategies and performance objectives,
- the review and modification of internal controls with respect to internal and legal compliance and its code of conduct,
- monitoring and evaluating senior management's performance and the implementation of Legend's corporate strategies and objectives,
- ensuring that appropriate resources are available to achieve strategic objectives,
- the appointment of Directors to the Board and ensuring those Directors receive a letter of appointment identifying their duties and specific responsibilities, Legend's expectations of them, their remuneration and their obligations with respect to advising Legend of any compliance matters.

The Board is responsible for the overall Corporate Governance of Legend including the strategic direction, establishing goals for management and monitoring the achievement of these goals.

On 26 October 2006 Legend established a formal Board Charter as per Recommendation 1.1. In broad terms, the Board is accountable to the shareholders and must ensure that Legend is properly managed to protect and enhance shareholders' wealth and other interests. The Board Charter sets out the role and responsibilities of the Board of Legend within the governance structure of Legend and its related bodies corporate (as defined in the *Corporations Act*).

1.2 Terms of Office of Directors

The constitution of Legend Mining Limited specifies that 1/3 of the Directors, excluding the Managing Director, shall rotate on an annual basis.

CORPORATE GOVERNANCE STATEMENT

1.3 Composition of the Board

The Directors of Legend in office at the date of this statement are:-

Name	Position	Expertise
Michael Atkins	Non Executive Chairman	Commercial
Mark Wilson	Managing Director	Commercial and Mining
Robert Perring	Executive Director - Technical	Exploration and Mining
Dermot Ryan	Non Executive Director	Exploration and Mining

The composition of the Board is determined using the following principles:-

- the Board comprises four (4) Directors and may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified, and
- the Board should comprise Directors with a broad range of expertise.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board selects a panel of candidates with the appropriate expertise and experience. Potential candidates are identified by the Board with advice from an external consultant, if necessary. The Board then appoints the most suitable candidate who must stand for election at a General Meeting of Shareholders.

1.4 Responsibilities of the Board

In general, the Board is responsible for, and has authority to determine all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of Legend.

In general, the principal functions and responsibilities of the Board include the following:-

Leadership of the Organisation: Overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees,

Strategy Formulation: working with senior management to set and review the overall strategy and goals for the Company and ensure that there are policies in place to govern the operation of the Company,

Overseeing Planning Activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long term budgets,

Shareholder Liaison: ensuring effective communication with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company,

CORPORATE GOVERNANCE STATEMENT

1.4 Responsibilities of the Board (contd)

Monitoring, Compliance and Risk Management: overseeing the Company's risk management, compliance and accountability systems and monitoring and directing the financial and operational performance of the Company,

Company Finances: approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting,

Human Resources: appointing, and where appropriate, removing the Managing Director (MD) and Chief Financial Officer (CFO) as well as reviewing the performance of the MD and monitoring the performance of senior management in their implementation of the Company's strategy,

Ensuring the Health, Safety and Well-Being of Employees: developing a policy, and in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees,

Delegation of Authority: delegating appropriate powers to the MD to ensure the effective day-to-day management of the Company,

Environmental Management: developing a policy, and in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's environmental management systems.

1.5 Monitoring of Board Performance

The performance of all Directors is reviewed by the Chairman on an ongoing basis and any Director whose performance is considered unsatisfactory is asked to retire. The Chairman's performance is reviewed by the other Board members.

Legend has established firm guidelines to identify the measurable and qualitative indicators of the Director's performance during the course of the year. Those guidelines include:

- attendance at all Board meetings. Missing more than three consecutive meetings without reasonable excuse will result in that Director's position being reviewed,
- attendance at Legend's Shareholder Meetings. Non-attendance without reasonable excuse will result in that Director's position being reviewed.

Legend does not comply with Recommendation 2.1 which states the majority of Directors should be independent directors. Mr Atkins is the only Director considered independent and acts as Chairman of the Company, as required under Recommendation 2.2.

1.6 Independent Professional Advice

Each Director has the right, in connection with his/her duties and responsibilities as a Director, to seek independent professional advice at Legend's expense. However, prior approval of the Chairman is required, which will not be unreasonably withheld.

2. BOARD COMMITTEES

2.1 Nomination Committee

A separate nomination committee has not been formed as required under Recommendation 2.4 as the Board considers the selection and appointment of Directors should be the responsibility of the full Board and that no benefits or efficiencies are to be gained by delegating this function to a separate committee.

CORPORATE GOVERNANCE STATEMENT

2.2 Audit Committee

Due to its size and composition, the Board has not established a separate audit committee as requested by Recommendation 4.2. However, the external auditor has full access to the Board throughout the year.

The responsibilities of the Board ordinarily include:-

- reviewing internal control and recommending enhancements,
- monitoring compliance with Corporations Act 2001, Stock Exchange Listing Rules, matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investment Commission and financial institutions,
- improving the quality of the accounting function,
- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management, and
- liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

The Board reviews the performance of the external auditors on an annual basis and nomination of auditors is at the discretion of the Board.

2.3 Remuneration Committee

Due to the relatively small size of Legend, remuneration is considered by the full Board. This does not comply with Recommendation 9.2. The Board reviews remuneration packages and policies applicable to the Managing Director and Directors. Remuneration levels are competitively set to attract the most qualified and experienced Directors and Senior Executives. The Board obtains independent advice on the appropriateness of remuneration packages.

An approved Employee Share Option Plan (excludes Directors) is in place to enable the Board to grant share options as an incentive for superior performance to eligible employees.

A full disclosure of the Company's remuneration philosophy and framework and the remuneration received by Directors and Executives in the current period are set out in the remuneration report, which is contained within the Directors' Report.

Overall Director Remuneration: Shareholders must approve the framework for any equity schemes if a Director is recommended for being able to participate in such a scheme.

Non-Executive Remuneration: Shareholders approve the maximum aggregate remuneration for Non-Executive Directors. The maximum aggregate remuneration approved for Non-Executive Directors is currently \$200,000.

3. BUSINESS RISKS

Significant areas of concern are discussed at Board level. When appropriate, experts are invited to address Board meetings on the major risks facing the consolidated entity and to develop strategies to mitigate those risks.

4. ETHICAL STANDARDS

On 26 October 2006 Legend introduced a formal Code of Conduct as per Recommendation 3.1. This code outlines how Legend expects directors and employees of Legend and its related bodies corporate to behave and conduct business in the workplace on a range of issues. Legend is committed to the highest level of integrity and ethical standards in all business practices. Directors and employees must conduct themselves in a manner consistent with current community and corporate standards and in compliance with all legislation. In addition, the Board subscribes to the Statement of Ethical Standards as published by the Australian Institute of Company Directors.

CORPORATE GOVERNANCE STATEMENT

All Directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

5. DIRECTORS' DEALINGS IN COMPANY SHARES

On 26 October 2006 Legend introduced a formal trading policy as required by Recommendation 3.2 entitled: Guidelines for Dealing in Securities. This policy applies to directors, employees and contractors of Legend.

In addition, directors must notify the Australian Stock Exchange Limited of any acquisition or disposal of shares by lodgement of a Notice of Director's Interests. Board policy is to prohibit Directors from dealing in shares of the Company whilst in possession of price sensitive information.

6. CORPORATE REPORTING

On submission of a set of the Company financial reports for review by the Board, senior management confirms that to the best of their knowledge and ability the financial reports present a true and fair view in all material aspects of the Company's financial condition and that operational results are in accordance with relevant accounting standards.

Further, the statement made by senior management regarding the integrity of the financial statements also includes a statement regarding risk management and internal compliance and control which influence the policies adopted by the Board.

7. CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

On 26 October 2006 Legend introduced a formal Continuous Disclosure and Information Policy as required by Recommendation 6.1. This policy was introduced to ensure Legend achieves best practice in complying with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules and ensuring Legend and individual officers do not contravene the Corporations Act or ASX Listing Rules

The Board of Legend 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. Information is communicated to shareholders through:-

- the Annual Report which is distributed to all shareholders,
- Half-Yearly Reports, Quarterly Reports, and all Australian Stock Exchange announcements which are posted on Legend's website,
- the Annual General Meeting and other meetings so called to obtain approval for Board action as appropriate,
- compliance with the continuous disclosure requirements of the Australian Stock Exchange Listing Rules.

Legend's auditor is required to be present, and be available to shareholders, at the Annual General Meeting.

8. RECOGNISE AND MANAGE RISK

Risk oversight, management and internal control are dealt with on a continuous basis by management and the Board, with differing degrees of involvement from various Directors and management, depending upon the nature and materiality of the matter.

The Board has no formal policy in place to recognise and manage risk as required by Recommendation 7.1, as it considers, in the context of the size and nature of the Company, that it would not improve the present modus operandi.

CORPORATE GOVERNANCE STATEMENT

9. ENCOURAGE ENHANCED PERFORMANCE

Board and management effectiveness are dealt with on a continuous basis by management and the Board, with differing degrees of involvement from various Directors and management, depending upon the nature of the matter.

The Board has no formal policy in place to encourage enhanced performance as required by Recommendation 8.1, as it considers, in the context of the size and nature of the Company, that it would not improve the present modus operandi.

10. RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

On 26 October 2006 Legend introduced a formal Privacy Policy. Legend is committed to respecting the privacy of stakeholders' personal information. This Privacy Policy sets out Legend's personal information management practices and covers the application of privacy laws, personal information collection, the use and disclosure of personal information, accessing and updating stakeholders' information and the Security of stakeholders' information.

Other than the introduction of a formal Privacy Policy, the Board has not adopted any additional formal codes of conduct to guide compliance with legal and other obligations to legitimate stakeholders as required by Recommendation 10.1, as it considers, in the context of the size and nature of the Company, that it would not improve the present modus operandi.

DIRECTORS' REPORT

The Directors submit their report for the year ended 31 December 2006.

1. DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Michael Atkins (Chairman, Non Executive Director)

Mark Wilson (Managing Director)

Robert Perring (Executive Director - Technical) (appointed 18 January 2006)

Dermot Ryan (Non Executive Director)

2. INFORMATION ON DIRECTORS AND COMPANY SECRETARY

Michael Atkins is a Fellow of the Institute of Chartered Accountants in Australia and was a founding partner of a national Chartered Accounting practice from 1979 to 1987. Since 1987 he has been involved in the executive management of several publicly listed resource companies with operations in Australia, USA, South East Asia and Africa. He was Managing Director of Claremont Petroleum NL and Beach Petroleum NL during 1990 and 1991 during their reconstruction, and then remained as a Non Executive Director until 1995. He was also founding Executive Chairman of Gallery Gold NL in 1998, and remained a Non Executive Director until 2000.

He is currently Chairman of Montagu Capital Ltd, the holding company for Montagu Stockbrokers Pty Ltd, and Chairman of Westgold Resources NL.

During the past three years, Mr Atkins has also served as a Director of the following publicly listed companies:-

- Marion Energy Ltd (formerly Carpenter Pacific Resources Limited) (resigned 31 January 2006)
- Guardian Funds Management Ltd (resigned 31 January 2006)
- Superior Mining Corporation (Canadian Company) (resigned 14 October 2004)
- Aurex Consolidated Limited (resigned 13 February 2004)

Mark Wilson is a Member of the Institution of Engineers, Australia and a Chartered Professional Engineer with an Associateship in Civil Engineering from Curtin University in Western Australia. He has an extensive business background, mainly in corporate management and project engineering. This has included site management of remote construction projects, ten years of commercial construction as a founding proprietor of a Perth based company and the past fifteen years in executive, non-executive, consulting and owner roles in resource focused companies. He served as a Director of Duketon Goldfields NL in 1995/1996 and of Cambrian Resources NL (Servicepoint Ltd) from 1999 to 2003.

During the past three years, Mr Wilson has not served as a Director of any other publicly listed companies.

DIRECTORS' REPORT

2. INFORMATION ON DIRECTORS AND COMPANY SECRETARY (CONTD)

Robert Perring is a Member of the Australian Institute of Geoscientists and a graduate of Imperial College, London (M.Sc., D.I.C.) and the University of Technology, Sydney (B.App.Sc.). He has more than 28 years experience in exploration and the resource definition of gold, platinum group element, nickel, copper-lead-zinc and uranium deposits. Mr Perring has worked in a broad range of geological terrains within Australia and overseas. He has recently held senior management positions with Newmont Australia and Normandy Mining Ltd.

During the past three years, Mr Perring has not served as a Director of any other publicly listed companies.

Dermot Ryan is a Fellow of the Australian Institute of Mining and Metallurgy, a Chartered Professional Geologist and a graduate from Curtin University in Western Australia (B.App.Sc.) He has over 30 years experience in the discovery and successful development of gold, base metals, iron ore and diamond deposits. He has spent 20 years with the CRA (Rio Tinto) group of companies, including ten years as Chief Geologist for CRA Exploration in various parts of Australia. He was General Manager Exploration for Great Central/ Normandy Yandal Operations in the 5 year period up to 2001. He has acted as a mineral exploration consultant to both private and public mining and exploration companies in Western Australia, with an emphasis on the gold industry.

During the past three years, Mr Ryan has not served as a Director of any other publicly listed companies.

Tony Walsh (Company Secretary) is a chartered accountant with over 20 years work experience with ASX and publicly listed companies where he has held positions as listings manager and company secretary and has experience in the areas of corporate regulation and capital raisings. He works for a number of public companies in the resource and biofuels sectors.

Mr Walsh is an Associate Member of the Institute of Chartered Accountants in Australia and the Securities Institute of Australia.

Directors' Interests in the Shares and Options of Legend and Related Bodies Corporate

At the date of this report, the direct interests of the Directors in the shares and other equity securities of Legend and related bodies corporate were:-

Name	Ordinary Shares	Listed Options	Unlisted Options
Michael Atkins	1,206,667	51,667	500,000
Mark Wilson	16,900,000	-	5,000,000
Robert Perring	3,000,000	-	5,000,000
Dermot Ryan	1,020,000	5,000	15,000,000

3. LOSS PER SHARE

Basic loss per share: (1.21 cents)

Diluted loss per share: (1.21 cents)

DIRECTORS' REPORT

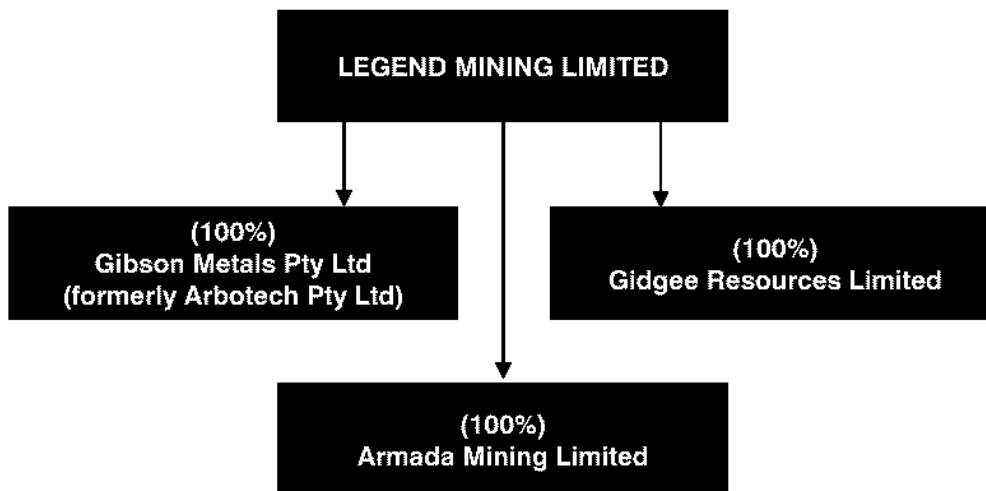
4. DIVIDENDS

No dividend has been paid or recommended during the financial year.

5. CORPORATE INFORMATION

Corporate Structure

Legend Mining Limited is a company limited by shares that is incorporated and domiciled in Australia. Legend Mining Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in the following illustration of the group's corporate structure.



Nature of Operations and Principal Activities

The principal activities during the year of the entities within the consolidated entity were:-

- exploration for gold and base metal (zinc-copper-gold, nickel-copper, zinc-copper and copper-gold) deposits.

Employees

The consolidated entity had a staff of 15 employees at 31 December 2006 (2005: 17 employees).

DIRECTORS' REPORT

6. OPERATING AND FINANCIAL REVIEW

Results of Operations

The loss of the consolidated entity for the year was \$7,736,579 (2005: loss \$7,563,178) after income tax.

Review of Operations

The Directors Review of Activities for the year ended 31 December 2006 is contained on pages 3 to 16 of the Annual Report.

Summarised Operating Results

Sales Revenue: The Gidgee Mine was placed on care and maintenance on the 9 March 2005. Sales of gold and silver for this period amounted to \$451,352 (2005: \$4,591,805).

Exploration Expenditure Write-Off: Deferred expenditure on tenements surrendered or withdrawn during the year amounting to \$3,732,296 (2005: \$4,502,813) was expensed to the Income Statement.

Deferred Exploration Costs: Total deferred expenditure on tenements capitalised during the year amounted to \$5,333,428 (2005: \$7,565,733).

7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During 2006 Legend has:-

- raised \$6.12 million capital through a pro rata rights issue of shares and attaching options in July 2006;
- converted the Yandal Investments Pty Ltd (Yandal) Convertible Note into ordinary shares in July 2006, following shareholder approval and subsequent exercise of attaching options raising \$5,000,000;
- issued 125,000,000 options following shareholder approval;
- repaid \$3,000,000 to Yandal in July 2006; and
- raised \$5,000,000 under a placement in December 2006.

8. ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity's operations are subject to various environmental regulations under both Commonwealth and State legislation. The Directors have complied with these regulations and are not aware of any breaches of the legislation during the financial year which are material in nature.

9. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in the operations of the consolidated entity, and expected results of those operations in subsequent financial years have been discussed, where appropriate, in the Chairman's Report and Review of Activities.

10. SHARE OPTIONS

Unissued shares

As at the date of this report, there were 305,434,885 unissued ordinary shares under options. Refer to note 19 for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year, investors have exercised options to acquire 125,151,222 fully paid ordinary shares in Legend Mining Limited at a weighted average exercise price of \$0.04. Refer to note 19 for further details of the options exercised.

DIRECTORS' REPORT

11. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

As at the date of the report there are no subsequent significant events after the balance date.

12. INDEMNIFICATION OF DIRECTORS, OFFICERS AND AUDITORS

The Company has not, during or since the financial year, in respect of any person who is or has been an Officer or auditor of the Company or a related body corporate:

- (a) indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- (b) paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

13. REMUNERATION REPORT

The compensation arrangements in place for key management personnel of Legend are set out below:

Compensation Philosophy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

The Company embodies the following principle in its compensation framework:-

- Provide competitive rewards to attract high-calibre executives.

Remuneration Committee

Due to the size of Legend, remuneration is considered by the full Board. The Board reviews remuneration packages and policies applicable to the Directors and Senior Executives. Remuneration levels are competitively set to attract the most qualified and experienced Directors and Senior Executives. The Board obtains independent advice on the appropriateness of remuneration packages.

Compensation Structure

In accordance with best practice corporate governance, the structure of Non Executive Director and senior manager remuneration is separate and distinct.

Objective of Non Executive Director Compensation

The Board seeks to set aggregate compensation at a level that provides the company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure of Non Executive Director Compensation

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 30 May 2006 when shareholders approved the aggregate remuneration of \$200,000 per year.

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

During the year Legend issued 15 million options with a value of \$300,000, to Dermot Ryan, a non executive director. This allocation was individually approved by shareholders as the distribution took place outside the Employee Share Option Plan. Please refer to the Compensation Report below for further details.

DIRECTORS' REPORT

13. REMUNERATION REPORT (CONTD)

Objective of Senior Management and Executive Director Compensation

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

- reward executives for company and individual performance against targets set by reference to appropriate benchmarks,
- align the interests of executives with those of shareholders, and
- ensure total compensation is competitive by market standards.

Structure of Senior Management and Executive Director Compensation

In determining the level and make-up of executive compensation, the Board engages external consultants to provide independent advice.

It is the Board's policy that an employment contract is entered into with key executives.

Compensation consists of a fixed compensation element and the issue of options from time to time at the directors' discretion under the Employee Share Option Plan. Any issue of options to directors under the Employee Share Option Plan requires prior shareholder approval.

During the year Legend issued 5 million options with a value of \$100,000, to each of the executive directors. This allocation was individually approved by shareholders as the distribution took place outside the Employee Share Option Plan. Please refer to the Compensation Report below for further details.

Fixed Compensation

Fixed compensation is reviewed annually by the Board. The process consists of a review of company and individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Structure

Senior managers are given the opportunity to receive their fixed (primary) compensation in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

Employment contracts

The Managing Director, Mr Mark Wilson, is employed under contract. The current employment contract commenced on the 1 July 2006 and terminates on the 30 June 2007, at which time the Company may choose to commence negotiations to enter into a new employment contract.

- Mr Wilson receives remuneration of \$1,000 per day up to a maximum of \$220,000 per annum plus GST.
- Mr Wilson may resign from his position and thus terminate his contract by giving 1 month written notice.
- The company may terminate Mr Wilson's employment contract by providing 1 month written notice or by providing payment in lieu of notice period (based on the fixed component of his remuneration)
- The company may terminate Mr Wilson's contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs Mr Wilson is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

The Executive Director - Technical, Mr Robert Perring, is employed under contract. The current employment contract commenced on the 19 July 2006 and terminates on the 30 June 2007, at which time the Company may choose to commence negotiations to enter into a new employment contract.

DIRECTORS' REPORT

13. REMUNERATION REPORT (CONTD)

- Mr Perring receives remuneration of \$1,000 per day up to a maximum of \$220,000 per annum plus GST.
- Mr Perring may resign from his position and thus terminate his contract by giving 1 month written notice.
- The company may terminate Mr Perring's employment contract by providing 1 month written notice or by providing payment in lieu of notice period (based on the fixed component of his remuneration)
- The company may terminate Mr Perring's contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs Mr Perring is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

Employee Share Option Plan

The Board has in place an Employee Share Option Plan allowing share options to eligible employees in order to provide them with an incentive to provide growth and value to all shareholders. 1,700,000 options were issued to eligible employees during the year under the Employee Share Option Plan. 50,000 share options granted to an employee in 2004 were subsequently forfeited upon the resignation of the employee.

DIRECTORS' REPORT

13. REMUNERATION REPORT (CONTD)

Compensation of Key Management Personnel for Year Ended 31 December 2006

Name	Year	Short term Salary and Fees \$	Post Employment Superannuation \$	Share based payments options \$	Total \$	% of compensation granted as options	% of performance related remuneration
Director							
M. Atkins (Windamurah P/L)	2006	61,500	-	-	61,500	-	-
	2005	66,000	-	-	66,000	-	-
M. Wilson (Hostyle P/L)	2006	211,600	-	100,000	311,600	32%	32%
	2005	105,600	-	-	105,600	-	-
D. Ryan	2006	40,710	3,664	300,000	344,374	87%	87%
	2005	124,543	11,209	-	135,752	-	-
M. V. McDonald	2006	-	-	-	-	-	-
	2005	270,183	57,404	-	327,587	-	-
I.D. Cowden (Iana P/L)	2006	-	-	-	-	-	-
	2005	105,335	-	-	105,335	-	-
R Perring (Quadramin)	2006	209,700	-	100,000	309,700	32%	32%
	2005	-	-	-	-	-	-
Executive							
A.M. Law	2006	-	-	-	-	-	-
	2005	127,927	7,975	-	135,902	-	-
D. Thomson	2006	34,066	3,066	-	37,132	-	-
	2005	84,010	7,561	-	91,571	-	-
D. Waterfield	2006	138,359	12,452	10,625	161,436	7%	7%
	2005	-	-	-	-	-	-
B. Phyland	2006	110,563	9,951	5,312	125,826	4%	4%
	2005	29,192	2,627	-	31,819	-	-
P. Petrovic	2006	65,380	5,884	2,125	73,389	3%	3%
	2005	-	-	-	-	-	-
L. Mitchell	2006	99,450	8,951	-	108,401	-	-
	2005	74,600	6,714	-	81,314	-	-

Compensation Options of Key Management Personnel for Year Ended 31 December 2006

The following options were granted or vested as equity compensation benefits to certain specified directors and specified executives as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price of \$0.04.

Options issued under the Employee Share Option Plan are subject to the employee retaining employment with the Group for a period of 12 months. All other options are issued to employees for past performance and therefore have no performance conditions placed on them. For further information please refer to note 21.

DIRECTORS' REPORT

13. REMUNERATION REPORT (CONTD)

Name	No. of Options	Grant Date	Value per option at grant date (\$)	Exercise price per option (\$)	Expiry Date
Director					
Mark Wilson	5,000,000	20 July 2006	0.02	0.04	31 July 2008
Robert Perring	5,000,000	20 July 2006	0.02	0.04	31 July 2008
Dermot Ryan	15,000,000	20 July 2006	0.02	0.04	31 July 2008
Executive					
D. Waterfield	1,000,000	20 July 2006	0.02	0.04	31 July 2008
B Phyland	500,000	20 July 2006	0.02	0.04	31 July 2008
P Petrovic	200,000	20 July 2006	0.02	0.04	31 July 2008

Name	Balance at beg of period 1 Jan 2006	Granted as Remuneration	Balance at end of period 31 Dec 2006	Not Vested & Not Exercisable	Vested & Exercisable
Director					
Mark Wilson	-	5,000,000	5,000,000	-	5,000,000
Robert Perring	-	5,000,000	5,000,000	-	5,000,000
Dermot Ryan	-	15,000,000	15,000,000	-	15,000,000
Executive					
D. Waterfield	-	1,000,000	1,000,000	1,000,000	-
B Phyland	-	500,000	500,000	500,000	-
P Petrovic	-	200,000	200,000	200,000	-
Total	-	26,700,000	26,700,000	1,700,000	25,000,000

Name	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 and lapsed during the year \$	% Remuneration consisting of options during the year
Director					
Mark Wilson	100,000	-	-	100,000	32%
Robert Perring	100,000	-	-	100,000	32%
Dermot Ryan	300,000	-	-	300,000	87%
Executive					
D. Waterfield	10,625	-	-	10,625	7%
B Phyland	5,312	-	-	5,312	4%
P Petrovic	2,125	-	-	2,125	3%
Total	518,062	-	-	518,062	-

DIRECTORS' REPORT

14. DIRECTORS' MEETINGS

The number of Meetings of Directors held during the year and the number of Meetings attended by each Director were as follows:-

Name	No. of Meetings Attended	No. of Meetings Held Whilst A Director
Attended by:		
Michael Atkins	9	9
Mark Wilson	9	9
Robert Perring	8	8
Dermot Ryan	9	9

15. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

NON-AUDIT SERVICES

There were no non-audit services provided by the Company's auditor, Ernst & Young during the 2006 financial year.

We have received the Declaration of Auditor Independence from Ernst & Young, the Company's Auditor, this is available for review on page 71 and form part of this report.

SIGNED in accordance with a Resolution of the Directors on behalf of the Board



M Wilson

Managing Director

Dated this 16th day of March 2007

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	CONSOLIDATED		COMPANY	
		2006	2005	2006	2005
		\$	\$	\$	\$
CONTINUING OPERATIONS					
Sales revenues	4(a)	451,352	4,591,805	451,352	4,591,805
Cost of sales		(145,668)	(5,554,945)	(145,668)	(5,554,945)
Gross profit/(loss)		305,684	(963,140)	305,684	(963,140)
Rental revenue	4(b)	30,990	21,366	24,242	21,366
Finance revenue	4(c)	213,952	214,125	213,952	214,125
Other income	4(d)	279,728	71,522	79,728	71,522
Employee benefits expense	4(e)	(1,092,413)	(999,510)	(1,092,413)	(999,510)
Deferred exploration expenditure written off	4(f)	(3,732,296)	(4,502,813)	(3,494,770)	(293,866)
Other expenses	4(g)	(250,570)	(139,519)	(189,408)	(127,999)
Investment and receivables in subsidiary companies written off	4(h)	-	-	(550,047)	(4,225,814)
Corporate head office expenses	4(i)	(500,988)	(728,283)	(497,796)	(724,881)
Finance costs	4(j)	(2,990,666)	(536,926)	(2,990,666)	(536,926)
Net loss from continuing operations before income tax expense		(7,736,579)	(7,563,178)	(8,191,494)	(7,565,123)
Income tax benefit/ (expense)	6	-	-	-	-
Net loss attributable to members of the entity		(7,736,579)	(7,563,178)	(8,191,494)	(7,565,123)
LOSS PER SHARE (cents per share)					
Basic for loss for the year	5	(1.21 cents)	(2.2 cents)		
Diluted for loss for the year		(1.21 cents)	(2.2 cents)		

BALANCE SHEET AS AT 31 DECEMBER 2006

	Notes	CONSOLIDATED		COMPANY	
		2006	2005	2006	2005
		\$	\$	\$	\$
ASSETS					
Current Assets					
Cash and Cash Equivalents	8	8,924,983	407,977	8,924,983	406,671
Other financial assets	11	-	3,145,000	-	3,145,000
Trade & Other Receivables	9	233,766	52,288	4,047,781	52,287
Prepayments		18,130	29,617	18,130	29,617
Inventories	10	145,318	156,862	145,318	156,862
Total Current Assets		9,322,197	3,791,744	13,136,212	3,790,437
Non-current Assets					
Deferred tax asset		-	-	1,158,162	-
Other financial assets	11	148,730	141,311	1,791,502	3,492,292
Property, plant & equipment	12	1,785,851	1,831,201	1,478,300	1,462,487
Deferred exploration costs	13	21,145,692	19,544,560	15,788,645	15,475,600
Total Non-current Assets		23,080,273	21,517,072	20,216,609	20,430,379
TOTAL ASSETS		32,402,470	25,308,816	33,352,821	24,220,816
LIABILITIES					
Current Liabilities					
Trade & Other Payables	14	447,842	621,865	2,941,108	621,865
Interest-bearing loans & borrowings	15	-	8,000,000	-	8,000,000
Provisions	16	89,135	62,134	89,135	62,134
Total Current Liabilities		536,977	8,683,999	3,030,243	8,683,999
Non-current Liabilities					
Provisions	16	3,224,336	3,208,000	2,136,336	2,120,000
Total Non-current Liabilities		3,224,336	3,208,000	2,136,336	2,120,000
TOTAL LIABILITIES		3,761,313	11,891,999	5,166,579	10,803,999
NET ASSETS		28,641,157	13,416,817	28,186,242	13,416,817
EQUITY					
Equity attributable to equity holders of the parent					
Contributed Equity	17	57,328,816	37,035,962	57,328,816	37,035,962
Share Option Premium Reserve	18	3,115,335	447,272	3,115,335	447,272
Accumulated losses		(31,802,994)	(24,066,417)	(32,257,909)	(24,066,417)
TOTAL EQUITY		28,641,157	13,416,817	28,186,242	13,416,817

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	CONSOLIDATED		COMPANY	
		2006	2005	2006	2005
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		873,708	4,623,251	873,708	4,623,251
Payments to suppliers and employees		(1,328,979)	(8,524,209)	(1,107,673)	(8,525,512)
Payment for exploration and evaluation		(5,841,783)	(8,542,499)	(5,841,783)	(8,542,499)
Interest received		230,313	204,795	230,313	204,795
Interest paid		(987,886)	(605,165)	(987,886)	(605,165)
Net cash flows used in operating activities	23(ii)	(7,054,627)	(12,843,827)	(6,833,321)	(12,845,130)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant & equipment & scrap		232,399	95,557	12,399	95,557
Purchase of property, plant & equipment		(202,685)	(82,926)	(202,685)	(82,926)
Payment for Mt Gibson Project assets		(125,069)	(250,000)	(125,069)	(250,000)
Proceeds from the sale of investments		11,000	15,920	11,000	15,920
Performance Bond Term Deposit		-	(1,156,638)	-	(1,156,638)
Repayment of Performance Bond Term Deposit		3,145,000	-	3,145,000	-
Net cash flows from/ (used in) investing activities		3,060,645	(1,378,087)	2,840,645	(1,378,087)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		15,848,855	10,145,404	15,848,855	10,145,404
Transaction costs of issue of shares		(337,867)	(129,240)	(337,867)	(129,240)
Proceeds from borrowings		-	3,000,000	-	3,000,000
Repayment of borrowings		(3,000,000)	(526,279)	(3,000,000)	(526,279)
Finance lease payments		-	(23,368)	-	(23,368)
Net cash flows from financing activities		12,510,988	12,466,517	12,510,988	12,466,517
Net increase/(decrease) in cash and cash equivalents		8,517,006	(1,755,397)	8,518,312	(1,756,700)
Cash and cash equivalents at the beginning of period		407,977	2,163,374	406,671	2,163,371
Cash and cash equivalents at end of period	23	8,924,983	407,977	8,924,983	406,671

STATEMENT OF CHANGE IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

Consolidated	Issued Capital \$	Share Option Premium Reserve \$	Accumulated Losses \$	Total Equity \$
At 1 January 2006	37,035,962	447,272	(24,066,417)	13,416,817
Loss for the year	-	-	(7,736,579)	(7,736,579)
Total income/ (expense) for the year	-	-	(7,736,579)	(7,736,579)
Issue of Share Capital	21,115,444	2,668,063	-	23,783,507
Exercise of Share Option	6,049	-	-	6,049
Cost of Issue of Share Capital	(828,637)	-	-	(828,637)
At 31 December 2006	57,328,818	3,115,335	(31,802,996)	28,641,157
At 1 January 2005	17,969,067	361,890	(16,503,239)	1,827,718
Loss for the year	-	-	(7,563,178)	(7,563,178)
Total income/ (expense) for the year	-	-	(7,563,178)	(7,563,178)
Issue of Share Capital	19,582,785	(1,618)	-	19,581,167
Cost of issue of Share Capital	(515,890)	87,000	-	(428,890)
At 31 December 2005	37,035,962	447,272	(24,066,417)	13,416,817

**STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

Company	Issued Capital \$	Share Option Premium Reserve \$	Accumulated Losses \$	Total Equity \$
At 1 January 2006	37,035,962	447,272	(24,066,417)	13,416,817
Loss for the year	-	-	(8,191,494)	(8,191,494)
Total income/ (expense) for the year	-	-	(8,191,494)	(8,191,494)
Issue of Share Capital	21,115,444	2,668,063	-	23,783,507
Exercise of Share Option	6,049	-	-	6,049
Cost of Issue of Share Capital	(828,637)	-	-	(828,637)
At 31 December 2006	<u>57,328,818</u>	<u>3,115,335</u>	<u>(32,257,911)</u>	<u>28,186,242</u>
At 1 January 2005	17,969,067	361,890	(16,501,294)	1,829,663
Loss for the year	-	-	(7,565,123)	(7,565,123)
Total income/ (expense) for the year	-	-	(7,565,123)	(7,565,123)
Issue of Share Capital	19,582,785	(1,618)	-	19,581,167
Cost of issue of Share Capital	(515,890)	87,000	-	(428,890)
At 31 December 2005	<u>37,035,962</u>	<u>447,272</u>	<u>(24,066,417)</u>	<u>13,416,817</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 1: CORPORATE INFORMATION

The financial report of Legend Mining Limited (the Company) for the year ended 31 December 2006 was authorised for issue in accordance with a resolution of the Directors on 16 March 2007.

Legend Mining Limited is a company limited by shares 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 3.

NOTE 2: 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 a historical cost basis.

The financial report is presented in Australian dollars and all values are expressed as whole 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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(b) Statement of compliance (contd)

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 31 December 2006 are outlined in the table below:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date for standard*	Application date for group
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 January 2007
New standard	AASB 7: <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 January 2007
New standard	AASB 8: <i>Operating Segments</i>	No change to accounting policy required. Therefore no impact.	1 January 2009	1 January 2009
Revised standard	AASB 101: <i>Presentation of Financial Statements</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 January 2007
Interpretation 8	Scope of AASB 2	No change to accounting policy required. Therefore no impact	1 May 2006	1 January 2007
Interpretation 9	Reassessment of embedded derivatives	No change to accounting policy required. Therefore no impact	1 June 2006	1 January 2007
Interpretation 10	Interim Financial Reporting and Impairment	No change to accounting policy required. Therefore no impact	1 November 2006	1 January 2007
Interpretation 11	Group and Treasury Share Transactions	No change to accounting policy required. Therefore no impact	1 March 2007	1 January 2008
Interpretation 12	Service Concession Arrangement	No change to accounting policy required. Therefore no impact	1 January 2008	1 January 2008

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Legend Mining Limited and its subsidiaries ('the Group').

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

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

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

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.

(ii) Significant accounting judgements, estimates and assumptions

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 share-based payments at fair value at the grant date using a binomial formula taking into account the terms and conditions upon which the instruments were granted.

Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which the determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

Provision for Rehabilitation

Rehabilitation costs are a normal consequence of mining, and the majority of this expenditure is incurred at the end of a mine's life. In determining an appropriate level of provision consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the mine), and the estimated level of inflation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

The ultimate costs of rehabilitation is uncertain and cost can vary in response to many factors including changes to the relevant legal requirement, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in reserves.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results.

(iii) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the useful life of the asset from the time the asset is held ready for use.

Production assets are not depreciated during periods where mining activity is placed on a care and maintenance basis.

The depreciation rates used for each class are:

Buildings	10%
Plant and equipment	7.5% - 50%
Leased plant and equipment	22.5%

Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. 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.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(iv) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(v) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

(vi) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt.

(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 in controlled entities are measured at cost.

Impairment

If there is objective evidence that an investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised is recognised in the income statement.

(viii) Inventories

Stores

Inventories of consumable supplies and spare parts are valued at the lower of cost and net realisable value. Cost is assigned on a weighted average basis.

(ix) Deferred exploration costs

Deferred exploration and evaluation costs

Exploration and evaluation expenditure is stated at cost and is accumulated in respect of each identifiable area of interest.

Mining information is stated at cost.

Such costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area of interest (or alternatively by its sale), or where activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations are continuing.

Accumulated costs in relation to an abandoned area are written off to the income statement in the period in which the decision to abandon the area is made.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

Impairment

The carrying values of exploration and evaluation costs are reviewed for impairment when facts and circumstances indicate the carrying value may not be recoverable.

The recoverable amount of exploration and evaluation costs is the greater of fair value less costs to sell and value in use. In assessing the 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 fair value of money and the risks specific to the asset.

Accumulated costs in relation to an abandoned area are written off in full against the income statement in the year in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Each area of interest is limited to the size related to known or probable mineral resources capable of supporting a mining operation.

(x) 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.

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.

(i) Rehabilitation provision

Long-term environmental obligations are based on the Group's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made, based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. Increases due to additional environmental disturbances are capitalised and amortised over the remaining lives of the mines. These increases are accounted for on a net present value basis.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in earnings.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology and other circumstances. Cost estimates are not reduced by the potential proceeds from the sale of assets or from plant clean-up at closure.

(xi) Revenue

Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that 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:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

Interest income

Interest revenue is recognised as it accrues, using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rental Income

Rental income is accounted for on a straight line basis over the lease term.

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

(xii) Income tax

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 law used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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 goodwill or 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 differences 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 amounts 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 assets 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

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.

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

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.

(xiii) Other taxes

Revenue, expenses and assets are recognised net of the amount of GST except;

- where the amount of the GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to the ATO is included as a current asset or liability in the Balance Sheet.

Cashflows are included in the Cash Flow Statement on a gross basis. The GST components of cashflows arising from investing or financing activities which are recoverable from, or payable to the ATO are classed as operating cashflows.

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

(xiv) Recoverable amounts 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.

Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(xv) Trade and or other payables

Liabilities for trade creditors and other amounts are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of these goods and services. The amounts are unsecured and are usually paid within 30 days.

(xvi) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(xvii) Share based payment transactions

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

There are currently three scenarios in place to provide these services:

- (a) 'Employees Share Option Plan', which provides benefits to eligible persons;
- (b) Capital raising costs, which provide payment to stockbrokers and finance institutions for capital raising services and commissions; and
- (c) Other grants of options to directors on an ad hoc basis.

The cost of the equity-settled transactions with stockbrokers and finance institutions is measured by reference to the fair value of the service received at the date they are granted.

For transactions with employees (including directors), the cost of these equity-settled transactions is measured by reference to the fair value of the options provided. The fair value is determined by an external valuer using a binomial model.

The cost of these equity-settled transactions with employees 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 employee becomes fully entitled to the award ('vesting date').

In valuing these equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Legend Mining Limited (market conditions) if applicable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

The cumulative expense recognised for these equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expenses recognised as at the beginning and end of the period.

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

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

For transactions with other service providers, the cost of these equity-settled transactions is measured by reference to the value of the services provided. The cost of these equity-settled transactions is recognised, together with a corresponding increase in equity, at the time the services are provided unless they are transaction costs arising on the issue of ordinary shares, in which case the transaction costs are recognised directly in equity as a reduction of the proceeds received on the issue of shares.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 5)

(xviii) Interest-bearing convertible notes

On the issue of the convertible note, the fair value of the liability component is determined by calculating the present value of the capital and interest stream using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specified in convertible note.

As the contingent settlement provisions allow for the holder to call for the face value if the default event occurs, the entire instrument has been classified as debt and there is no equity component.

Issue costs on the convertible notes have been expensed as incurred.

(xix) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs net of tax arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(xx) Employee Benefits

Provision is made for employee benefits accumulated as a result of employee services up to the reporting date. These employee benefits include wages, salaries, annual leave and include related on-costs such as superannuation and payroll tax.

Provision for annual leave together with the associated employment on-costs are measured at the amounts expected to be paid when the liability is settled.

No provision is made for non-vesting sick leave, as the anticipated pattern of future sick leave taken indicates that accumulated non vesting sick leave will never be paid.

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflow.

Contributions to employee superannuation funds of choice are expensed as incurred.

(xxi) Earnings per share

Basic earnings per share (EPS) is calculated as net loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net loss attributable to members, adjusted for:

- (i) Costs of servicing equity (other than dividends);
- (ii) The after tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses; and
- (iii) Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(xxii) Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise loans and borrowings, and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arise from the Group's financial instruments are fair value interest rate risks, liquidity risk, and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed elsewhere in note 2 to the financial statements.

Fair value interest risk

The Group's exposure to the risk of change in the fair value of its loans and borrowings relates primarily to the Group's debt obligations with a fixed interest rate. The Group's policy is to manage this risk using a mixture of long and short term debt, and equity.

Foreign currency risk

The Group's exposure to foreign currency risk is minimal.

Commodity price risk

The Group's exposure to price risk is minimal.

Credit risk

The Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group only trades with recognised third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of a mixture of long and short term debt.

(xxiii) Interest in a jointly controlled operation

The Group has an interest in a joint venture that is a jointly controlled operation. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in the jointly controlled operation by recognising its interest in the assets and the liabilities of the joint venture. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

NOTE 3: NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activity of the Group is:

- Exploration for gold and base metal (zinc-copper) deposits

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 4: REVENUE AND EXPENSES	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenues and expenses from continuing operations				
a) Operating activities				
Sales revenue	451,352	4,591,805	451,352	4,591,805
b) Rental Revenue				
Rental revenue	30,990	21,366	24,242	21,366
c) Finance Revenue				
Bank interest received and receivable	213,952	214,125	213,952	214,125
d) Other Income				
Net gains on disposal of property, plant & equipment	204,269	77,296	4,269	77,296
Net gain on sale of investments	10,737	(5,774)	10,737	(5,774)
Refunds from DOIR	31,611	-	31,611	-
Reimbursement of premises expenses	33,111	-	33,111	-
	279,728	71,522	79,728	71,522
e) Employee Benefits Expense				
Salaries & Oncosts	560,192	964,612	560,192	964,612
Share Based Payments	500,000	-	500,000	-
Other Employee Benefits	32,221	34,898	32,221	34,898
	1,092,413	999,510	1,092,413	999,510
f) Deferred Exploration Expenditure written off				
Write down of deferred exploration expenditure	3,732,296	4,502,813	3,494,770	293,866
g) Other Expenses				
Depreciation	233,336	106,850	172,173	97,364
Exploration administration	17,234	30,722	17,235	28,688
Other non-operating expenditure	-	1,947	-	1,947
	250,570	139,519	189,408	127,999
h) Investment and receivables in subsidiary companies written off				
Investment in subsidiary companies written down	-	-	550,047	3,900,631
Intercompany receivable written off	-	-	-	325,183
	-	-	550,047	4,225,814
i) Corporate head office expenses				
Fees – Audit/Tax	57,931	79,834	57,931	79,834
Office Rent	113,042	156,737	113,042	156,737
Legal Expenses	33,841	103,630	33,841	103,630
Travel Expenses	34,229	103,063	34,229	103,063
Other expenses	261,945	285,019	258,753	281,617
	500,988	728,283	497,796	724,881
j) Finance costs				
Debt Consolidation Expense	2,000,000	-	2,000,000	-
Interest Expense	990,666	536,926	990,666	536,926
	2,990,666	536,926	2,990,666	536,926

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 5: LOSS PER SHARE	2006	2005
	\$	\$
(a) Reconciliation of earnings to net loss:		
Net Loss	(7,736,579)	(7,563,178)
Loss used in the calculation of basic loss per share	(7,736,579)	(7,563,178)
(b) Weighted average number of shares on issue during the financial year used in the calculation of basic loss per share	640,917,387	347,962,455
Weighted average number of ordinary shares on issue used in the calculation of diluted loss per share	640,917,387	347,962,455

NOTE 6: INCOME TAX	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$

The major components of income tax expense are:

Income Statement

Current income tax

Current income tax charge/(benefit)	(2,303,726)	(2,230,263)	(2,275,186)	(963,102)
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Deferred income tax

Relating to origination and reversal of temporary difference	471,649	3,505,057	98,656	2,786,071
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Deferred tax assets not brought to account as realisation is not considered probable	1,832,077	(1,274,794)	2,176,530	(1,822,969)
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Income tax expense reported in the income statement	-	-	-	-
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A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before tax from ordinary activities	(7,736,579)	(7,563,178)	(8,191,494)	(7,565,123)
Accounting loss before income tax	(7,736,579)	(7,563,178)	(8,191,494)	(7,565,123)
At the Group's statutory income tax rate of 30%	(2,320,974)	(2,268,953)	(2,457,448)	(2,269,537)
Expenditure not allowed for income tax purposes	17,248	38,690	182,262	1,306,435
Deferred tax assets not brought to account as realisation is not considered probable	2,303,726	2,230,263	2,275,186	963,102
Income tax expense reported in the consolidated income statement	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 6: INCOME TAX (CONTD)	Balance Sheet		Income Statement	
	2006	2005	2006	2005
	\$	\$	\$	\$
Deferred Income Tax				
Deferred income tax at 31 December related to the following:				
Consolidated				
Deferred tax liabilities				
Capitalised exploration and evaluation expenditure	(5,841,957)	(5,361,617)	480,340	3,577,607
Gross deferred income tax liabilities	<u>(5,841,957)</u>	<u>(5,361,617)</u>		
Deferred tax assets				
Losses available to offset against future taxable income	9,540,898	7,219,925		
Provision for rehabilitation	967,301	962,400	-	-
Revaluation of land and buildings to fair value	28,376	8,869	(19,507)	(8,869)
Revaluation of plant and equipment to fair values	160,375	171,191	10,816	(63,681)
Deferred tax assets not brought to account as realisation is not regarded as probable	(4,854,993)	(3,000,768)		
Gross deferred tax assets	<u>5,841,957</u>	<u>5,361,617</u>		
Deferred tax income / (expense)			<u>471,649</u>	<u>3,505,057</u>
Net deferred tax recognised in balance sheet	-	-	-	-

	Balance Sheet		Income Statement	
	2006	2005	2006	2005
	\$	\$	\$	\$
Deferred Income Tax				
Deferred income tax at 31 December related to the following:				
Company				
Deferred tax liabilities				
Capitalised exploration and evaluation expenditure	(4,736,594)	(4,642,680)	93,914	2,858,670
Gross deferred income tax liabilities	<u>(4,736,594)</u>	<u>(4,642,680)</u>		
Deferred tax assets				
Losses available to offset against future taxable income	10,820,770	7,219,925		
Provision for rehabilitation	640,901	636,000	-	-
Revaluation of land and buildings to fair value	13,440	8,898	(4,542)	(8,898)
Revaluation of plant and equipment to fair values	161,926	171,210	9,284	(63,701)
Deferred tax assets not brought to account as realisation is not regarded as probable	(6,900,443)	(3,393,353)		
Gross deferred tax assets	<u>4,736,594</u>	<u>4,642,680</u>		
Deferred tax income / (expense)			<u>98,656</u>	<u>2,786,071</u>
Net deferred tax recognised in balance sheet	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 6: INCOME TAX (CONTD)

Tax Consolidation

Legend Mining Limited and its 100% owner Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2004. Legend Mining Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

Tax effect accounting by member of the tax consolidated group

Tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences are recognised in the separate financial statements of the members of the tax consolidated group using the group allocation method. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Members of the tax consolidated group have not entered into a tax funding agreement. As a result, the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, assumed by the Company, are recognised as a contribution from (or distribution to) equity participants. Tax losses assumed by the Company during the year were \$1,158,162.

NOTE 7: SEGMENT INFORMATION

The Company operates in one business and geographical segment, being the mining and exploration for gold and base metals (zinc-copper) in Australia.

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash at bank and in hand	540,727	391,319	540,727	390,013
Deposits-at call	8,384,256	16,658	8,384,256	16,658
	8,924,983	407,977	8,924,983	406,671

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

Deposits at call earn interest on a 30 day term basis at bank deposit rates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 9: TRADE AND OTHER RECEIVABLES	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Current				
Trade Receivables (a)	14,775	4,053	14,775	4,053
Other Receivables (a)	218,991	48,235	218,991	48,234
Related party receivables (b)	-	-	4,139,198	325,183
Less: Provision for impairment (c)	-	-	(325,183)	(325,183)
	233,766	52,288	4,047,781	52,287

- (a) Terms and conditions relating to the above financial instruments
- Trade receivables are non-interest bearing and generally on 30 day terms.
 - Other receivables are non-interest bearing and have repayment terms of between 30 and 60 days.
- (b) For terms and conditions of related party receivables refer note 22.
- (c) The amount of the impairment has been measured as the difference between the net assets and liabilities of the controlled entity and the loans from the parent entity.

NOTE 10: INVENTORIES	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Current				
Stores and spares at net realisable value	145,318	156,862	145,318	156,862

NOTE 11: OTHER FINANCIAL ASSETS	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Current				
Performance bonds – bank deposit	-	3,145,000	-	3,145,000
	-	3,145,000	-	3,145,000
Non-current				
Performance bonds – bank deposit	148,730	141,311	148,730	141,311
Shares in controlled entities - at (lower of cost and net realisable value)	25	-	1,642,772	3,350,981
	148,730	141,311	1,791,502	3,492,292

- (a) Terms and conditions relating to the above financial instruments
- Current Performance bonds– bank deposits were held as security for environmental bonds held on 14 day term deposit at 5.31%, or at call.
 - Non Current Performance bonds– bank deposits were held as security for credit cards, as security deposit for the premises rented and as security for joint venture assets. These bonds were held on 30 day term deposits at 5.19%, or at call.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 12: PROPERTY PLANT AND EQUIPMENT	Buildings	Plant and equipment	Total
Consolidated			
At 1 January 2006,			
net of accumulated depreciation	393,867	1,437,334	1,831,201
Additions	13,000	181,989	194,989
Disposals	-	(7,003)	(7,003)
Depreciation expense	(84,946)	(148,390)	(233,336)
At 31 December 2006,			
Net of accumulated depreciation	321,921	1,463,930	1,785,851
At 1 January 2006			
Cost	455,725	2,459,634	2,915,359
Accumulated depreciation	(61,858)	(1,022,300)	(1,084,158)
Net carrying amount	393,867	1,437,334	1,831,201
At 31 December 2006			
Cost	468,725	2,625,996	3,094,721
Accumulated depreciation	(146,804)	(1,162,066)	(1,308,870)
Net carrying amount	321,921	1,463,930	1,785,851
Company			
At 1 January 2006,			
net of accumulated depreciation	116,928	1,345,559	1,462,487
Additions	13,000	181,989	194,989
Disposals	-	(7,003)	(7,003)
Depreciation expense	(28,138)	(144,035)	(172,173)
At 31 December 2006,			
net of accumulated depreciation	101,790	1,376,510	1,478,300
At 1 January 2006			
Cost	171,685	2,365,474	2,537,159
Accumulated depreciation	(54,757)	(1,019,915)	(1,074,672)
Net carrying amount	116,928	1,345,559	1,462,487
At 31 December 2006			
Cost	184,685	2,531,836	2,716,521
Accumulated depreciation	(82,895)	(1,155,326)	(1,238,221)
Net carrying amount	101,790	1,376,510	1,478,300

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 12: PROPERTY PLANT AND EQUIPMENT (CONTD)

	Buildings \$	Plant and equipment \$	Leased plant and equipment \$	Capital works in progress \$	Total \$
Consolidated					
At 1 January 2005					
net of accumulated depreciation	146,589	1,520,794	15,881	21,199	1,704,463
Project assets acquisition	284,040	84,160	-	-	368,200
Additions	-	84,724	-	-	84,724
Transferred from capital work in progress	-	21,199	-	(21,199)	-
Disposals	(2,666)	(71,790)	(14,779)	-	(89,235)
Depreciation expense	(34,096)	(201,753)	(1,102)	-	(236,951)
At 31 December 2005					
Net of accumulated depreciation	393,867	1,437,334	-	-	1,831,201
At 1 January 2005					
Cost	174,837	2,365,908	38,636	21,199	2,600,580
Accumulated depreciation	(28,248)	(845,114)	(22,755)	-	(896,117)
Net carrying amount	146,589	1,520,794	15,881	21,199	1,704,463
At 31 December 2005					
Cost	455,725	2,459,634	-	-	2,915,359
Accumulated	(61,858)	(1,022,300)	-	-	(1,084,158)
Net carrying amount	393,867	1,437,334	-	-	1,831,201
Company					
At 1 January 2005					
net of accumulated depreciation	146,589	1,520,794	15,881	21,199	1,704,463
Additions	-	74,724	-	-	74,724
Transferred from capital work in progress	-	21,199	-	(21,199)	-
Disposals	(2,666)	(71,790)	(14,779)	-	(89,235)
Depreciation expense	(26,995)	(199,368)	(1,102)	-	(227,465)
At 31 December 2005					
net of accumulated depreciation	116,928	1,345,559	-	-	1,462,487
At 1 January 2005					
Cost	174,837	2,365,908	38,636	21,199	2,600,580
Accumulated depreciation	(28,248)	(845,114)	(22,755)	-	(896,117)
Net carrying amount	146,589	1,520,794	15,881	21,199	1,704,463
At 31 December 2005					
Cost	171,685	2,365,474	-	-	2,537,159
Accumulated depreciation	(54,757)	(1,019,915)	-	-	(1,074,672)
Net carrying amount	116,928	1,345,559	-	-	1,462,487

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 13: DEFERRED EXPLORATION COSTS	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Deferred exploration and evaluation	19,473,189	17,872,057	15,788,645	15,475,600
Deferred mining information	1,672,503	1,672,503	-	-
	21,145,692	19,544,560	15,788,645	15,475,600

(a) Deferred exploration and evaluation costs

At 1 January, at cost.		17,872,057	5,946,701	15,475,600	5,946,701
Expenditure incurred during the year		5,333,428	7,565,733	3,807,815	7,346,291
Expenditure reassigned – refer to note (i)		-	-	-	2,476,474
Acquisition of Gidgee Resources Limited	13(i)	-	7,602,636	-	-
Acquisition of Mt Gibson Gold Project assets		-	1,259,800	-	-
Expenditure written off during the year	13(ii)	(3,732,296)	(4,502,813)	(3,494,770)	(293,866)
At 31 December, at cost.	13(iii)	19,473,189	17,872,057	15,788,645	15,475,600

(b) Deferred Mining Information

At 1 January, at cost.		1,672,503	-	-	-
Acquisition of Mt Gibson Gold Project assets		-	1,672,503	-	-
At 31 December, at cost.	13(iii)	1,672,503	1,672,503	-	-

Note:

- (i) As part of the continuing tenement rationalisation, Legend Mining Limited lodged new tenement applications over areas covered by Gidgee Resources Limited tenement application. Expenditure allocated to these Gidgee Resources Limited tenements was reassigned to the new tenement applications.
- (ii) Carrying values for certain tenements were reviewed and subject to the following conditions being met;
- (1) no substantive expenditure for further exploration in the specific areas has been budgeted for;
 - (2) exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources;
 - (3) it was decided to discontinue such activities in the specific areas;
- it was decided to write off the carrying values (\$3,732,296) of the affected tenements.
- (iii) The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 14: TRADE AND OTHER PAYABLES	2006	2005	2006	2005
	\$	\$	\$	\$
Current – unsecured				
Trade payables	421,719	566,236	401,719	566,236
Other payables & accruals	26,123	55,629	26,123	55,629
Related party payables	-	-	2,513,266	-
	447,842	621,865	2,941,108	621,865

Terms and conditions relating to the above financial instruments

- (i) Trade payables are non-interest bearing and normally settled on 30 day terms.
- (ii) Other payables are non-interest bearing and normally settled as they fall due.
- (iii) For terms and conditions relating to related party payables refer to note 22.

NOTE 15: INTEREST BEARING LOANS AND BORROWINGS	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Current				
Borrowings	(b)	3,000,000	-	3,000,000
Convertible note - secured	(a)	5,000,000	-	5,000,000
		8,000,000	-	8,000,000

Terms and conditions relating to the above financial instruments:

- a. The company borrowed \$5,000,000 from Yandal Investments Pty Ltd, on the 10 November 2004. The loan became a convertible note following approval by shareholders at the General Meeting on the 10th January 2005. The convertible note was converted into 125 million shares at an exercise price of 4 cents per share on 20 July 2006, together with the issue and subsequent conversion of one option for each fully paid share exercisable at 4 cents per option. Interest was payable six monthly at 10% per annum. Yandal Investments Pty Ltd had a fixed and floating charge over the assets of Legend Mining Limited and a registrable mortgage of tenements granted by Legend Mining Limited to the lender. The charge along with the registrable mortgage was then repealed when the conversion took place.
- b. The company negotiated a bridging loan of \$3,000,000 from Yandal Investments Pty Ltd, on the 15 November 2005. Interest was payable at 12% per annum. The loan was unsecured and interest was payable on the 28 February 2006 and 31 May 2006. The principal was repaid on 20 July 2006 in conjunction with the share issue in (a) above.

NOTE 16: PROVISIONS	2006	2005	2006	2005
	\$	\$	\$	\$
Current				
Employee benefits	89,135	62,134	89,135	62,134
Number of employees at year end	15	17	15	17

At the May 2004 Annual General Meeting of the Company shareholders approved a resolution to implement an employee share option plan allowing Legend to issue options to eligible employees in order to provide them with an incentive to provide growth and value to all shareholders.

For details of options issued, converted or expired refer note 21.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 16: PROVISIONS (CONTD)	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Non Current				
Provision for restoration – Gidgee	2,057,000	2,057,000	2,057,000	2,057,000
Provision for restoration - Karratha	79,336	63,000	79,336	63,000
Provision for restoration – Gibson	1,088,000	1,088,000	-	-
	3,224,336	3,208,000	2,136,336	2,120,000
Movement in provision for restoration:				
Carrying amount at beginning of the year	3,208,000	2,057,000	2,120,000	2,057,000
Additional provision	16,336	1,151,000	16,336	63,000
Amount utilised during the year	-	-	-	-
Carrying amount at year end	3,224,336	3,208,000	2,136,336	2,120,000

A provision for restoration is recognised in relation to the mining and exploration activities for costs such as reclamation, waste site closure, plant closure and other costs associated with restoration. No provisions were used or released during the year

NOTE 17: CONTRIBUTED EQUITY	Consolidated and Company	
	Dec-06	Dec-05
	\$	\$
Ordinary shares		
Issued and fully paid	59,108,544	37,987,051
Issue costs	(1,779,728)	(951,089)
	57,328,816	37,035,962
Movement in ordinary shares on issue 2006		
	No	\$
At 1 January 2006	458,578,322	37,987,051
20-Jul-06 Conversion of convertible note	125,000,000	5,000,000
20-Jul-06 Issued for cash on exercise of share options	125,000,000	5,000,000
20-Jul-06 Issued for cash on rights issue	152,886,107	6,115,444
01-Aug-06 Issued for cash on exercise of share options	66,667	2,667
10-Aug-06 Issued for cash on exercise of share options	33,333	1,333
31-Dec-06 Issued for cash on exercise of share options	51,222	2,049
31-Dec-06 Issued for cash on capital raising	62,500,000	5,000,000
	924,115,651	59,108,544

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 17: CONTRIBUTED EQUITY (CONTD)

<i>Movement in ordinary shares on issue 2005</i>	Consolidated and Company	
	No	\$
At 1 January 2005	170,633,328	18,404,266
14-Feb-05 Issued for cash on capital raising	82,788,999	4,967,330
17-Feb-05 Share-based payment transaction for capital raising costs	4,994,167	299,650
07-Apr-05 Acquisition of Gidgee Resources Ltd	75,000,000	4,776,610
27-Apr-05 Issued for cash on capital raising	20,000,000	2,153,800
11-May-05 Issued for cash on exercise of share options	161,828	25,892
30-June-05 Issue for cash & option premium on exercise of share options (share certificate issued 3 July 05)	25,000,000	1,825,000
19-Aug-05 Issue for cash & option premium on exercise of share options	25,000,000	1,825,000
19-Sept-05 Issue for cash & option premium on exercise of share options	25,000,000	1,825,000
16-Nov-05 Acquisition of Mt Gibson Project assets	30,000,000	1,884,503
	458,578,322	37,987,051

Effective 1 July 1998, the Corporation legislation in place abolished the concept of authorised share capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued shares.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

NOTE 18: SHARE OPTION PREMIUM RESERVE

<i>Movement in share option premium reserve</i>	Dec-06	Dec-06
	No	\$
At 1 January 2006	18,500,000	447,272
20-July-06 Issue of options for convertible note early exercise fee	125,000,000	2,500,000
20-July-06 Issue of options for capital raising costs	7,500,000	150,000
20-July-06 Issue of options to employees	1,700,000	18,063
At 31 December 2006	152,700,000	3,115,335

This reserve relates to :

- the fair value of the premium received by the Group on the issue of unlisted options
- the identified fair value of \$0.02 on the issue of 132,500,000 unlisted options
- the identified fair value of \$0.01 on the issue of 1,700,000 unlisted options

Details of share options issued, vested or expired is available in note 19.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 19: SHARE OPTIONS		Number	Exercise price cents per share
(i)	Listed options – Expiry date 31 July 08		
	At 1 January 2006	-	
	Options issued	152,886,107	4cents
	Options exercised	(151,227)	
	Options expired	-	
	At 31 December 2006	<u>152,734,885</u>	4cents
(ii)	Unlisted options – Expiry date 30 May 2006		
	At 1 January 2006	2,350,000	22cents
	Options issued	-	
	Options exercised	-	
	Options expired	(2,350,000)	
	At 31 December 2006	<u>-</u>	
	Unlisted options – Expiry date 20 April 2007		
	At 1 January 2006	15,000,000	20cents
	Options issued	-	
	Options exercised	-	
	Options expired	-	
	At 31 December 2006	<u>15,000,000</u>	20cents
	Unlisted options – Expiry date 30 July 2007		
	At 1 January 2006	50,000	20cents
	Options issued	-	
	Options exercised	-	
	Options expired (i)	(50,000)	
	At 31 December 2006	<u>-</u>	
	Unlisted options – Expiry date 7 February 2008		
	At 1 January 2006	2,000,000	10cents
	Options issued	-	
	Options exercised	-	
	Options expired	-	
	At 31 December 2006	<u>2,000,000</u>	10cents
	Unlisted options – Expiry date 30 July 2009		
	At 1 January 2006	1,500,000	30cents
	Options issued	-	
	Options exercised	-	
	Options expired	-	
	At 31 December 2006	<u>1,500,000</u>	30cents
	Unlisted options – Expiry date 31 May 2009		
	At 1 January 2006	-	
	Options issued	125,000,000	4cents
	Options exercised	(125,000,000)	
	Options expired	-	
	At 31 December 2006	<u>-</u>	
	Unlisted options – Expiry date 31 July 2008		
	At 1 January 2006	-	
	Options issued	134,200,000	4cents
	Options exercised	-	
	Options expired	-	
	At 31 December 2006	<u>134,200,000</u>	4cents

(i) Employee options forfeited due to resignation during 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 20: COMPENSATION OF KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

(i) Directors

M. Atkins	Chairman (non-executive)
M. Wilson	Managing Director – Appointed 13 May 2005
R. Perring	Executive Director - Technical – Appointed 18 January 2006
D. Ryan	Non-Executive Director – Appointed 13 May 2005
M.V. McDonald	Director and Chief Executive – Resigned 15 April 2005
I.D. Cowden	Director – Resigned 30 May 2005

(ii) Executives

A.M.Law	General Manager – Resigned 15 June 2005
D. Thompson	Exploration Manager – Resigned 6 February 2006
D. Waterfield	Exploration Manager – Appointed 6 February 2006
B. Phyland	District Geologist – Appointed 27 September 2005
P. Petrovic	Systems Administrator – 20 February 2006
L. Mitchell	Care & Maintenance Manager – Appointed 01 April 2005

(b) Compensation of key management personnel.

(i) Compensation policy

The compensation arrangements in place for Directors and Executives of Legend are set out below:

Compensation Philosophy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

The Company embodies the following principle in its remuneration framework:

- Provide competitive rewards to attract high caliber executives.

Remuneration Committee

Due to the size of Legend, remuneration is considered by the full Board. The Board reviews remuneration packages and policies applicable to the Directors and Senior Executives. Remuneration levels are competitively set to attract the most qualified and experienced Directors and Senior Executives. The Board obtains independent advice on the appropriateness of remuneration packages.

Compensation Structure

In accordance with best practice corporate governance, the structure of Non Executive Director and senior manager compensation is separate and distinct.

Objective of Non Executive Director Compensation

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 20: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

Structure of Non Executive Director Compensation

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 30 May 2006 when shareholders approved the aggregate remuneration of \$200,000 per year.

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

During the year Legend issued 15 million options with a value of \$300,000, to Dermot Ryan, a non executive director. This allocation was individually approved by shareholders as the distribution took place outside the Employee Share Option Plan. Please refer to the Compensation Report below for further details.

Objective of Senior Management and Executive Director Compensation

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:-

- reward executives for company and individual performance against targets set by reference to appropriate benchmarks,
- align the interests of executives with those of shareholders, and
- ensure total remuneration is competitive by market standards.

Structure of Senior Management and Executive Director Compensation

In determining the level and make-up of executive compensation, the Board engages external consultants to provide independent advice.

It is the Board's policy that an employment contract is entered into with key executives.

Compensation consists of a fixed compensation element and the issue of options from time to time at the directors' discretion under the Employee Share Option Plan. Any issue of options to directors under the Employee Share Option Plan requires prior shareholder approval.

During the year Legend issued 5 million options with a value of \$100,000, to each of the executive directors. This allocation was individually approved by shareholders as the distribution took place outside the Employee Share Option Plan. Please refer to the Compensation Report below for further details.

Fixed Remuneration

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of company and individual performance, relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices.

Structure

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 20: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

Employment contracts

The Managing Director, Mr Mark Wilson, is employed under contract. The current employment contract commenced on the 1 July 2006 and terminates on the 30 June 2007, at which time the Company may choose to commence negotiations to enter into a new employment contract.

- Mr Wilson receives remuneration of \$1,000 per day up to a maximum of \$220,000 per annum plus GST.
- Mr Wilson may resign from his position and thus terminate his contract by giving 1 month written notice.
- The company may terminate Mr Wilson's employment contract by providing 1 month written notice or by providing payment in lieu of notice period (based on the fixed component of his remuneration)
- The company may terminate Mr Wilson's contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs Mr Wilson is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

The Executive Director - Technical, Mr Robert Perring, is employed under contract. The current employment contract commenced on the 19 July 2006 and terminates on the 30 June 2007, at which time the Company may choose to commence negotiations to enter into a new employment contract.

- Mr Perring receives remuneration of \$1,000 per day up to a maximum of \$220,000 per annum plus GST.
- Mr Perring may resign from his position and thus terminate his contract by giving 1 month written notice.
- The company may terminate Mr Perring's employment contract by providing 1 month written notice or by providing payment in lieu of notice period (based on the fixed component of his remuneration)
- The company may terminate Mr Perring's contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs Mr Perring is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 20: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

(ii) Compensation of Key Management Personnel (Consolidated and Company)

		Short term Salary & Fees \$	Post Employment Superannuation \$	Share based payment options \$	Total \$	% of Compensation granted as options	% of Performance related remuneration
Directors							
M. Atkins	2006	61,500	-	-	61,500	-	-
(Windamurah P/L)	2005	66,000	-	-	66,000	-	-
M. Wilson	2006	211,600	-	100,000	311,600	32%	32%
(Hostyle P/L)	2005	105,600	-	-	105,600	-	-
D. Ryan	2006	40,710	3,664	300,000	344,374	87%	87%
	2005	124,543	11,209	-	135,752	-	-
M. V. McDonald	2006	-	-	-	-	-	-
	2005	270,183	57,404	-	327,587	-	-
I.D. Cowden	2006	-	-	-	-	-	-
(Iana P/L)	2005	105,335	-	-	105,335	-	-
R.Perring	2006	209,700	-	100,000	309,700	32%	32%
(Quadramin)	2005	-	-	-	-	-	-
Executives							
A.M. Law	2006	-	-	-	-	-	-
	2005	127,927	7,975	-	135,902	-	-
D. Thomson	2006	34,066	3,066	-	37,132	-	-
	2005	84,010	7,561	-	91,571	-	-
D. Waterfield	2006	138,359	12,452	10,625	161,436	7%	7%
	2005	-	-	-	-	-	-
B. Phyland	2006	110,563	9,951	5,312	125,826	4%	4%
	2005	29,192	2,627	-	31,819	-	-
P. Petrovic	2006	65,380	5,884	2,125	73,389	3%	3%
	2005	-	-	-	-	-	-
L. Mitchell	2006	99,450	8,951	-	108,401	-	-
	2005	74,600	6,714	-	81,314	-	-
Total							
	2006	971,328	43,968	518,062	1,533,358	34%	34%
	2005	987,390	93,490	-	1,080,880	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 20: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

(c) Compensation Options: Granted during the year

26,700,000 share options were granted as compensation in July 2006.

Name	No. of Options	Grant Date	Value per option at grant date (\$)	Exercise price per share (\$)	Expiry Date
Director					
Mark Wilson	5,000,000	20 July 2006	0.02	0.04	31 July 2008
Robert Perring	5,000,000	20 July 2006	0.02	0.04	31 July 2008
Dermot Ryan	15,000,000	20 July 2006	0.02	0.04	31 July 2008
Executive					
D. Waterfield	1,000,000	20 July 2006	0.02	0.04	31 July 2008
B Phyland	500,000	20 July 2006	0.02	0.04	31 July 2008
P Petrovic	200,000	20 July 2006	0.02	0.04	31 July 2008

Options issued under the Employee Share Option Plan are subject to the employee retaining employment with the Group for a period of 12 months. All other options are issued to employees for past performance and therefore have no performance conditions placed on them. For further information please refer to note 21.

Name	Balance at beg of period 1 Jul 2006	Granted as Remuneration	Balance at end of period 31 Dec 2006	Not Vested & Not Exercisable	Vested & Exercisable
Director					
Mark Wilson	-	5,000,000	5,000,000	-	5,000,000
Robert Perring	-	5,000,000	5,000,000	-	5,000,000
Dermot Ryan	-	15,000,000	15,000,000	-	15,000,000
Executive					
D. Waterfield	-	1,000,000	1,000,000	1,000,000	-
B Phyland	-	500,000	500,000	500,000	-
P Petrovic	-	200,000	200,000	200,000	-
Total	-	26,700,000	26,700,000	1,700,000	25,000,000

Name	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 and lapsed during the year \$	% Remuneration consisting of options during the year
Director					
Mark Wilson	100,000	-	-	100,000	32%
Robert Perring	100,000	-	-	100,000	32%
Dermot Ryan	300,000	-	-	300,000	87%
Executive					
D. Waterfield	10,625	-	-	10,625	7%
B Phyland	5,312	-	-	5,312	4%
P Petrovic	2,125	-	-	2,125	3%
Total	518,062	-	-	518,062	-

(d) Shares issued on exercise of compensation options

No shares were issued on exercise of compensation options during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 20: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

(e) Option holdings of Key Management Personnel

(i) Options (listed) over Ordinary Shares in Legend Mining Limited (number)

	Balance 1 Jan 06	Granted as compensation	On exercise of options	Net change other	Balance 31-Dec-06
Directors					
M. Atkins	-	-	-	51,667	51,667
M. Wilson	-	-	-	-	-
R. Perring	-	-	-	-	-
D. Ryan	-	-	-	5,000	5,000
Executives					
A. M. Law	-	-	-	-	-
D. Thompson	-	-	-	50,000	50,000
D. Waterfield	-	-	-	-	-
B. Phyland	-	-	-	50,000	50,000
P. Petrovic	-	-	-	50,000	50,000
L. Mitchell	-	-	-	-	-
				206,667	206,667

	Balance 1 Jan 05	Granted as compensation	On exercise of options	Net change other	Balance 31-Dec-05
Directors					
M. Atkins	-	-	-	-	-
M. Wilson	-	-	-	-	-
R. Perring	-	-	-	-	-
D. Ryan	-	-	-	-	-
Executives					
A. M. Law	-	-	-	-	-
D. Thompson	-	-	-	-	-
D. Waterfield	-	-	-	-	-
B. Phyland	-	-	-	-	-
P. Petrovic	-	-	-	-	-
L. Mitchell	-	-	-	-	-

(ii) Options (unlisted) over Ordinary Shares in Legend Mining Limited (number)

	Balance 1-Jan-06	Granted as compensation	On exercise of options	Net change additions	Balance 31-Dec-06
Directors					
M. Atkins	500,000	-	-	-	500,000
M. Wilson	-	5,000,000	-	-	5,000,000
R. Perring	-	5,000,000	-	-	5,000,000
D. Ryan	-	15,000,000	-	-	15,000,000
Executives					
A. M. Law	-	-	-	-	-
D. Thompson	-	-	-	-	-
D. Waterfield	-	1,000,000	-	-	1,000,000
B. Phyland	-	500,000	-	-	500,000
P. Petrovic	-	200,000	-	-	200,000
L. Mitchell	-	-	-	-	-
	500,000	26,700,000	-	-	27,200,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 20: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

	Balance 1-Jan-05	Granted as compensation	On exercise of options	Net change additions	Balance 31-Dec-05
Directors					
M. Atkins	500,000	-	-	-	500,000
M. Wilson	-	-	-	-	-
R. Perring	-	-	-	-	-
D. Ryan	-	-	-	-	-
Executives					
A. M. Law	-	-	-	-	-
D. Thompson	-	-	-	-	-
D. Waterfield	-	-	-	-	-
B. Phyland	-	-	-	-	-
P. Petrovic	-	-	-	-	-
L. Mitchell	-	-	-	-	-
	500,000	-	-	-	500,000

(f) Shareholdings of Key Management Personnel

31 December 2006	Balance 1-Jan-06	Granted as compensation	On exercise of options	Net change additions	Balance 31-Dec-06
Directors					
M. Atkins (Windamurah P/L) (Alkali Exploration P/L)	155,000	-	-	1,051,667	1,206,667
M. Wilson (Chester Nominees WA P/L)	-	-	-	16,900,000	16,900,000
R. Perring (Quality Services Enterprises P/L)	-	-	-	3,000,000	3,000,000
D. Ryan (Enterprise Family Trust)	15,000	-	-	1,005,000	1,020,000
Executives					
A.M. Law	-	-	-	-	-
D. Thompson	-	-	-	50,000	50,000
D. Waterfield	-	-	-	-	-
B. Phyland	-	-	-	50,000	50,000
P. Petrovic	-	-	-	50,000	50,000
L. Mitchell	-	-	-	-	-
	170,000	-	-	22,106,667	22,276,667

Mr D. Ryan was a shareholder of Gidgee Resources Ltd, at the time of its acquisition by Legend Mining Limited on the 7 April 2005.

31 December 2005	Balance 1-Jan-05	Granted as compensation	On exercise of options	Net change additions	Balance 31-Dec-05
Directors					
M. Atkins (Windamurah P/L) (Alkali Exploration P/L)	155,000	-	-	-	155,000
M. Wilson (Chester Nominees WA P/L)	-	-	-	-	-
R. Perring (Quality Services Enterprises P/L)	-	-	-	-	-
D. Ryan (Enterprise Family Trust)	-	-	15,000	-	15,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 20: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

	Balance 1-Jan-05	Granted as compensation	On exercise of options	Net change additions	Balance 31-Dec-05
Executives					
A.M. Law	-	-	-	-	-
D. Thompson	-	-	-	-	-
D. Waterfield	-	-	-	-	-
B. Phyland	-	-	-	-	-
P. Petrovic	-	-	-	-	-
L. Mitchell	-	-	-	-	-
	155,000	-	15,000	-	170,000

(g) Other transactions and balances with Key Management Personnel Services

During the year Windamurah Pty Ltd (a company associated with Mr M. Atkins) received fees for the provision of consulting services to the Company. The aggregate amount charged for such services was \$61,500 (2005: \$66,000).

During the year Hostyle Pty Ltd (a company associated with Mr M. Wilson) received fees for the provision of consulting services to the Company. The aggregate amount charged for such services was \$211,600 (2005:\$105,600).

During the year Quadramin (an entity associated with Mr R Perring) received fees for the provision of consulting services to the Company. The aggregate amount charged for such services and expenses was \$209,700 (2005: Nil).

NOTE 21: SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense recognised for services received during the year is shown in the table below:

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Expense arising from Employee Share Option Plan	18,062	-	18,062	-
Expense arising from Expense Share Option Plan	2,650,000	-	2,650,000	-

(b) Types of share-based payment plans Employee Share Option Plan, 'ESOP'

Share options are granted to Eligible Persons with more than 6 months' service. Eligible Persons are determined by the Board after taking into account the following considerations:

- (i) the seniority of the Eligible Person and the position the Eligible Person occupies within the Group;
- (ii) the length of service of the Eligible Person with the Group;
- (iii) the record of employment of the Eligible Person with the Group;
- (iv) the contractual history of the Eligible Person with the Group;
- (v) the potential contribution of the Eligible Person to the growth of the Group;
- (vi) the extent (if any) of the existing participation of the Eligible Person in the Plan; and
- (vii) any other matters which the Board considers relevant.

The ESOP is designed to align participants' interests with those of shareholders by increasing the value of the Company's shares. Under the ESOP, the exercise price of the options is set "at least 80% of the average closing sale price of the Shares on ASX over the five trading days immediately preceding the day of issue of Options by the Board" as per the terms stated in the ESOP.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 21: SHARE-BASED PAYMENT PLANS (CONTD)

Options may be exercised at any time during the period commencing 12 months after the Issue Date and ending on the Expiry.

When an Eligible Person ceases employment prior to the first anniversary of the Issue Date otherwise than to take up employment with an Associate Company, or ceases to be an Eligible Person on account of Retirement, Permanent Disability, Redundancy or death, the share options automatically lapse and are forfeited.

When an Eligible Person ceases employment after the first anniversary of the Issue Date and prior to the Expiry Date otherwise than to take up employment with an Associate Company, or ceases to be an Eligible Person on account of Retirement, Permanent Disability, Redundancy or death, the share options automatically lapse and are forfeited if the Eligible Person fails to exercise any or all of the options within a period of three months from the date of cessation of employment.

Expense Share Option Plan, 'ExSOP'

Share options were granted during the financial year, as opposed to cash for payment of the following expenses:

- (i) directors compensation – 25,000,000 options were granted to directors as compensation in July 2006, refer note 20 for further details;
- (ii) early conversion fee on convertible note – 100,000,000 million options were granted to Yandal Investments Pty Ltd as compensation for the early conversion of a \$125,000,000 convertible note; and
- (iii) capital raising costs – 7,500,000 options were granted to Findlay & Co Stockbrokers Limited as compensation for the commission on the share issue in July 2006.

(c) Summaries of options granted

ESOP: 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 balance at the beginning of the year	-	-	-	-
Granted during the year	1,700,000	0.04	-	-
Outstanding at the end of the year	1,700,000	0.04	-	-
Exercisable at the end of the year	-	-	-	-

The outstanding balance as at 31 December 2006 is represented by:

- (i) 1,700,000 options over ordinary share with an exercise price of \$0.04 each, exercisable from 15 August 2007 to 31 July 2008.

ExSOP:

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 balance at the beginning of the year	-	-	-	-
Granted during the year	132,500,000	0.04	-	-
Outstanding at the end of the year	132,500,000	0.04	-	-
Exercisable at the end of the year	132,500,000	0.04	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 21: SHARE-BASED PAYMENT PLANS (CONTD)

The outstanding balance as at 31 December 2006 is represented by:

- (i) 132,500,000 options over ordinary share with an exercise price of \$0.04 each, exercisable until 31 July 2008.

(d) Option pricing model

ESOP

The fair value of the share options granted under the ESOP is measured at the reporting date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted.

Expected volatility (%)	73.41
Risk-free interest rate (%)	5.50
Expected life of option (days)	715
Option exercise price (\$)	0.04
Weighted average share price at measurement date (\$)	0.04

ExSOP

The fair value of the share options granted under the ExSOP is measured at the reporting date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted.

Expected volatility (%)	73.41
Risk-free interest rate (%)	5.50
Expected life of option (days)	715
Option exercise price (\$)	0.04
Weighted average share price at measurement date (\$)	0.04

NOTE 22: RELATED PARTIES

(i) Wholly-owned group transactions

Loans made by Legend Mining Limited to wholly-owned subsidiaries are repayable on demand and are not interest bearing.

(ii) Other related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Allowance for impairment loss on trade receivables

For the year ended 31 December 2006, the Group has not made any allowance for impairment loss relating to amounts owed by related parties (2005: \$325,183). An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

(iii) Ultimate parent

Legend Mining Limited is the ultimate parent company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 22: RELATED PARTIES (CONTD)

(iv) Loans to related parties

Legend Mining Limited advanced/ (received) the following loans to/(from) its subsidiary companies during 2006

Gibson Metals Pty Ltd	\$1,748,402
Armada Mining Limited	\$ 1,400
Gidgee Resources Limited	\$ (449,050)

NOTE 23: CASH FLOW INFORMATION

(i) Reconciliation of Cash

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	Note	Consolidated		Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
Cash on hand		300	300	300	300
Cash at bank		540,427	391,019	540,427	389,713
Deposits at call		8,384,256	16,658	8,384,256	16,658
	8	<u>8,924,983</u>	<u>407,977</u>	<u>8,924,983</u>	<u>406,671</u>

(ii) Reconciliation of net loss after income tax to net cash used in operating activities

Net Loss	(7,736,579)	(7,563,178)	(8,191,494)	(7,565,123)
Adjusted for:				
(Gain)/ Loss on disposal of available for sale investments	-	(2,804)	-	(2,804)
(Gain)/Loss on disposal of property, plant & equipment	(2,997)	(6,319)	(2,997)	(6,319)
Depreciation	233,336	236,952	172,173	227,466
Amortisation	-	-	-	-
Deferred exploration expenditure written off	3,732,296	4,502,813	3,494,770	293,866
Expenses paid in the form of options	2,500,000	-	2,500,000	-
Investments and receivables in subsidiary companies written down	-	-	550,047	4,225,814
	<u>(1,273,944)</u>	<u>(2,832,536)</u>	<u>(1,477,501)</u>	<u>(2,827,100)</u>
<i>Change in assets and liabilities:</i>				
(Increase)/ decrease in prepayments	11,487	34,842	11,487	34,842
(Increase)/ decrease in receivables	(181,478)	301,837	(184,172)	301,838
Decrease / (Increase) in inventory	11,544	1,490,166	11,544	1,490,166
Exploration and Evaluation Expenditure	(5,841,783)	(8,542,499)	(5,841,783)	(8,542,499)
(Decrease)/Increase in provision for annual leave	27,001	(66,218)	27,001	(66,218)
(Decrease)/ Increase in payables in operating activities	192,470	(3,229,419)	618,571	(3,236,159)
Net Cash (Used)/ provided in operating activities	<u>(7,054,703)</u>	<u>(12,843,827)</u>	<u>(6,834,853)</u>	<u>(12,845,130)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 23: CASH FLOW INFORMATION (CONTD)

Non cash financing and investment activities

During the financial year, the consolidated entity transacted the following non cash activities:

- (a) Capital raising costs were settled by the issue of 7,500,000 ordinary share options.
- (b) Early conversion fee on convertible note was settled by the issue of 100,000,000 ordinary share options.
- (c) Director compensation costs were settled by the issue of 25,000,000 ordinary share options.

NOTE 24: COMMITMENTS

- (a) Exploration expenditure commitments.

In order to maintain current rights of tenure to exploration tenements, the Company will be required to outlay in 2007 amounts of approximately \$3,367,880 (2006: \$3,958,516) in respect of tenement lease rentals and to meet minimum expenditure requirements of the Department of Industry & Resources. These obligations are expected to be fulfilled in the normal course of operations and have not been provided for in the financial report.

Note: This is the maximum commitment to exploration, to fully meet DOIR requirements. In practice, Legend has routinely applied for and been granted exemptions from meeting these requirements on a tenement by tenement basis. As a result the actual amount required to be expended on exploration is expected to be significantly less than \$3.3 million, while still holding all the tenements in good standing.

NOTE 25: INVESTMENTS IN CONTROLLED ENTITIES

Name	Class of Share	Interest Held 2006	Interest Held 2005
Gibson Metals Pty Ltd (formerly Arbotech Pty Ltd)	Ordinary	100%	100%
Armada Mining Ltd	Ordinary	100%	100%
Gidgee Resources Ltd	Ordinary	100%	100%

The parent company and all the controlled entities are Australian registered entities.

NOTE 26: FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

Consolidated 2005	Weighted Average Interest Rate	Floating Interest \$	Fixed Interest \$	Non-Interest Bearing \$	Total \$
Financial assets:					
Cash and cash equivalents	3.0%	391,319	16,658	-	407,977
Other Financial Assets	5.3%	-	3,270,177	16,134	3,286,311
Trade & Other Receivables		-	-	52,288	52,288
		391,319	3,286,835	68,422	3,746,576
Financial liabilities					
Trade & Other Payables Payable		-	-	621,865	621,865
Interest bearing loans and borrowings	10.75%	-	8,000,000	-	8,000,000
		-	8,000,000	621,865	8,621,865

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 26: FINANCIAL INSTRUMENTS DISCLOSURE (CONTD)

Company 2005	Weighted Average Interest Rate	Floating Interest \$	Fixed Interest \$	Non-Interest Bearing \$	Total \$
Financial assets:					
Cash and cash equivalents	3.0%	390,013	16,658	-	406,671
Other Financial Assets	5.3%	-	3,270,177	16,134	3,286,311
Trade & Other Receivables		-	-	52,288	52,288
		390,013	3,286,835	68,422	3,745,270
Financial liabilities					
Trade & Other Payables Payable		-	-	621,865	621,865
Interest bearing loans and borrowings	10.75%	-	8,000,000	-	8,000,000
		-	8,000,000	621,865	8,621,865

Consolidated 2006	Weighted Average Interest Rate	Floating Interest \$	Fixed Interest \$	Non-Interest Bearing \$	Total \$
Financial assets:					
Cash and cash equivalents	6.22%	540,727	8,384,256	-	8,924,983
Other Financial Assets	5.10%	-	132,596	16,134	148,730
Trade & Other Receivables		-	-	233,766	233,766
		540,727	8,516,852	249,900	9,307,479
Financial liabilities					
Trade & Other Payables		-	-	447,842	447,842
		-	-	447,842	447,842

Company 2006	Weighted Average Interest Rate	Floating Interest \$	Fixed Interest \$	Non-Interest Bearing \$	Total \$
Financial assets:					
Cash and cash equivalents	6.22%	540,727	8,384,256	-	8,924,983
Other Financial Assets	5.10%	-	132,596	16,134	148,730
Related Party Receivables		-	-	3,814,015	3,814,015
Trade & Other Receivables		-	-	233,766	233,766
		540,727	8,516,852	4,063,915	13,121,494
Financial liabilities					
Trade & Other Payables		-	-	427,842	427,842
		-	-	427,842	427,842

The maturity date for all financial instruments included in the above tables is 1 year or less from balance date. Performance bonds have legal maturities of 30 days. They have however, been classified as non-current in the balance sheet as the Group does not expect them to be realised within 12 months.

(b) Credit Risk

The Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant.

There are no significant concentrations of credit risk within the Group.

(c) Net Fair Value of Financial Assets and Liabilities

The consolidated entity's financial assets and liabilities as disclosed in the balance sheet are carried at amounts that approximate their net fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 27: INTEREST IN JOINT VENTURE ASSETS

Legend Mining Limited has an interest in the following joint venture assets.

Joint Venture	Project	Activity	2006 Interest	2005 Interest
Munni Munni Joint Venture	Elizabeth Hill	Silver Exploration	30.12%	33.33%

Net assets employed in the joint venture totalling \$277,010 (2005: \$235,409) are included as deferred exploration expenditure carried forward in the financial statements.

NOTE 28: AUDITORS REMUNERATION

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity by Ernst & Young for				
- auditing or reviewing the financial report	49,512	28,228	49,512	28,228
- consulting fees corporate advice	-	43,827	-	43,827

NOTE 29: CONTINGENT LIABILITIES

There has been no material change of any contingent liabilities during the year.

No matter or circumstance has arisen since the end of the year to the date of this report which has significantly effected, or may significantly effect, the operations of the consolidated entity the results of those operations or the state of affairs of the consolidated entity.

The consolidated entity's activities in Australia are subject to the Native Titles Act and the Department of Environment. Uncertainty associated with Native Title issues may impact on the Company's future plans.

There are no unresolved Native Title issues and the consolidated entity is not aware of any other matters that may impact upon its access to the land that comprises its project areas.

NOTE 30: EVENTS AFTER THE BALANCE SHEET DATE

As at the date of the report there are no subsequent significant events after the balance date.

NOTE 31: DIVIDENDS PAID AND PROPOSED

No dividends were paid or proposed this financial year.

There are no franking credits available for future reporting periods.

DIRECTOR'S DECLARATION

In accordance with a resolution of the Directors of Legend Mining Limited, I state that:

In the opinion of the Directors:

- a) the financial statements and notes, of the consolidated entity, are in accordance with the Corporations Act 2001, including;
 - i. Giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2006 and their performance for the year ended on that date; and
 - ii. Comply with Accounting Standards' and the 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.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 31 December 2006.

On behalf of the Board.

A handwritten signature in black ink, appearing to read 'M. Wilson', followed by a long horizontal line extending to the right.

M. Wilson
Managing Director

Dated this 16th day of March 2007

DECLARATION OF AUDITOR'S INDEPENDENCE



■ The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

GPO Box M939
Perth WA 6843

Auditor's Independence Declaration to the Directors of Legend Mining Limited

In relation to our audit of the financial report of Legend Mining Limited for the financial year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A handwritten signature in black ink, appearing to read 'Ernst & Young', with a large, stylized flourish at the end.

Ernst & Young

A handwritten signature in black ink, appearing to read 'G H Meyerowitz', with a large, stylized flourish at the end.

G H Meyerowitz
Partner
Perth

16 March 2007

INDEPENDENT AUDITOR'S REPORT



■ The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

GPO Box M939
Perth WA 6843

Independent audit report to members of Legend Mining Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Legend Mining Limited (the company) and the consolidated entity, for the year ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, 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 of the financial report 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 in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

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

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

INDEPENDENT AUDITOR'S REPORT



Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report

Audit opinion

In our opinion, the financial report of Legend Mining Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Legend Mining Limited and the consolidated entity at 31 December 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

A handwritten signature in black ink, appearing to read 'Ernst & Young', with a large, stylized flourish at the end.

Ernst & Young

A handwritten signature in black ink, appearing to read 'G H Meyerowitz', with a large, stylized flourish at the end.

G H Meyerowitz
Partner
Perth

16 March 2007

SHAREHOLDER INFORMATION

The issued capital of the company as at 31 December 2006 is 924,115,651 ordinary fully paid shares.

Distribution of Share Holders as at 9 March 2007

Fully Paid Shares	Number
1 - 1,000	40
1,001 - 5,000	136
5,001 - 10,000	305
10,001 - 100,000	1,301
100,001 and over	624
	2,406
Number holding less than a marketable parcel	308

Substantial Shareholder as at 9 March 2007

Australian Gold Resources Pty Ltd	395,485,000
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Top 20 Shareholders as at 9 March 2007

Name	Total Holdings	% Issued Capital
Yandal Investments Pty Ltd	244,750,000	26.49
Australian Gold Resources Pty Ltd	149,985,000	16.23
HSBC Custody Nominees (Australia) Limited	39,663,272	4.29
Oroya Mining Limited	30,000,000	4.15
Chester Nominees WA Pty Ltd	16,900,000	1.83
National Nominees Limited	15,039,163	1.63
Ron Medich Properties Pty Ltd	12,395,765	1.34
Rigi Investments Pty Ltd	11,712,181	1.27
ANZ Nominees Limited	11,301,621	1.22
Ankaa Springs Pty Ltd	11,100,000	1.20
G Santalucia Investment Pty Ltd	11,027,828	1.19
Donwillow Pty Ltd	10,291,666	1.11
James Sharp & Co	7,000,000	0.76
Citigroup Nominees Pty Limited	6,779,000	0.73
H Wallace-Smith and Co Pty Ltd	6,627,773	0.72
Mr A and Mrs M Holmes	6,500,000	0.70
Mr Johnny Kahlbetzer	5,300,000	0.57
Mr Brian McCubbing	5,100,000	0.55
Denkey Pty Ltd	5,000,000	0.54
Travelly Pty Ltd	4,808,033	0.52
	611,281,302	67.04

SHAREHOLDER INFORMATION

The number of listed options on issue as at 31 December 2006 is 152,734,885 options.

Distribution of Listed Option Holders as at 9 March 2007

Fully Paid Shares	Number
1 - 1,000	14
1,001 - 5,000	90
5,001 - 10,000	58
10,001 - 100,000	297
100,001 and over	165
	624
Number holding less than a marketable parcel	132

Top 20 Listed Option Holders as at 9 March 2007

Name	Total Holdings	% Issued Capital
HSBC Custody Nominees (Australia) Limited	31,496,665	20.62
Mr Brian McCubbing	7,100,000	4.65
Donwillow Pty Ltd	7,000,000	4.58
Ankaa Springs Pty Ltd	5,100,000	3.34
Mr Charles Carver	4,020,000	2.63
National Nominees Limited	3,701,999	2.42
H Wallace-Smith and Co Pty Ltd	3,342,833	2.19
Ron Medich Properties Pty Ltd	3,098,941	2.03
Mr A and Mrs M Holmes	3,000,000	1.96
Mr B.A.M.Hopkins	2,850,000	1.87
Second Naremi Pty Ltd	2,797,575	1.83
Rigi Investments Pty Ltd	2,526,045	1.65
Mr A J Vetter	2,000,000	1.31
Mr Jan Van Der Veen	1,868,631	1.22
Canary Pty Ltd	1,700,000	1.11
Travelly Pty Ltd	1,625,000	1.06
Mr Harinder Baweja	1,447,778	0.95
Mr Alban Horst Hasslinger	1,400,000	0.92
Mr Kevin Charles Looby	1,300,000	0.85
Sell Power Pty Ltd	1,255,000	0.82
	88,630,467	58.03

Unlisted Option holders as at 9 March, 2007

Class of options	Number	Number of Holders
20 April 2007 exercisable at 20 cents per share	15,000,000	3
07 February 2008 exercisable at 10 cents per share	2,000,000	2
30 July 2009 exercisable at 30 cents per share	1,500,000	3
31 July 2008 exercisable at 4 cents per share	134,200,000	7

Each option holder holds more than 100,000 unlisted options each.

TENEMENT LISTING

As at 6 March 2007
GIDGEE

Tenement	Status	Percentage Interest
E51/1144	Granted	100%
E51/1145	Granted	100%
E53/345	Granted	100%
E53/957	Granted	100%
E53/1215	Granted	100%
E53/1216	Granted	100%
E53/1217	Granted	100%
E57/190	Granted	100%
E57/520	Granted	100%
E57/632	Granted	100%
E57/634	Granted	100%
L53/46	Granted	100%
L53/47	Granted	100%
L53/95	Granted	100%
L53/96	Granted	100%
L53/116	Granted	100%
L57/11	Granted	100%
L57/12	Granted	100%
L57/20	Granted	100%
M51/104	Granted	100%
M51/105	Granted	100%
M51/157	Granted	100%
M51/185	Granted	100%
M51/186	Granted	100%
M51/290	Granted	100%
M51/410	Granted	100%
M51/458	Granted	100%
M53/10	Granted	100%
M53/11	Granted	100%
M53/105	Granted	100%
M53/153	Granted	100%
M53/251	Granted	100%
M53/252	Granted	100%
M53/500	Granted	100%
M53/716	Granted	100%
M53/904	Granted	100%
M53/988	Granted	100%
M57/19	Granted	100%
M57/26	Granted	100%
M57/33	Granted	100%
M57/69	Granted	100%
M57/70	Granted	100%
M57/71	Granted	100%
M57/72	Granted	100%
M57/73	Granted	100%
M57/74	Granted	100%
M57/143	Granted	100%
M57/144	Granted	100%
M57/145	Granted	100%
M57/146	Granted	100%
M57/210	Granted	100%
M57/231	Granted	100%
M57/236	Granted	100%
M57/241	Granted	100%
M57/242	Granted	100%
M57/250	Granted	100%
M57/251	Granted	100%
M57/292	Granted	100%
M57/349	Granted	100%
M57/375	Granted	100%
P53/635	Granted	100%
P53/636	Granted	100%
P53/637	Granted	100%
P53/1112	Granted	100%
P53/1152	Granted	100%
P53/1153	Granted	100%
P53/1155	Granted	100%
P53/1163	Granted	100%
P53/1199	Granted	100%
P57/662	Granted	100%
P57/971	Granted	100%
P57/1015	Granted	100%
P57/1024	Granted	100%
P57/1028	Granted	100%
P57/1080	Granted	100%
P57/1081	Granted	100%

TENEMENT LISTING

P57/1082	Granted	100%
P57/1083	Granted	100%
P57/1084	Granted	100%
P57/1087	Granted	100%
P57/1088	Granted	100%
P57/1093	Granted	100%
P57/1094	Granted	100%
E53/1270	Pending	100%
E53/1273	Pending	100%
E57/571	Pending	100%
E57/589	Pending	100%
E57/633	Pending	100%
E57/636	Pending	100%
E57/674	Pending	100%
E57/676	Pending	100%
E57/678	Pending	100%
E57/705	Pending	100%
E57/706	Pending	100%
M53/450	Pending	100%
M53/597	Pending	100%
M57/278	Pending	100%
M57/288	Pending	100%
M57/291	Pending	100%
M57/410	Pending	100%
P53/1268	Pending	100%
P53/1269	Pending	100%
P53/1285	Pending	100%
P53/1295	Pending	100%
P53/1296	Pending	100%
P53/1297	Pending	100%
P53/1302	Pending	100%
P57/1050	Pending	100%
P57/1051	Pending	100%
P57/1052	Pending	100%
P57/1053	Pending	100%
P57/1054	Pending	100%
P57/1055	Pending	100%
P57/1056	Pending	100%
P57/1057	Pending	100%
P57/1058	Pending	100%
P57/1059	Pending	100%
P57/1060	Pending	100%
P57/1061	Pending	100%
P57/1062	Pending	100%
P57/1063	Pending	100%
P57/1068	Pending	100%
P57/1069	Pending	100%
P57/1070	Pending	100%
P57/1105	Pending	100%
P57/1106	Pending	100%
P57/1123	Pending	100%
P57/1124	Pending	100%
P57/1125	Pending	100%
P57/1126	Pending	100%
P57/1127	Pending	100%
P57/1213	Pending	100%

Mt GIBSON

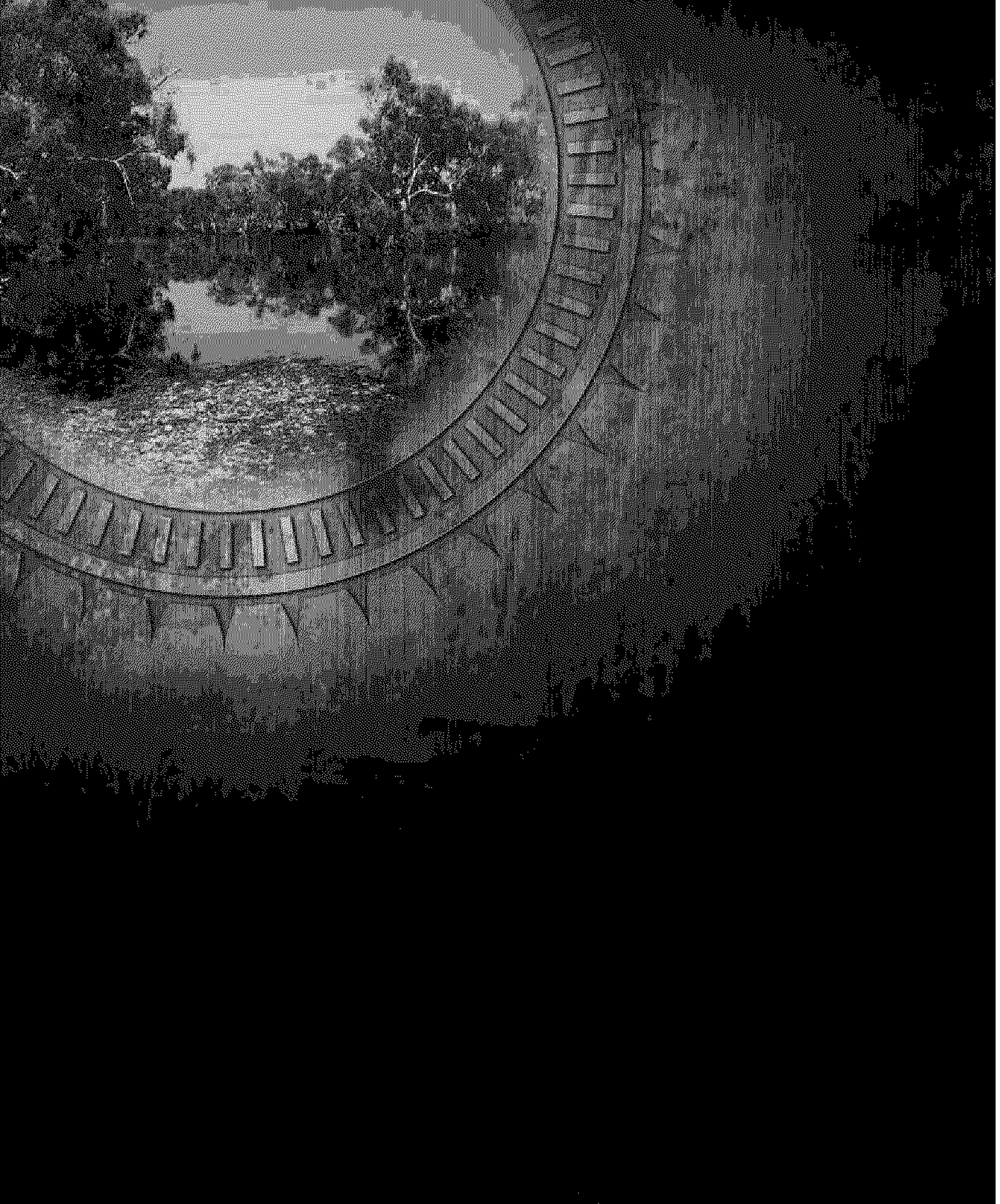
Tenement	Status	Percentage Interest
E59/1041	Granted	100%
G59/11	Granted	100%
G59/12	Granted	100%
G59/13	Granted	100%
G59/14	Granted	100%
G59/15	Granted	100%
G59/16	Granted	100%
G59/17	Granted	100%
G59/18	Granted	100%
L59/12	Granted	100%
L59/13	Granted	100%
L59/14	Granted	100%
L59/16	Granted	100%
L59/21	Granted	100%
L59/45	Granted	100%
L59/46	Granted	100%
L59/53	Granted	100%
M59/11	Granted	100%
M59/13	Granted	100%
M59/14	Granted	100%
M59/15	Granted	100%

TENEMENT LISTING

M59/16	Granted	100%
M59/17	Granted	100%
M59/166	Granted	100%
M59/217	Granted	100%
M59/304	Granted	100%
M59/305	Granted	100%
M59/308	Granted	100%
M59/309	Granted	100%
M59/328	Granted	100%
M59/402	Granted	100%
M59/403	Granted	100%
M59/404	Granted	100%

PILBARA

Tenement	Status	Percentage Interest
E47/562	Granted	100%
E47/587	Granted	30.12%
M47/340	Granted	30.12%
M47/341	Granted	30.12%
M47/342	Granted	30.12%
M47/343	Granted	30.12%
P47/944	Granted	100%
P47/945	Granted	100%
E47/931	Pending	Earning 70% from Australian Nickel Mines NL
E47/947	Pending	Earning 70% from Australian Nickel Mines NL
E47/963	Pending	Earning 70% from Australian Nickel Mines NL
E47/964	Pending	Earning 70% from Australian Nickel Mines NL
E47/1178	Pending	100%
E47/1643	Pending	100%
E47/1745	Pending	100%
E47/1746	Pending	100%
E47/1747	Pending	100%
E47/1797	Pending	100%
M47/409	Pending	100%
M47/414	Pending	30.12%
M47/415	Pending	30.12%
M47/417	Pending	100%
M47/457	Pending	100%
M47/462	Pending	100%
M47/463	Pending	100%
M47/466	Pending	100%
M47/490	Pending	100%
M47/491	Pending	100%
M47/493	Pending	100%
M47/494	Pending	100%
M47/518	Pending	100%
P47/1112	Pending	100%
P47/1124	Pending	100%
P47/1126	Pending	100%
P47/1127	Pending	100%
P47/1128	Pending	100%
P47/1129	Pending	100%
P47/1130	Pending	100%
P47/1131	Pending	100%
P47/1134	Pending	100%
P47/1135	Pending	100%
P47/1136	Pending	100%
P47/1137	Pending	100%
P47/1158	Pending	100%
P47/1159	Pending	100%
P47/1272	Pending	100%
P47/1360	Pending	100%
P47/1361	Pending	100%
P47/1362	Pending	100%
P47/1363	Pending	100%
P47/1364	Pending	100%
P47/1365	Pending	100%
P47/1366	Pending	100%
P47/1367	Pending	100%
P47/1368	Pending	100%
P47/1369	Pending	100%
P47/1370	Pending	100%
P47/1371	Pending	100%
P47/1372	Pending	100%
P47/1373	Pending	100%
P47/1374	Pending	100%
P47/1375	Pending	100%
P47/1380	Pending	100%
P47/1386	Pending	100%



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