

# LEGEND

MINING LIMITED



ANNUAL REPORT

05

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# COMPANY DIRECTORY

## Directors

Michael William Atkins (Chairman)  
Mark William Wilson (Managing Director)  
Robert John Perring (Executive Director - Technical)  
Dermot Michael Ryan (Non-executive Director)

## Secretary

Andrew Chapman

## Registered Office

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WEST PERTH WA 6005  
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## Bankers

National Australia Bank  
1232 Hay St  
WEST PERTH WA 6005

## Auditors

Ernst & Young  
Chartered Accountants  
11 Mounts Bay Road  
PERTH WA 6000

## Home Exchange

Australian Stock Exchange Ltd  
2 The Esplanade  
PERTH WA 6000

## Share Registry

Advanced Share Registry Services  
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NEDLANDS WA 6009  
Telephone: (08) 9389 8033  
Facsimile: (08) 9389 7871

## Lawyers

Pullinger Readhead Lucas  
Level 2, Fortescue House  
50 Kings Park Road  
WEST PERTH WA 6005

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# CHAIRMAN'S REPORT

Dear Shareholder,

Legend has undertaken a very aggressive near-mine exploration drilling program during 2005, having completed over 110,000 metres of aircore, RAB and RC drilling. These drilling programs were designed to identify sufficient additional tonnes of ore to justify the re-opening of the Gidgee Gold Mine. Unfortunately, whilst the program resulted in many high-grade intersections, and the discovery of the high-grade Premium Lode, we were unable to add sufficient new resource to justify the mine re-opening.

Legend's technical team has therefore turned its focus to the exploration of the highly prospective remainder of the Gidgee tenement holdings, which cover approximately 2,500km<sup>2</sup> of the Gum Creek Greenstone Belt. Of particular interest is the relatively untested Western Trend which contains many of the attributes favourable for the formation of large gold deposits.

In addition, during 2005 Legend acquired the Mt Gibson project from Oroya Mining Limited. This acquisition gives Legend a first class base metal project (zinc-copper) in this time of rising metal prices.

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.

Your Directors have also made considerable progress in restructuring the Company's finances, to simplify its balance sheet, and to assemble a first class exploration and corporate management team.

In early 2006 Legend announced the appointment of Mr Mark Wilson as Managing Director and Mr Robert Perring as Executive Director - Technical, as well as the appointment of Mr Derek Waterfield as Exploration Manager. This management team has outstanding credentials to lead Legend into this new phase of its development.

Importantly, Legend also reached agreement with its major shareholder Mr Mark Creasy (per Yandal Investments Pty Ltd), for the early conversion of the secured convertible note, and the early exercise of the resultant options that were attached to the shares issued as a result of its conversion. Legend also announced an underwritten one-for three rights issue to raise \$6.12 million, which together with the \$5 million from the Yandal options to be exercised will raise in excess of \$11 million.

Legend now faces a solid future, well funded, with a new and well credentialed management team, and with significant tenement holdings each with production facilities and infrastructure under care and maintenance.

I would like to take this opportunity to thank the Legend Board and staff for their hard work over the last year and look forward to their continuing support in the ensuing year.



Chairman

29th March 2006

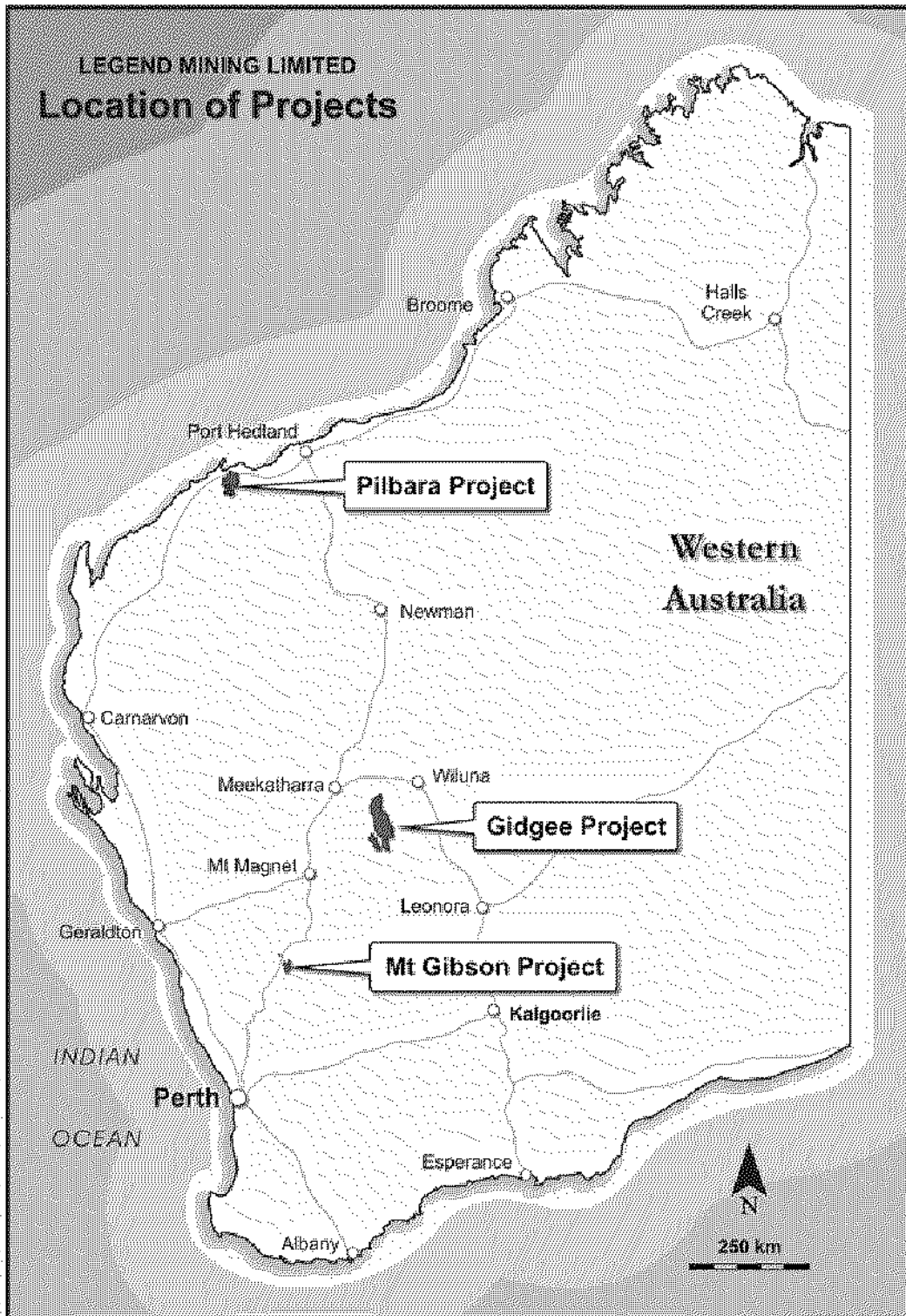


# DIRECTORS' REVIEW OF ACTIVITIES

## PROJECT LOCATIONS

Legend Mining Limited (Legend or the Company) owns three major projects, all located within Western Australia:-

- Gidgee Project
- Mt Gibson Project (acquired November 2005)
- Pilbara Project.



*Location of Projects*

# DIRECTORS' REVIEW OF ACTIVITIES

## GIDGEE PROJECT

The Gidgee Project comprises a consolidated exploration land holding of approximately 2,500km<sup>2</sup> centred around the 650,000 tonnes per annum (tpa) Gidgee Mill. Legend has a pre-eminent land position over approximately 90% of the prospective Gum Creek Greenstone Belt in the northern Southern Cross Province.

The exploration strategy for 2006 is to rapidly and cost-effectively delineate new gold systems on a recently identified trend (Western Trend) located to the west of the Gidgee Mine.

The exploration strategy for 2005 was to focus on near-mine and in-mine targets at the Gidgee Mine to bolster the ore reserve and mineral resource inventory with the objective of locating additional tonnes and higher-value ore and extending the mine life. The high-grade Premium Lode was discovered beneath the North Swan Bitter Pit and further encouragement came from drilling into the interpreted extensions of the Swift Lode, 300m east of Premium.

Gold production from mining during the March Quarter 2005 was 6,860 ounces at a total production cost of \$572 per oz.

In response to declining ore reserves, the Gidgee Mine and Mill were placed on temporary care and maintenance on 9 March 2005, pending the discovery by drilling of additional Mineral Resource and Ore Reserves. This drilling continued with some success until November 2005.

### Gidgee Drilling Statistics for 2005

Method	Number of Holes	Total Metres
<b>Aircore</b>	770	55,266
<b>Rotary Air Blast (RAB)</b>	199	12,860
<b>Reverse Circulation Percussion (RC)</b>	207	43,207

On 28 December 2005, it was announced that additional Indicated and Inferred Mineral Resources containing 184,000 ounces of gold had been outlined at Premium and Swift. However, there were insufficient Ore Reserves to justify the re-opening of the Gidgee Mill.

It became apparent that the best of the oxide gold ore had been mined from within the immediate mine area and any production from underground would be insufficient to support the 650,000 tpa Gidgee Mill. It also became clear that few, high-potential exploration targets remained to be tested on the Gidgee Trend, which had been the focus of exploration over the previous 20 years.

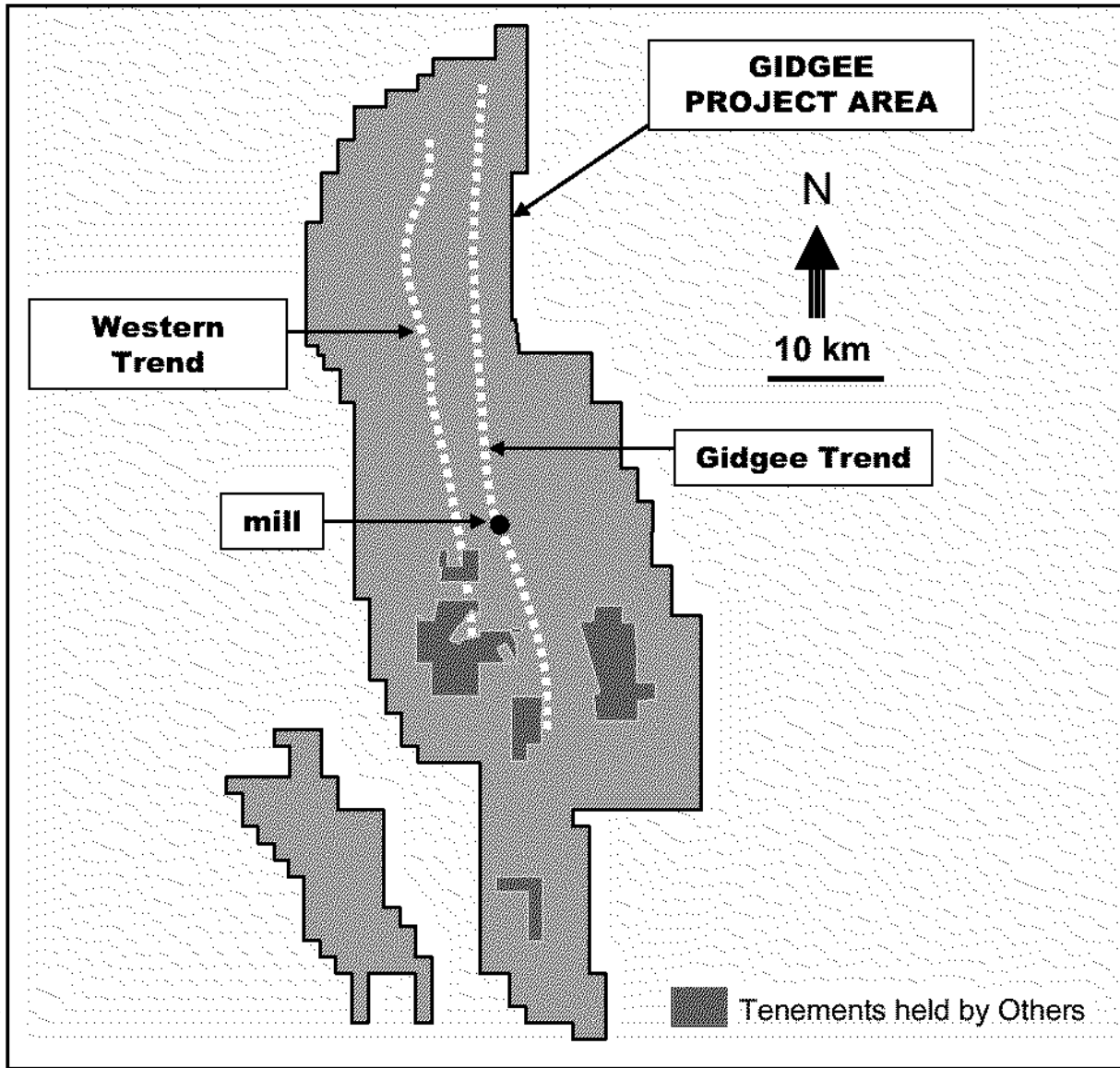
In 2006, following the appointment of Mr Robert Perring as Executive Director – Technical and Mr Derek Waterfield as Exploration Manager, an assessment of the district exploration potential was commenced, with a focus on the large tract of land secured through the acquisition of Gidgee Resources Limited some 12 months earlier. This study identified a poorly drilled, 40km-long trend to the west of the Gidgee Mine – the Western Trend – which contains many of the attributes favourable for the formation of large (plus 2Moz.) gold deposits, including:-

- oxidised and reduced internal granites aligned along the axis of a regional anticlinal fold,
- axial plane shear, with local flexures and jogs on related splays and linking structures,
- gold mineralisation spatially associated with at least one of the internal granitoids e.g. Orion,
- favourable host rocks e.g. dolerite and banded iron formation.

## DIRECTORS' REVIEW OF ACTIVITIES

The Western Trend is predominantly (plus 90%) concealed beneath shallow (<20m) transported cover and represents an outstanding exploration opportunity that is 100% owned by Legend.

In 2006, the Western Trend will be targeted to identify new gold systems using broad-spaced RAB/aircore drilling. A gold system is defined as coherent gold geochemistry (plus 100 parts per billion) in the regolith (soil profile). The gold systems will be followed-up with closer-spaced drilling to test for ore systems. It has been estimated from historical rates of conversion that one in five gold systems is likely to convert into a Mineral Resource.



*Map of the Gidgee Project Area Showing the Location of the Gidgee Trend and Western Trend*

# DIRECTORS' REVIEW OF ACTIVITIES

## ACQUISITION OF THE MT GIBSON PROJECT

On the 2 August 2005, Legend entered into an agreement with Oroya Mining Limited (Oroya) to acquire the Mt Gibson Project (Mt Gibson) in Western Australia.

The acquisition of Mt Gibson gives Legend a first class base metal project (zinc-copper) at a time of rising metal prices and investor interest in base metal opportunities.

The purchase was completed on the 16 November 2005 through Legend's wholly owned subsidiary Gibson Metals Pty Ltd, for the consideration of:-

- \$250,000 cash reimbursement of expenses,
- 30 million fully paid ordinary shares escrowed in two tranches: 15 million shares for 12 months and 15 million shares for 18 months.

Oroya is also entitled to a 'milestone' issue of a further 10 million fully paid shares in the capital of Legend upon the occurrence of any of the following events:-

- completion of a bankable feasibility study,
- a decision to mine,
- sale of Mt Gibson to a third party.

Additionally, \$1.008 million cash was released to Oroya as a result of Legend replacing Oroya's Unconditional Environmental Performance Bonds.

The sale was inclusive of all project mining and exploration tenements (215 km<sup>2</sup>), a gold Mineral Resource, technical data base, accommodation village, gold treatment plant, workshops, offices, bore field and airstrip. The plant was on care and maintenance at the time of acquisition and remains so at the date of this report.

Legend has assumed the obligation of Mt Gibson Gold Pty Ltd (a wholly owned subsidiary of Oroya) for the Mt Gibson Royalty Agreement arising from Oroya's original purchase of the project. This gold-only Royalty is:-

- \$10 per ounce of gold produced from in-situ gold deposits after 20,000 ounces produced, and
- does not apply to the first 20,000 ounces of gold produced, and
- does not apply to gold recovered from existing heap leach dumps, waste dumps or tailings.

Oroya has also retained the exclusive right to re-treat the existing 4 Mt dump leach at its sole risk and benefit for a period of 1 year.

## MT GIBSON

Legend acquired Mt Gibson principally to pursue the untested volcanic-hosted massive sulphide potential (zinc-copper-gold) beneath the existing oxide gold pits.

Mt Gibson is located in the Yalgoo-Singleton Greenstone Belt in the southern Murchison Province, some 100 km south of the world-class Golden Grove volcanic-hosted massive sulphide (VHMS) deposit owned by Oxiana Limited, and 290 km northeast of Perth in Western Australia. Both Mt Gibson and Golden Grove lie within the same greenstone belt.

Mt Gibson started life as a gold mining operation in 1986 following the discovery of gold in surface laterite. Mining was conducted until 1998, with 95% of the ore extracted from 14 open pits. The operation produced 870,000 ounces of gold from 16.5 Mt of ore at an average grade of 1.68 grams per tonne (g/t).



## DIRECTORS' REVIEW OF ACTIVITIES

At the time of acquisition, the published Oroya gold Mineral Resource (Measured, Indicated and Inferred) was 12.4 Mt at an estimated grade of 2.22 g/t gold for 888,000 ounces of gold.

Legend elected to re-estimate the Mineral Resource, taking into account revised minimum mining widths, mining dilution and updated mining costs. The study, conducted by Dr S Carras of Carras Mining Pty Ltd, revised the Mt Gibson Mineral Resource (Indicated and Inferred) to 8.7 Mt at an estimated grade of 1.98 g/t gold for 559,000 ounces of gold. This Mineral Resource is not economic at present, although approximately 170,000 ounces could convert to Ore Reserves at a gold price of A\$900 per ounce.

Mt Gibson is located immediately adjacent to the Great Northern Highway, thus providing all-weather access to port facilities at Perth and Geraldton, and is connected to the State Electricity Grid. It also has excellent infrastructure within the project area, including a:-

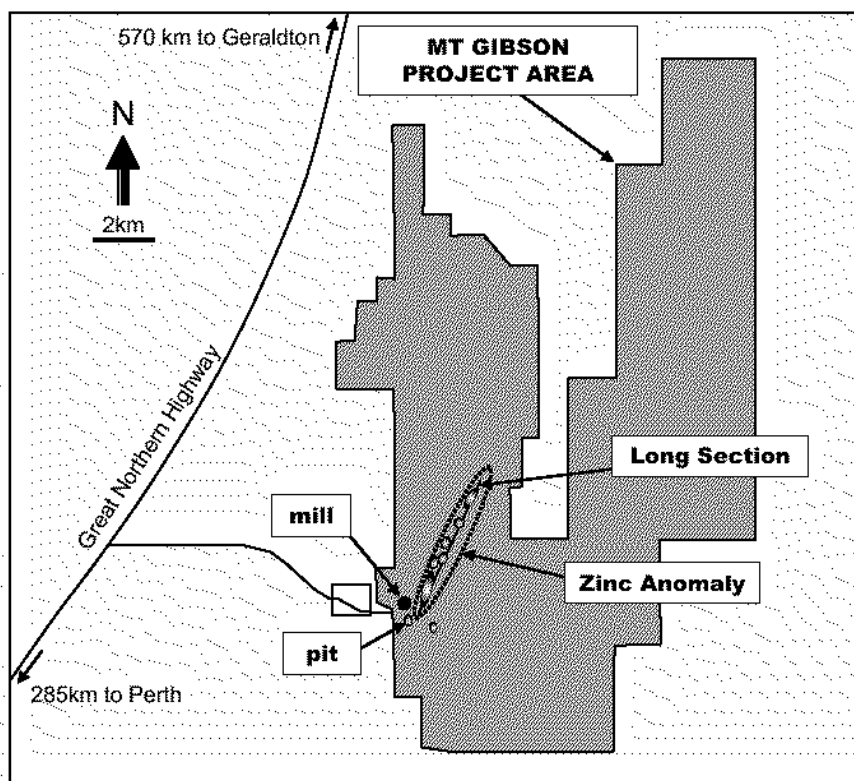
- 1 million tonne per annum mill and gold processing plant,
- modern camp equipped to accommodate 160 employees and contractors,
- serviceable airstrip, and
- established bore field.

Legend's principal objective is to explore for volcanic-hosted massive sulphide (VHMS) deposits. The minimum target size is 1.6 million tonne of ore (zinc-copper-gold) within 450 metres of the surface.

A coherent +500 parts per million (ppm) zinc anomaly with a strike-length of over 5 kilometres has been delineated by approximately 7,000 shallow holes (less than 100m deep) drilled to evaluate the near-surface gold resource. This zinc anomaly is broadly coincident with the main line of open pits.

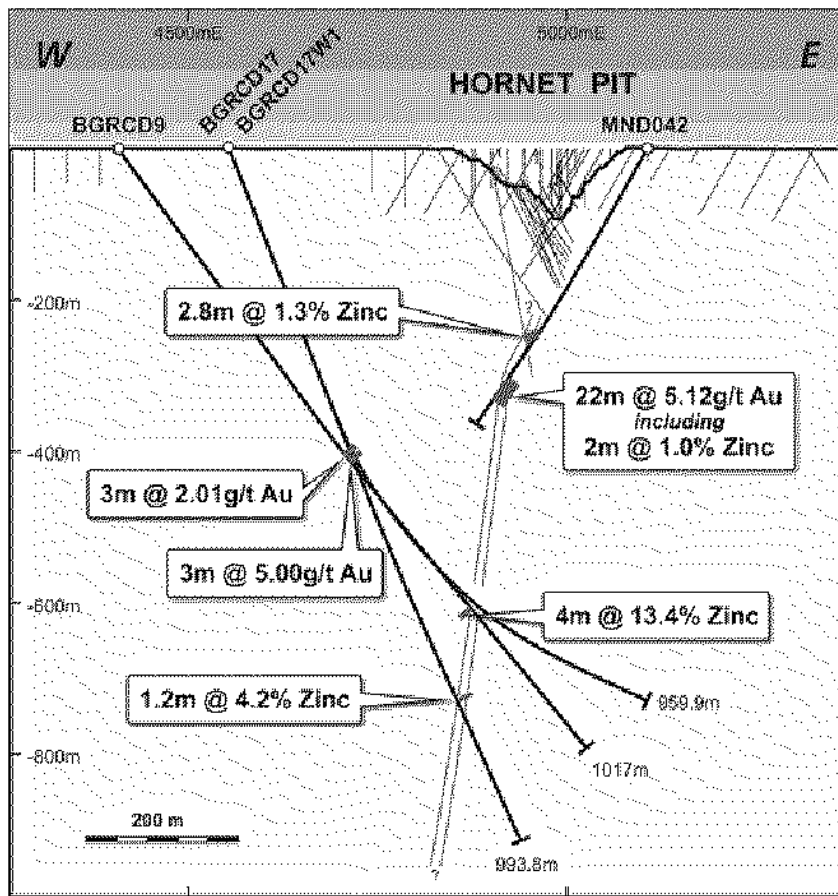
Only 21 holes have been drilled deeper than 300 metres vertically beneath the near-surface zinc anomaly. One of these holes drilled beneath the Hornet Pit returned a best result of 4m grading 13.4% Zn at a vertical depth of 575m below surface.

This limited drilling has defined a zinc-rich horizon within the mafic-felsic volcanic sequence. The gold in the laterite is interpreted, in part, to reflect the oxidized expression of volcanic-hosted massive sulphide mineralisation.



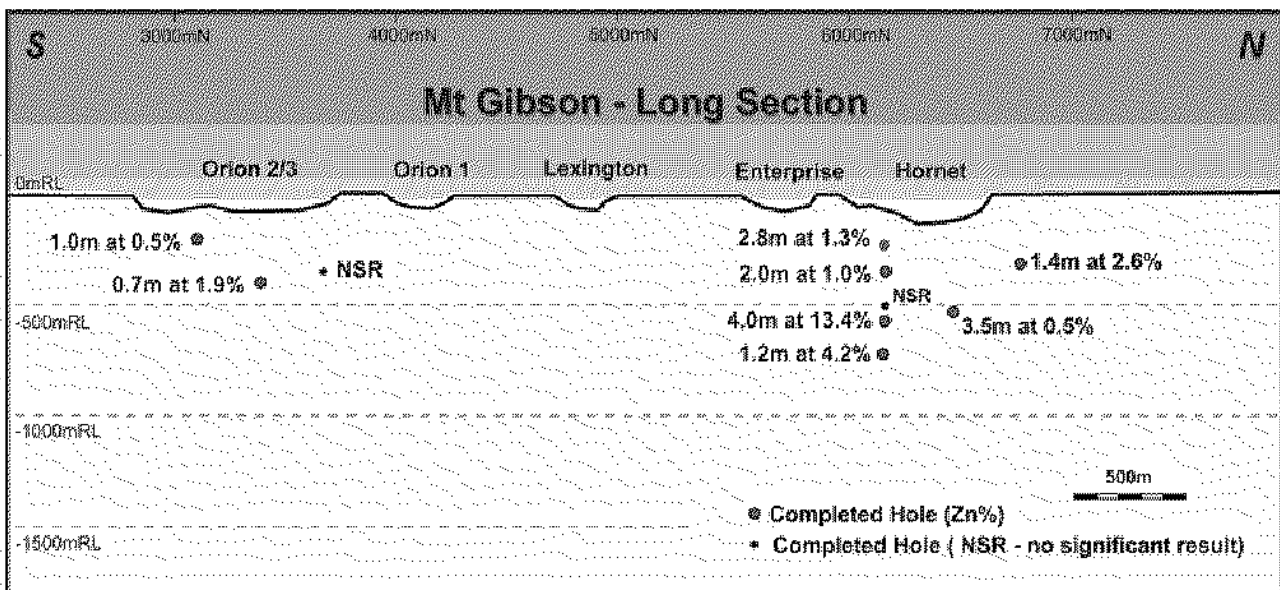
Map of the Mt Gibson Project Area

# DIRECTORS' REVIEW OF ACTIVITIES



Hornet 10320mN Cross Section

Cross Section Beneath the Hornet Pit Showing Anomalous Zinc Intercepts



Long Section within the Interpreted Plane of the Zinc-rich Horizon

# DIRECTORS' REVIEW OF ACTIVITIES

## PILBARA PROJECT

The Pilbara Project is comprised of the:

- Munni Munni Joint Venture (East Coast Minerals NL 69.88%, Legend 30.12%), and
- Carlow Castle and Carlow South Resource and regional tenements (Legend 100%).

On the 25 January 2006, Legend announced a legally binding Terms Sheet with Sunloop Pty Ltd for the sale and purchase of Legend's 30.12% interest in the Munni Munni Joint Venture.

Legend is currently exploring options for creating shareholder value from the Carlow and Carlow South Resource and regional tenements.

## REVIEW OF 2005 GOLD PRODUCTION

### GIDGEE

All gold production for the year ending 31 December 2005 came from the March Quarter prior to the Gidgee Mine and Mill being placed on care and maintenance. Production statistics are as follows:

Detail	2005 Year	Units
<b>Ore Mined (Swan Bitter Underground)</b>	25,070	wet tonnes
<b>Ore Grade</b>	7.77	g/t Au
<b>Low Grade Stocks Drawn</b>	5,315	wet tonnes
<b>Ore Grade</b>	0.58	g/t Au
<b>Ore Processed</b>	30,631	dry tonnes
<b>Head Grade (calculated)</b>	6.61	g/t Au
<b>Recovery</b>	98.1	%
<b>Gold Produced</b>	6,860	ounces
<b>Production Cost Statement</b>		
<b>Net Cash Costs</b>	612	\$/oz
<b>Inventory Movements</b>	(53)	\$/oz
<b>Cash Operating Costs</b>	558	\$/oz
<b>Depreciation/Amortisation</b>	13	\$/oz
<b>Total Production Cost</b>	572	\$/oz
<i>Costs are reported to Australian Gold Council Standards</i>		

### MT GIBSON

There was no gold or other mineral production from Mt Gibson in 2005 and the Mill remains on care and maintenance.

# DIRECTORS' REVIEW OF ACTIVITIES

## STATEMENT OF RESOURCES

### SUMMARY

In January 2006, Legend commissioned an independent review of the Mt Gibson and Gidgee Mineral Resources as at 31 December 2005. The work was carried out by Dr S Carras of Carras Mining Pty Ltd, an acknowledged expert in this field. A summary is tabulated below:-

### TOTAL LEGEND MINERAL RESOURCE – 31 DECEMBER 2005

Project	Measured (Au ozs)	Indicated (Au ozs)	Inferred (Au ozs)	Total (Au ozs)
<b>Mt Gibson</b>	0	547,200	11,800	559,000
<b>Gidgee</b>	9,000	312,900	188,200	510,100
<b>Total (ozs)</b>	<b>9,000</b>	<b>860,100</b>	<b>200,000</b>	<b>1,069,100</b>

*Au ozs: ounces of contained gold*

### GIDGEE

The Gidgee Mineral Resource estimate has increased by 59% or 189,494 ounces, due largely to the drilling of the Premium and Swift mineralised positions. Other changes are due to the adoption by Legend of:-

- minimum mining widths (MMW) and mining dilution (MD) that are applicable to revised mine designs,
- depth constraints that more closely reflect mineability, and
- updated, and generally higher mining and processing costs.

### CHANGES IN GIDGEE MINERAL RESOURCE

#### DURING THE 12 MONTHS TO 31 DECEMBER 2005

Resource Category	31 December 2004	31 December 2005
Measured (Au ozs)	15,309	9,000
Indicated (Au ozs)	144,532	312,900
Inferred (Au ozs)	160,765	188,200
<b>TOTAL</b>	<b>320,606</b>	<b>510,100</b>

The Gidgee Ore Reserve estimate of 16,420 ounces previously reported at the 31 December 2004 has been downgraded and re-categorised as Mineral Resource due to the mine being placed on care and maintenance, and increased mining and processing costs.

### MT GIBSON

The Mt Gibson Mineral Resource estimate has been downgraded by 37% or 327,000 ounces compared to the Mineral Resource estimate published by the previous owner, Oroya Mining Limited (Oroya) in mid-2005. The reasons for this difference are not related to the results from any additional drilling conducted by Legend, but are due to the adoption by Legend of:-

- minimum mining widths (MMW) and mining dilution (MD) that are more applicable to the most likely method of mining,
- depth constraints that more closely reflect mineability, and
- updated, and generally higher mining and processing costs.

# DIRECTORS' REVIEW OF ACTIVITIES

## GIDGEE PROJECT - MINERAL RESOURCES - 31 DECEMBER 2005

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

<b>UNDERGROUND RESOURCE</b>						
<b>Swan Bitter</b>	Measured	27,000	10.42	9,000	3.0	MMW and MD applied.
<b>TOTAL MEASURED</b>		<b>27,000</b>	<b>10.42</b>	<b>9,000</b>		
<b>Swan Bitter</b>	Indicated	29,000	10.71	10,000	3.0	MMW and MD applied.
<b>Premium</b>	Indicated	255,000	10.35	84,900	3.0	MMW and MD applied. (120m to 250m depth)
<b>Omega</b>	Indicated	31,000	9.20	9,200	3.0	
<b>TOTAL INDICATED</b>		<b>315,000</b>	<b>10.27</b>	<b>104,100</b>		
<b>Swan Bitter</b>	Inferred	65,000	7.96	16,600	3.0	MMW and MD applied.
<b>Swift</b>	Inferred	93,000	9.20	27,500	3.0	MMW and MD applied. (80m to 130m depth)
<b>Kingfisher</b>	Inferred	390,000	6.80	85,300	3.0	
<b>TOTAL INFERRRED</b>		<b>548,000</b>	<b>7.34</b>	<b>129,400</b>		

<b>TOTAL RESOURCE</b>		<b>1,936,000</b>	<b>5.55</b>	<b>346,100</b>		
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<b>UNDERGROUND REFRACTORY RESOURCE</b>						
<b>Wilson</b>	Indicated	448,000	7.30	105,200	3.5	MD applied. Above 230m depth.
<b>Wilson</b>	Inferred	286,000	6.40	58,800	3.5	MD applied. Below 230m depth.
<b>TOTAL REFRACTORY</b>		<b>734,000</b>	<b>6.95</b>	<b>164,000</b>		

<b>TOTAL MEASURED</b>		<b>27,000</b>	<b>10.42</b>	<b>9,000</b>		
<b>TOTAL INDICATED</b>		<b>1,811,000</b>	<b>5.37</b>	<b>312,900</b>		
<b>TOTAL INFERRRED</b>		<b>834,000</b>	<b>7.02</b>	<b>188,200</b>		
<b>TOTAL RESOURCE</b>		<b>2,672,000</b>	<b>5.94</b>	<b>510,100</b>		

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.



# MT GIBSON PROJECT - MINERAL RESOURCES

## 31 DECEMBER 2005

Prospect	JORC Classification	Tonnes (t)	Grade (g/t)	Au (ozs)	COG (g/t)	Comments
<b>Saratoga</b>	Indicated	1,747,000	1.76	98,900	1.0	MMW and MD applied.
<b>Orion 2/3</b>	Indicated	2,681,000	1.92	166,000	1.0	MMW and MD applied.
<b>Enterprise</b>	Indicated	411,600	1.92	25,400	1.0	MMW and MD applied.
<b>Enterprise West</b>	Indicated	449,900	1.76	25,500	1.0	Enterprise, Enterprise West and Yorktown were previously reported as Midway.
<b>Yorktown</b>	Indicated	494,200	1.67	26,500	1.0	
<b>Hornet</b>	Indicated	1,167,000	2.05	77,000	1.0	MMW and MD applied.
<b>Capricorn</b>	Indicated	269,900	2.25	19,500	1.0	MMW and MD applied.
<b>Mt Gibson Laterite</b>	Indicated	116,000	1.15	4,300	1.0	
<b>Highway South</b>	Indicated	111,000	2.73	9,800	1.0	Internally diluted.
<b>Aquarius</b>	Indicated	85,700	2.59	7,100	1.0	Internally diluted.
<b>Orion 1</b>	Indicated	524,000	2.03	34,200	1.0	Undiluted.
<b>Howler</b>	Indicated	380,600	2.55	31,200	1.0	Internally diluted.
<b>Tobias Find</b>	Indicated	130,400	2.58	10,800	1.0	Internally diluted.
<b>Sheldon</b>	Indicated	105,200	3.25	11,000	1.0	Internally diluted.
<b>TOTAL INDICATED</b>		<b>8,673,500</b>	<b>1.96</b>	<b>547,200</b>		
<b>Orion 2/3 Underground</b>	Inferred	60,500	4.40	8,600	3.0	MMW and MD applied.
<b>Hornet Underground</b>	Inferred	20,000	5.00	3,200	3.0	
<b>TOTAL INFERRERD</b>		<b>80,500</b>	<b>4.53</b>	<b>11,800</b>		
<b>TOTAL INDICATED + INFERRERD</b>		<b>8,754,000</b>	<b>1.98</b>	<b>559,000</b>		

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 deposit 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 type 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.

# 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. While the Board has established a framework for the management of Legend, including an overall framework of internal control, a business risk management process and the establishment of appropriate ethical standards, it has not established a formal charter of functions as per Recommendation 1.1 as it considers, having regard to the size of the company, it would not improve Legend's operations.

### 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

The Board subscribes to the Statement of Ethical Standards as published by the Australian Institute of Company Directors.

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.



# CORPORATE GOVERNANCE STATEMENT

## 5. DIRECTORS' DEALINGS IN COMPANY SHARES

Legend does not have a formal trading policy as required by Recommendation 3.2. However, 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

The Board has not devised a formal communications strategy as required by Recommendation 6.1. However, the Board 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.

## 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

The Board has not adopted a formal code 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 2005.

## 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) (appointed 13 May 2005)

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

Dermot Ryan (Non Executive Director) (appointed 13 May 2005)

Murray McDonald (resigned 15 April 2005)

Ian Cowden (resigned 30 May 2005)

Andrew Chapman (appointed 15 April 2005 and resigned 30 May 2005)

## 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)
- Sun Capital Group Ltd (resigned 19 December 2003)
- Servicepoint Ltd (resigned 5 June 2003)

**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 fourteen 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 served as a Director of the following publicly listed company:-

- Servicepoint Ltd (resigned 5 June 2003).

## 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 27 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 29 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.

**Andrew Chapman** (Company Secretary) is a chartered accountant with over 15 years work experience with publicly listed companies where he has held positions as financial controller and company secretary and has experience in the areas of corporate acquisitions, divestments and capital raisings. He has worked for a number of public companies in the resource and technology sectors.

Mr Chapman 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	Unlisted Options
Michael Atkins	155,000	500,000
Mark Wilson	0	0
Robert Perring	0	0
Dermot Ryan	15,000	0

### 3. LOSS PER SHARE

Basic loss per share:	(2.2 cents)
Diluted loss per share:	(2.2 cents)

## DIRECTORS' REPORT

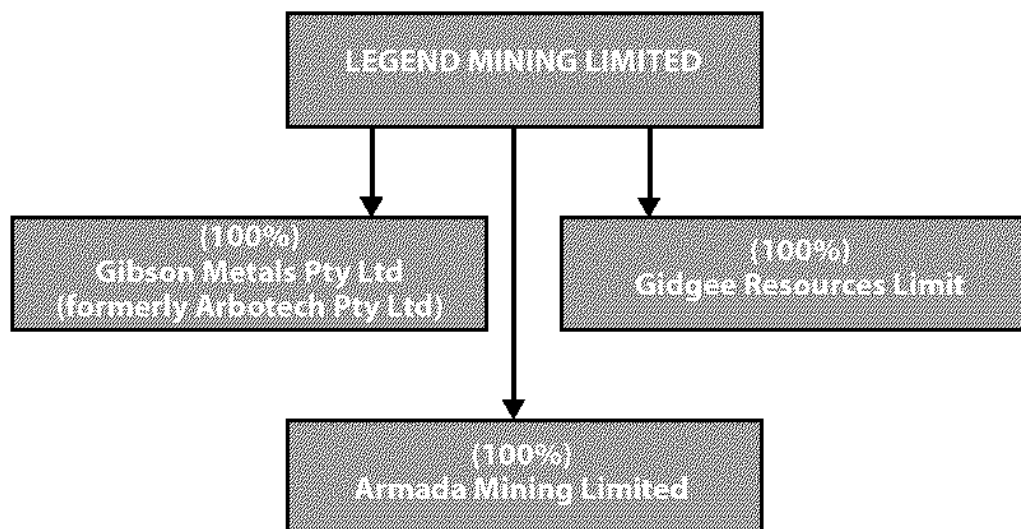
### 4. DIVIDENDS

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:-

- gold mining (underground operations at Gidgee Mine ceased at the end of February 2005, and the mine was placed on care and maintenance by the 9 March 2005),
- exploration for gold and base metal (zinc-copper) deposits.

#### Employees

The consolidated entity had a staff of 17 employees at 31 December 2005 (2004: 26 employees).

# DIRECTOR'S REPORT

## 6. OPERATING AND FINANCIAL REVIEW

### Results of Operations

The loss of the consolidated entity for the year was \$7,563,178 (2004: loss \$9,213,720) after income tax.

### Review of Operations

The Directors Review of Activities for the year ended 31 December 2005 is contained on pages 4 to 13 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 \$4,591,805 (2004: \$23,782,655).

*Exploration Expenditure Write-Off:* \$4,502,813 (2004: \$495,563). Deferred expenditure on tenements surrendered or withdrawn during the year was expensed to the Income Statement.

*Deferred Exploration Costs:* \$7,565,733 (2004: \$2,606,286). Deferred exploration costs arising from the acquisition of Gidgee Resources Limited and the Mt Gibson Gold Project assets was \$8,862,436.

## 7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During 2005 Legend has:-

- raised \$10,145,404 capital through share issues to the public and the exercise of options by shareholders,
- acquired Gidgee Resources Limited on 7 April 2005, following shareholder approval on 10 January 2005,
- acquired the Mt Gibson Gold Project assets on the 16 November 2005,
- converted the Yandal Investments Pty Ltd loan of \$5,000,000 into a Convertible Note on the 10 January 2005, following shareholder approval,
- borrowed \$3,000,000 from Yandal Investments Pty Ltd on the 15 November 2005. This bridging loan related to an 'Environmental Performance Bond Security Facility' agreed with Yandal Investments Pty Ltd and Macquarie Bank Limited, and
- negotiated an agreement with Macquarie Bank Limited, whereby the environmental performance bonds issued by the Bank, to the Minister of Lands to a value of \$3,145,000 are secured by listed securities provided by Yandal Investments Pty Ltd and or Mr Mark Creasy.

## 8. ENVIRONMENTAL REGULATION

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. FUTURE DEVELOPMENTS

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.



## DIRECTORS' REPORT

### 10. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Legend signed a legally binding Terms Sheet with Sunloop Pty Ltd on the 25 January 2006, for the sale of Legend's 30.12% interest in the East Coast Minerals Joint Venture (ECMJV) covering the Munni Munni project. The key points of the Terms Sheet are:-

- the consideration is \$400,000 with a \$10,000 non-refundable deposit paid upon signing the Terms Sheet, with the balance (\$390,000) payable on or before 25 April 2006,
- the sale is conditional upon Sunloop completing due diligence on or before the 25 February 2006, and
- the sale is subject to the waiver (or exercise) of East Coast Minerals NL's (ECM) pre-emptive right held by ECM under the ECMJV agreement, with such waiver (or exercise) to be advised to Legend on or before 25 March 2006.

Legend announced on the 10 March 2006 that:-

- Yandal Investments Pty Ltd had agreed to provide \$10,000,000 of new equity to Legend Mining Limited, by the conversion of its \$5,000,000 Convertible Note to 125,000,000 Ordinary Shares at \$0.04 each and by the immediate exercise of its 125,000,000 Options attaching to the Convertible Note at \$0.04 each, to raise \$5,000,000, and
- that a prospectus would be issued for a non-renounceable 1-for -3 rights issue of ordinary fully paid Legend shares at \$0.04 per share to raise \$6.12 million, with a free attaching option exercisable at \$0.04 within 24 months of the issue – these options to be listed on the ASX.

Both the conversion of the Convertible Note and the rights issue are dependant upon Legend shareholders agreeing at a shareholders meeting on a date as soon as practicable, to the issue of 125,000,000 unlisted options exercisable at \$0.04 each to Yandal Investments Pty Ltd, as a fee for the early conversion of the note and the immediate exercise of the attaching options.

### 11. 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.

### 12. COMPENSATION 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.

# DIRECTORS' REPORT

## 12. COMPENSATION REPORT (CONTD)

### 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 2005 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.

### 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.

# DIRECTORS' REPORT

## 12. COMPENSATION REPORT (CONTD)

### Fixed Compensation

Fixed compensation is reviewed annually by the Remuneration Committee. 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 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.

### Employment contracts

The Managing Director, Mr Mark Wilson, is employed under contract. The current employment contract commenced on the 13 May 2005 and terminates on the 30 June 2006, at which time the Company may choose to commence negotiations to enter into a new employment contract.

- Mr Wilson receives a fixed remuneration of \$200,800 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 18 January 2006 and terminates on the 17 July 2006, at which time the Company may choose to commence negotiations to enter into a new employment contract.

- Mr Perring receives a fixed remuneration of \$200,800 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. 1,400,000 share options granted to employees in 2004 and 2005 were subsequently forfeited upon the resignation of the employees.

# DIRECTORS' REPORT

## 12. COMPENSATION REPORT (CONTD)

Compensation of Key Management Personnel for Year Ended 31 December 2005

Name	Year	Primary Salary and Fees \$	Post Employment Superannuation \$	Equity \$	Other \$	Total \$
<b>Director</b>						
M. Atkins (Windamurah P/L)	2005	-	-	-	66,000	66,000
	2004	-	-	-	72,911	72,911
M. Wilson (Hostyle P/L)	2005	-	-	-	105,600	105,600
	2004	-	-	-	-	-
D. Ryan	2005	124,543	11,209	-	-	135,752
	2004	-	-	-	-	-
M. V. McDonald	2005	270,183	57,404	-	-	327,587
	2004	231,458	35,292	-	-	266,750
I.D. Cowden (Iana P/L)	2005	-	-	-	105,335	105,335
	2004	-	-	-	168,207	168,207
<b>Executive</b>						
A.M. Law	2005	127,927	7,975	-	-	135,902
	2004	50,215	4,519	-	-	54,734
D. Thomson	2005	84,010	7,561	-	-	91,571
	2004	-	-	-	-	-

Compensation Options of Key Management Personnel for Year Ended 31 December 2005

No options were granted or vested during the year.

## 13. 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
<b>Attended by:</b>		
Michael Atkins	8	8
Andrew Chapman (resigned 30 May 2005)	4	4
Ian Cowden (resigned 30 May 2005)	4	4
Murray McDonald (resigned 15 April 2005)	2	2
Dermot Ryan	5	5
Mark Wilson	5	5

# DIRECTORS' REPORT

## 14. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

### NON-AUDIT SERVICES

The following non-audit services were provided by the Company's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Stamp duty advice on the acquisition of Gidgee Resources Limited	\$22,436
General advice on the acquisition of Gidgee Resources Limited	\$20,923

We have received the Declaration of Auditor Independence from Ernst & Young, the Company's Auditor, this is available for review on page 69.

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



**M Wilson**

**Managing Director**

**Dated this 30th day of March 2006**



# INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Consolidated		Company	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Continuing Operations</b>					
Sales revenues	4(a)	4,591,805	23,782,655	4,591,805	23,782,655
Cost of sales		(5,554,945)	(30,362,912)	(5,554,945)	(30,362,912)
Gross loss		(963,140)	(6,580,257)	(963,140)	(6,580,257)
Rental revenue	4(b)	21,366	22,367	21,366	22,367
Finance revenue	4(c)	214,125	175,605	214,125	175,605
Other income	4(d)	71,522	29,918	71,522	29,918
Other expenses	4(h)	(139,519)	(111,484)	(127,999)	(105,086)
Deferred exploration expenditure written off	4(g)	(4,502,813)	(495,563)	(293,866)	(495,563)
Investment and receivables in subsidiary companies written off	4(i)	-	-	(4,225,814)	-
Corporate head office costs		(1,727,793)	(1,726,006)	(1,724,391)	(1,726,006)
Finance costs		(536,926)	(528,300)	(536,926)	(528,300)
Net loss before income tax expense		(7,563,178)	(9,213,720)	(7,565,123)	(9,207,322)
Income tax benefit/ (expense)	6	-	-	-	-
<b>Net loss attributable to members of the entity</b>		<b>(7,563,178)</b>	<b>(9,213,720)</b>	<b>(7,565,123)</b>	<b>(9,207,322)</b>
<b>LOSS PER SHARE (cents per share)</b>					
	5				
Basic for loss for the year		(2.2 cents)	(6.1 cents)		
Diluted for loss for the year		(2.2 cents)	(6.1 cents)		

# BALANCE SHEET

AS AT 31 DECEMBER 2005

	Notes	Consolidated		Company	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>ASSETS</b>					
Current Assets					
Cash and Cash Equivalents	8	407,977	2,163,374	406,671	2,163,371
Other financial assets	11	3,145,000	-	3,145,000	-
Trade & Other Receivables	9	52,288	354,125	52,287	354,125
Prepayments		29,617	64,459	29,617	64,459
Inventories	10	156,862	1,647,028	156,862	1,647,028
<b>Total Current Assets</b>		<b>3,791,744</b>	<b>4,228,986</b>	<b>3,790,437</b>	<b>4,228,983</b>
Non-current Assets					
Other financial assets	11	141,311	2,133,077	3,492,292	2,133,079
Property, plant & equipment	12	1,831,201	1,704,463	1,462,487	1,704,463
Deferred exploration costs	13	19,544,560	5,946,701	15,475,600	5,946,701
Intercompany Receivables		-	-	-	1,946
<b>Total Non-current Assets</b>		<b>21,517,072</b>	<b>9,784,241</b>	<b>20,430,379</b>	<b>9,786,189</b>
<b>TOTAL ASSETS</b>		<b>25,308,816</b>	<b>14,013,227</b>	<b>24,220,816</b>	<b>14,015,172</b>
<b>LIABILITIES</b>					
Current Liabilities					
Trade & Other Payables	14	621,865	4,372,956	621,865	4,372,956
Interest-bearing loans & borrowings	15	8,000,000	5,564,201	8,000,000	5,564,201
Provisions	16	62,134	128,352	62,134	128,352
<b>Total Current Liabilities</b>		<b>8,683,999</b>	<b>10,065,509</b>	<b>8,683,999</b>	<b>10,065,509</b>
Non-current Liabilities					
Provisions	16	3,208,000	2,120,000	2,120,000	2,120,000
<b>Total Non-current Liabilities</b>		<b>3,208,000</b>	<b>2,120,000</b>	<b>2,120,000</b>	<b>2,120,000</b>
<b>TOTAL LIABILITIES</b>		<b>11,891,999</b>	<b>12,185,509</b>	<b>10,803,999</b>	<b>12,185,509</b>
<b>NET ASSETS</b>		<b>13,416,817</b>	<b>1,827,718</b>	<b>13,416,817</b>	<b>1,829,663</b>
<b>EQUITY</b>					
Equity attributable to equity holders of the parent					
Contributed Equity	17	37,035,962	17,969,067	37,035,962	17,969,067
Share Option Premium Reserve	18	447,272	361,890	447,272	361,890
Accumulated losses		(24,066,417)	(16,503,239)	(24,066,417)	(16,501,294)
<b>TOTAL EQUITY</b>		<b>13,416,817</b>	<b>1,827,718</b>	<b>13,416,817</b>	<b>1,829,663</b>

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	4,623,251	22,547,884	4,623,251	22,547,884
Payments to suppliers and employees	(8,524,209)	(22,409,262)	(8,525,512)	(22,409,165)
Interest received	204,795	175,605	204,795	175,605
Interest paid	(605,165)	(311,235)	(605,165)	(311,235)
Net cash flows from/ (used in) operating activities - note 23 (ii)	(4,301,328)	2,992	(4,302,631)	3,089
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale of property, plant & equipment & scrap	95,557	18,196	95,557	18,196
Payment for exploration and evaluation	(8,542,499)	(2,252,142)	(8,542,499)	(2,252,142)
Purchase of property, plant & equipment	(82,926)	(383,673)	(82,926)	(383,673)
Payment of final amount due to vendor for the acquisition of the Gidgee Gold Project	-	(1,300,000)	-	(1,300,000)
Payment for Mt Gibson Project assets	(250,000)	-	(250,000)	-
Payment for investments	-	(2,000)	-	(2,000)
Proceeds from the sale of investments	15,920	-	15,920	-
Payment for mine properties & development	-	(5,209,983)	-	(5,209,983)
Performance Bond Term Deposit	(1,156,638)	(2,057,000)	(1,156,638)	(2,057,000)
Net cash flows from/ (used in) investing activities	(9,920,586)	(11,186,602)	(9,920,586)	(11,186,602)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issue of ordinary shares	10,145,404	4,782,250	10,145,404	4,782,250
Transaction costs of issue of shares	(129,240)	(243,630)	(129,240)	(243,630)
Proceeds from borrowings	3,000,000	7,000,567	3,000,000	7,000,567
Repayment of borrowings	(526,279)	(1,489,175)	(526,279)	(1,489,175)
Finance lease payments	(23,368)	(6,650)	(23,368)	(6,650)
Net cash flows from financing activities	12,466,517	10,043,362	12,466,517	10,043,362
Net increase/(decrease) in cash and cash equivalents	(1,755,397)	(1,140,248)	(1,756,700)	(1,140,151)
Cash and cash equivalents at the beginning of period	2,163,374	3,303,622	2,163,371	3,303,522
Cash and cash equivalents at end of period	407,977	2,163,374	406,671	2,163,371

# STATEMENT OF CHANGE IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2005

Consolidated	Issued Capital	Share Option Premium Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$
At 01 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	7,446,672	(1,618)	-	7,445,054
Issue of Share Capital – Acquisition of Gidgee Resources Ltd	7,776,610	-	-	7,776,610
Issue of Share Capital – Acquisition of Mt Gibson Project assets	1,884,503	-	-	1,884,503
Issue of Share Options – Acquisition of Gidgee Resources Ltd	-	2,475,000	-	2,475,000
Exercise of Share Option – Acquisition of Gidgee Resources Ltd	2,475,000	(2,475,000)	-	-
Cost of Issue of Share Capital	(428,890)	-	-	(428,890)
Cost of Issue of Share Capital– Share based payment	(87,000)	87,000	-	-
At 31 December 2005	37,035,962	447,272	(24,066,417)	13,416,817
At 01 January 2004	13,230,447	361,890	(7,289,519)	6,302,818
Loss for the year	-	-	(9,213,720)	(9,213,720)
Total income/expense for the year	-	-	(9,213,720)	(9,213,720)
Issue of Share Capital	4,982,250	-	-	4,982,250
Cost of issue of Share Capital	(243,630)	-	-	(243,630)
At 31 December 2004	17,969,067	361,890	(16,503,239)	1,827,718

# STATEMENT OF CHANGE IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2005

Company	Issued Capital	Share Option Premium Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$
At 01 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	7,446,672	(1,618)	-	7,445,054
Issue of Share Capital – Acquisition of Gidgee Resources Ltd	7,776,610	-	-	7,776,610
Issue of Share Capital – Acquisition of Mt Gibson Gold	1,884,503	-	-	1,884,503
Issue of Share Options – Acquisition of Gidgee Resources Ltd	-	2,475,000	-	2,475,000
Exercise of Share Option – Acquisition of Gidgee Resources Ltd	2,475,000	(2,475,000)	-	-
Cost of Issue of Share Capital	(428,890)	-	-	(428,890)
Cost of Issue of Share Capital– Share based payment	(87,000)	87,000	-	-
At 31 December 2005	37,035,962	447,272	(24,066,417)	13,416,817
At 01 January 2004	13,230,447	361,890	(7,293,972)	6,298,365
Loss for the year	-	-	(9,207,322)	-
Total income/ expense for the year	-	-	(9,207,322)	(9,207,322)
Issue of Share Capital	4,982,250	-	-	4,982,250
Cost of issue of Share Capital	(243,630)	-	-	(243,630)
At 31 December 2004	17,969,067	361,890	(16,501,294)	1,829,663



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 1: CORPORATE INFORMATION

The financial report of Legend Mining Limited (the Company) for the year ended 31 December 2005 was authorised for issue in accordance with a resolution of the Directors on 30th March 2006.

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, except for available-for-sale investments, which have been measured at fair value.

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).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 31 December 2004 have been restated accordingly. Reconciliations of AIFRS equity and profit for 31 December 2004 to the balances reported in the 31 December 2004 financial report and at transition to AIFRS are detailed in note 2 (e)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

### (b) Statement of compliance (contd)

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 31 December 2005:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date for standard*	Application date for group
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-4	AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1: <i>First-time adoption of AFIRS</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1028: <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-5	AASB 1: <i>First-time adoption of AFIRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-6	AASB 3: <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-9	AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> and AASB 132: <i>Financial Instruments: Disclosure and Presentation</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
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
Revised standard	AASB 119: <i>Employee Benefits</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006

\* 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 2005

## 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')

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

All intercompany balances and 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.

Gidgee Resources Ltd has been included in the consolidated financial statements using the purchase method of accounting, which measures the acquiree's assets and liabilities at their fair value at acquisition date. Accordingly, the consolidated financial statements include the results of Gidgee Resources Ltd for the nine-month period from its acquisition on 7 April 2005. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

#### (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.

##### *Deferred exploration costs*

The carrying amount of deferred exploration costs is dependent on the future successful outcome from exploration activity or alternatively the sale of the respective areas of interest

#### (iii) Property, plant and equipment

Property, plant and equipment is 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%

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

### *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.

#### (v) **Cash and cash equivalents**

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

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

#### (vi) **Trade and other receivables**

Trade receivables expected to be settled within 60 days are carried at the amounts due. Specific provision is made for any accounts when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

#### (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.

After initial recognition, investments which are classified as held for trading and available-for-sale are measured at fair value.

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

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

### *Impairment*

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profits.

### (viii) Inventories

#### *Gold Dore*

Inventories are valued at the lower of weighted average cost and net realisable value. Costs include fixed direct costs, variable direct costs and an appropriate portion of fixed overhead costs.

#### *Ore*

Inventories are valued at the lower of weighted average cost and net realisable value. Costs include fixed direct costs, variable direct costs and an appropriate portion of fixed overhead costs.

#### *Gold In Circuit*

Gold in circuit is valued at the lower of cost and net realisable value. The average cash cost of production for the month is used and allocated to gold that is in the circuit at period end. These costs include mining and production costs as well as commercial, environmental, health and safety expenses and stock movements.

#### *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.

#### *Impairment*

The carrying values of exploration and evaluation costs are reviewed for impairment when events or changes in 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.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

Accumulated costs in relation to an abandoned area are written off in full against profit or loss 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.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

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

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

### (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 and inflationary increases 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) Leased Assets

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statements on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the lease expense.

### *Group as a lessor*

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

### (xii) Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured.

### *Sale of Goods*

Revenue from the sale of goods (precious metals) is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are said to have passed to the buyer, for precious metals, upon the outturn (refining) of the gold dore by the refining and selling agent.

### *Interest*

Interest revenue is recognised as it accrues, using the effective interest method.

### *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).

### (xiii) 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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

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.

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.

### (xiv) 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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

### (xv) 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.

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 profit and loss. 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.

### (xvi) Trade and 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.

### (xvii) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost.

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.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

### (xviii) 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 two scenarios in place to provide these services:

- (a) 'Employees Share Option Plan', which provides benefits to eligible persons; and
- (b) Capital raising costs, which provide payment to stockbrokers and finance institutions for capital raising services and commissions.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

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 service provider 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.

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 and/or service conditions are fulfilled, ending on the date on which the relevant employee becomes fully entitled to the award (the vesting period)

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.

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

### (xix) 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.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

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.

### (xx) Contributed Equity

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

### (xxi) 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 no-vesting sick leave will never be paid.

Long service leave entitlements do not apply.

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

### (xxii) Earnings per share

Basic 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.

### (xxiii) 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 2005

## 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 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, available-for-sale financial assets and certain instruments, 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.

## (d) AASB 1 Transitional exemptions

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

### *Business combinations*

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

### *Share-based payment transactions*

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

*Exemption from the requirements to restate comparative information for AASB132 and AASB 139*

The Group has not elected to adopt this exemption and has applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

### (e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below:

#### (i) Reconciliation of the total equity as presented under AGAAP to that under AIFRS

	Consolidated		Company	
	31 Dec 04	1 Jan 04	31 Dec 04	1 Jan 04
	\$	\$	\$	\$
Total equity under AGAAP	1,827,718	6,302,818	1,829,663	6,298,365
Adjustments to equity				
De-recognition of gold bullion as revenue (A)	(906,954)	-	(906,954)	-
Recognition of gold bullion as movement in cost of sales (B)	906,954	-	906,954	-
Total equity under AIFRS	1,827,718	6,302,818	1,829,663	6,298,365

(A). Gold Dore was recognised as revenue and as a cash equivalent under AGAAP, however it does not qualify for recognition under AASB 118 'Revenues'.

(B). Gold Dore treated as a movement in cost of sales and as inventory under AASB 102 'Inventories'

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

	Consolidated	Company
	Year ended 31 Dec 04	Year ended 31 Dec 04
	\$	\$
Loss after tax as previously reported	(9,213,720)	(9,207,322)
Adjustments to profit		
De-recognition of gold bullion as revenue (A)	(906,954)	(906,954)
Recognition of gold bullion as movement in cost of sales (B)	906,954	906,954
Loss after tax under AIFRS	(9,213,720)	(9,207,322)

(A). Gold Dore was recognised as revenue and as a cash asset under AGAAP, however it does not qualify for recognition under AASB 118 'Revenues'.

(B). Gold Dore treated as a movement in cost of sales and as inventory under AASB102 'Inventories'

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD)

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

	Consolidated		Company	
	31 Dec 04	1 Jan 04	31 Dec 04	1 Jan 04
	\$	\$	\$	\$
Cash on hand as previously reported	3,070,328	3,303,622	3,070,325	3,303,522
Adjustments to cash on hand				
De-recognition of gold bullion as cash asset (A)	(906,954)	-	(906,954)	-
Cash on hand under AIFRS	2,163,374	3,303,622	2,163,371	3,303,522

(A) Gold Dore was recognised as a cash asset under AGAAP, however it does not qualify for recognition under AASB 118 'Revenues'.

## NOTE 3: NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of the Group are:

- Gold mining (underground operations at Gidgee Mine ceased at the end of February 2005, and the mine was placed on care and maintenance by the 9 March 2005).
- Exploration for gold and base metal (zinc-copper) deposits

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 4: REVENUE AND EXPENSES

	Consolidated		Company	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>Revenues and expenses from continuing operations</b>				
(a) Operating activities				
Sales revenue	4,591,805	23,782,655	4,591,805	23,782,655
(b) Rental Revenue				
Rental revenue	21,366	22,367	21,366	22,367
(c) Finance Revenue				
Bank interest receivable	214,125	175,605	214,125	175,605
(d) Other Income				
Net gains on disposal of property, plant & equipment	77,296	29,918	77,296	29,918
Net loss on sale of investments	(5,774)	-	(5,774)	-
	<u>71,522</u>	<u>29,918</u>	<u>71,522</u>	<u>29,918</u>
(e) Depreciation & Amortisation				
Depreciation	130,102	842,153	130,102	842,153
Amortisation in cost of sales	-	7,515,946	-	7,515,946
	<u>130,102</u>	<u>8,358,099</u>	<u>130,102</u>	<u>8,358,099</u>
(f) Employee Benefits				
Employee Benefits	99,946	189,121	99,946	189,121
(g) Deferred Exploration Expenditure written off				
Write down of deferred exploration expenditure	4,502,813	495,563	293,866	495,563
(h) Other Expenses				
Corporate depreciation	106,850	10,993	97,364	10,993
Exploration administration	30,722	-	28,688	-
Other non-operating expenditure	1,947	100,491	1,947	94,093
	<u>139,519</u>	<u>111,484</u>	<u>127,999</u>	<u>105,086</u>
(i) Investment and receivables in subsidiary companies written off				
Investment in subsidiary companies written down	-	-	3,900,631	-
Intercompany receivable written off	-	-	325,183	-
	<u>-</u>	<u>-</u>	<u>4,225,814</u>	<u>-</u>

### Note:

Mining and processing assets based at Gidgee were placed on a care and maintenance basis at the end of February 2005. Depreciation has not been charged to the Income Statement for the period March 2005 to December 2005.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 5: LOSS PER SHARE

	Consolidated	
	2005 \$	2004 \$
(a) Reconciliation of earnings to net loss:		
Net Loss	(7,563,178)	(9,213,720)
Loss used in the calculation of basic loss per share	(7,563,178)	(9,213,720)
(b) Weighted average number of shares on issue during the financial year used in the calculation of basic loss per share	347,962,455	150,543,365
Weighted average number of ordinary shares on issue used in the calculation of diluted loss per share	347,962,455	150,543,365

## NOTE 6: INCOME TAX

	Consolidated		Company	
	2005 \$	2004 \$	2005 \$	2004 \$
The major components of income tax expense are:				
<b>Income Statement</b>				
<i>Current income tax</i>				
Current income tax charge/(benefit)	(2,230,263)	(2,678,098)	(963,102)	(2,676,179)
<i>Deferred income tax</i>				
Tax losses not brought to account as future income tax benefits	2,230,263	2,678,098	963,102	2,676,179
Income tax expense reported in the income statement	-	-	-	-
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	(7,563,178)	(9,213,720)	(7,565,123)	(9,207,322)
Accounting loss before income tax	(7,563,178)	(9,213,720)	(7,565,123)	(9,207,322)
At the Group's statutory income tax rate of 30%	(2,268,953)	(2,764,116)	(2,269,537)	(2,762,197)
Expenditure not allowed for income tax purposes	38,690	86,018	1,306,435	86,018
Tax losses not brought to account as future income tax benefits	2,230,263	2,678,098	963,102	2,676,179
Income tax expense reported in the consolidated income statement	-	-	-	-

## NOTE 7: SEGMENT INFORMATION

The Company operates in one business and geographical segment, being the mining and exploration for gold in Australia.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
Cash at bank and in hand	391,319	2,146,773	390,013	2,146,770
Deposits-at call	16,658	16,601	16,658	16,601
	<u>407,977</u>	<u>2,163,374</u>	<u>406,671</u>	<u>2,163,371</u>

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

Deposits-at call earn interest on a 90 day term basis bank deposit rates.

The fair value of cash and cash equivalents is \$407,977 (2004 \$2,163,374).

## NOTE 9: TRADE AND OTHER RECEIVABLES

### Current

Trade Receivables	4,053	5,214	4,053	5,214
Other Receivables	48,235	348,911	48,234	348,911
	<u>52,288</u>	<u>354,125</u>	<u>52,287</u>	<u>354,125</u>

### 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.

## NOTE 10: INVENTORIES

### Current

Gold bullion	-	906,954	-	906,954
Gold in circuit at cost	-	269,232	-	269,232
Ore stockpiles at cost	-	90,699	-	90,699
Stores and spares at net realisable value	156,862	380,143	156,862	380,143
	<u>156,862</u>	<u>1,647,028</u>	<u>156,862</u>	<u>1,647,028</u>

Inventory write-downs recognised as an expense totalled \$153,435 (2004 \$nil) for both the Group and the company. This expense is included in the cost of sales.

## NOTE 11: OTHER FINANCIAL ASSETS

### Current

Performance bonds – bank deposit	3,145,000	-	3,145,000	-
	<u>3,145,000</u>	<u>-</u>	<u>3,145,000</u>	<u>-</u>

### Non-current

Performance bonds – bank deposit	141,311	2,120,000	141,311	2,120,000
Shares in controlled entities - at (lower of cost and net realisable value) - Note 26	-	-	3,350,981	2
Shares in listed companies – at (fair value)	-	13,077	-	13,077
	<u>141,311</u>	<u>2,133,077</u>	<u>3,492,292</u>	<u>2,133,079</u>

### a) Terms and conditions relating to the above financial instruments

- Performance bonds– bank deposits are held as security for environmental bonds held on 14 day term deposit at 5.31%, or at call.
- An Environmental bond Security Facility totalling \$3,145,000 was approved by Macquarie Bank Ltd on the 28 December 2005. This facility is secured by equity provided by Yandal Investments Pty Ltd and Mr Mark Creasy. The aggregate fee payable to both Macquarie Bank Ltd and Yandal Investments Pty Ltd is 11.6% per annum.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 12: PROPERTY PLANT AND EQUIPMENT

	Buildings	Plant and Equipment	Leased plant and equipment	Capital works in progress	Total
<b>Consolidated</b>					
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
<b>Company</b>					
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)	0	(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 2005

## NOTE 12: PROPERTY PLANT AND EQUIPMENT (CONTD)

	Buildings	Plant and equipment	Leased plant and equipment	Capital works in progress	Total
<b>Consolidated</b>					
At 1 January 2004, net of accumulated depreciation	173,742	1,795,172	20,492	234,521	2,223,927
Additions	-	379,607	-	-	379,607
Transferred from capital work in progress	-	213,322	-	(213,322)	-
Disposals	-	(45,925)	-	-	(45,925)
Depreciation expense	(27,153)	(821,382)	(4,611)	-	(853,146)
At 31 December 2004, Net of accumulated depreciation	146,589	1,520,794	15,881	21,199	1,704,463
At 1 January 2004					
Cost	174,837	1,832,253	38,636	234,521	2,280,247
Accumulated depreciation	(1,095)	(37,081)	(18,144)	-	(56,320)
Net carrying amount	173,742	1,795,172	20,492	234,521	2,223,927
At 31 December 2004					
Cost	174,837	2,365,908	38,636	21,199	2,600,580
Accumulated	(28,248)	(845,114)	(22,755)	-	(896,117)
Net carrying amount	146,589	1,520,794	15,881	21,199	1,704,463
<b>Company</b>					
At 1 January 2004, net of accumulated depreciation	173,742	1,789,937	20,492	234,521	2,218,692
Additions	-	379,607	-	-	379,607
Transferred from capital work in progress	-	213,322	-	(213,322)	-
Disposals	-	(40,690)	-	-	(40,690)
Depreciation expense	(27,153)	(821,382)	(4,611)	-	(853,146)
At 31 December 2004, net of accumulated depreciation	146,589	1,520,794	15,881	21,199	1,704,463
At 1 January 2004					
Cost	174,837	1,827,018	38,636	234,521	2,275,012
Accumulated depreciation	(1,095)	(37,081)	(18,144)	-	(56,320)
Net carrying amount	173,742	1,789,937	20,492	234,521	2,218,692
At 31 December 2004					
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







# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 16: PROVISIONS (CONT'D)

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. An additional provision of \$1,088,000 was made during the year in relation to Mt Gibson. No provisions were used or released during the year. Provision is based on a determination by the Environmental Department of the Department of Industry & Resources.

## NOTE 17: CONTRIBUTED EQUITY

	Consolidated and Company	
	Dec 05 \$	Dec 04 \$
<i>Ordinary shares</i>		
Issued and fully paid	37,987,051	18,404,266
Issue costs	(951,089)	(435,199)
	<u>37,035,962</u>	<u>17,969,067</u>
<b><i>Movement in ordinary shares on issue 2005</i></b>	<b>No</b>	<b>\$</b>
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
	<u>458,578,322</u>	<u>37,987,051</u>
<b><i>Movement in ordinary shares on issue 2004</i></b>	<b>No</b>	<b>\$</b>
At 1 January 2004	129,618,328	13,422,016
25-Mar-04 Issued for cash on capital raising	18,000,000	3,240,000
07-Apr-04 Share-based payment transaction for debt costs	1,000,000	200,000
07-Apr-04 Issued for cash on exercise of share options	15,000	2,250
23-Sept-04 Issue for cash on capital raising	22,000,000	1,540,000
	<u>170,633,328</u>	<u>18,404,266</u>

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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 18: SHARE OPTION PREMIUM RESERVE

Movement in share option premium reserve	Dec 05 No	Dec 05 \$
At 1 January 2005	36,189,000	361,890
31-Jan-05 Issue of options for share raising costs	2,000,000	64,000
14-Feb-05 Exercise of options	(161,828)	(1,618)
07-Apr-05 Acquisition of Gidgee Resources Ltd	75,000,000	2,475,000
27-Apr-05 Issue of options for share raising costs	1,000,000	23,000
30-Apr-05 Lapsing of options	(36,027,112)	-
30-Jun-05 Exercise of options	(25,000,000)	(825,000)
19-Aug-05 Exercise of options	(25,000,000)	(825,000)
19-Sept-05 Exercise of options	(25,000,000)	(825,000)
At 31 December 2005	3,000,000	447,272

This reserve relates to :

- the premium of \$0.01 paid on the issue of the listed options.
- the fair value of the premium received by the Group on the issue of unlisted options

There was no movement in the reserve for the year ended 31 December 2004

Details of share options issued, vested or expired is available in note 20.

## NOTE 19: CHANGES IN COMPOSITION OF ENTITY

### (i) Acquisition of Gidgee Resources Ltd

On the 10 January 2005, the effective date, shareholders of Legend Mining Limited approved the 100% acquisition of Gidgee Resources Ltd.

On the 7 April 2005, the settlement date, Legend Mining Limited acquired 100% of the voting shares of Gidgee Resources Ltd, an unlisted public company based in Australia, involved in the mining industry.

In connection with the acquisition, Legend Mining Limited issued 75,000,000 ordinary shares with a fair value of \$0.0636 each based on the published price of the Legend Mining Limited shares at the effective date of acquisition and issued 75,000,000 share options with a value of \$0.033 each. Both shares and options are held in escrow until 19 April 2006.

The fair value of the identifiable assets and liabilities of Gidgee Resources Ltd as at effective date are:

	Recognised on Acquisition \$	Carrying Value \$
Cash at bank	170	170
Deferred exploration & development costs	7,602,636	351,808
	<u>7,602,806</u>	<u>351,978</u>
Loan Account Legend Mining Limited	(350,684)	(350,684)
Taxation payable	(512)	(512)
	<u>(351,196)</u>	<u>(351,196)</u>
Fair value of assets	<u>7,251,610</u>	<u>782</u>
Consideration		
Shares issued at fair value	4,776,610	
Share options issued at fair value	2,475,000	
Total consideration	<u>7,251,610</u>	
The cash outlay on acquisition is as follows:		
Net cash acquired with subsidiary	170	
Net cash flow	<u>170</u>	

The acquisition was deemed to have taken place from 10 January 2005

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 19: CHANGES IN COMPOSITION OF ENTITY (CONT'D)

### (ii) Acquisition of Mt Gibson Gold Project Assets.

On the 16 November 2005, the effective date, Legend Mining Limited through its subsidiary company Gibson Metals Pty Ltd acquired the Mt Gibson Gold Project assets from Oroya Mining Ltd and its subsidiary Mt Gibson Gold Pty Ltd

In connection with the acquisition, Legend Mining Limited issued 30,000,000 ordinary shares with a fair value of \$0.0628 each based on the published price of the Legend Mining Limited shares at the effective date of acquisition. The ordinary shares are held in escrow as follows: 15,000,000 shares are held in escrow until 16 November 2006, and: 15,000,000 shares are held in escrow until 16 May 2007

The fair value of the identifiable assets and liabilities of Mt Gibson Gold Project assets as at settlement date are:

	Recognised on Acquisition \$	Carrying Value \$
Property, plant and equipment	368,200	350,000
Deferred exploration & evaluation costs	1,259,800	1,200,000
Mining Information	1,672,503	1,700,000
	<u>3,300,503</u>	<u>3,250,000</u>
Provision for rehabilitation	(1,088,000)	(1,088,000)
	<u>(1,088,000)</u>	<u>(1,088,000)</u>
Fair value of assets	<u>2,212,503</u>	<u>2,162,000</u>
Consideration		
Cash	250,000	
Shares issued at fair value	1,884,503	
Stamp duty	78,000	
Total consideration	<u>2,212,503</u>	
The cash outlay on acquisition is as follows:		
Cash paid	(250,000)	
Stamp duty payable	(78,000)	
Net cash flow	<u>(328,000)</u>	

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## NOTE 20: SHARE OPTIONS

	Number	Exercise Price Cents Per Share
<b>(i) Listed options – Expiry date 30 April 05</b>		
At 1 January 2005	36,174,207	15cents
Options issued	-	
Options exercised	(161,828)	
Options expired	(36,012,379)	
At 31 December 2005	<u>-</u>	
<b>(ii) Unlisted options – Expiry date 19 April 2006</b>		
At 1 January 2005	-	
Options issued	75,000,000	4cents
Options exercised	(75,000,000)	
Options expired	-	
At 31 December 2005	<u>-</u>	
<b>Unlisted options – Expiry date 30 May 2006</b>		
At 1 January 2005	2,350,000	22cents
Options issued	-	
Options exercised	-	
Options expired	-	
At 31 December 2005	<u>2,350,000</u>	22cents
<b>Unlisted options – Expiry date 20 April 2007</b>		
At 1 January 2005	-	
Options issued	15,000,000	20cents
Options exercised	-	
Options expired	-	
At 31 December 2005	<u>15,000,000</u>	20cents
<b>Unlisted options – Expiry date 30 July 2007</b>		
At 1 January 2005	250,000	20cents
Options issued	1,200,000	20cents
Options exercised	-	
Options expired	(1,400,000)	20cents
At 31 December 2005	<u>50,000</u>	20cents
<b>Unlisted options – Expiry date 7 February 2008</b>		
At 1 January 2005	-	
Options issued	2,000,000	10cents
Options exercised	-	
Options expired	-	
At 31 December 2005	<u>2,000,000</u>	10cents
<b>Unlisted options – Expiry date 30 July 2009</b>		
At 1 January 2005	1,500,000	30cents
Options issued	-	
Options exercised	-	
Options expired	-	
At 31 December 2005	<u>1,500,000</u>	30cents

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## 21: 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 Officer – Resigned 15 April 2005
I.D. Cowden	Director - Resigned 30 May 2005

#### (ii) Executives

A.M. Law	General Manager – Resigned 15 June 2005
D. Thomson	Exploration Manager – Appointed 30 May 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 calibre executive.

##### 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.

##### 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 2005 when shareholders approved the aggregate remuneration of \$200,000 per year.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## 21: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

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.

### 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.

Remuneration consists of a fixed remuneration element.

### 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.

### Employment contracts

The Managing Director, Mr Mark Wilson, is employed under contract. The current employment contract commenced on the 13 May 2005 and terminates on the 30 June 2006, at which time the Company may choose to commence negotiations to enter into a new employment contract.

- Mr Wilson receives a fixed remuneration of \$200,800 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.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## 21: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

The Executive Director - Technical, Mr Robert Perring, is employed under contract. The current employment contract commenced on the 18 January 2006 and terminates on the 17 July 2006, at which time the Company may choose to commence negotiations to enter into a new employment contract.

- Mr Perring receives a fixed remuneration of \$200,800 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. 1,200,000 share options granted to employees in 2005 were subsequently forfeited upon the resignation of the employees.

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

		Primary Salary & Fees \$	Post Employment Superannuation \$	Equity \$	Other \$	Total \$
<b>Directors</b>						
M. Atkins	2005	-	-	-	66,000	66,000
(Windamurah P/L)	2004	-	-	-	72,911	72,911
M. Wilson	2005	-	-	-	105,600	105,600
(Hostyle P/L)						
D. Ryan	2005	124,543	11,209	-	-	135,752
M. V. McDonald	2005	270,183	57,404	-	-	327,587
	2004	231,458	35,292	-	-	266,750
I. D. Cowden	2005	-	-	-	105,335	105,335
(Iana P/L)	2004	-	-	-	168,207	168,207
<b>Executives</b>						
A. M. Law	2005	127,927	7,975	-	-	135,902
	2004	50,215	4,519	-	-	54,734
D. Thomson	2005	84,010	7,561	-	-	91,571
<b>Total</b>						
	2005	606,663	84,149	-	276,935	967,747
	2004	281,673	39,811	-	241,118	562,602

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## 21: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

(c) Compensation Options: Granted and vested during the year

No options were granted or vested during the year

(d) Shares issued on exercise of compensation options

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

(e) Option holdings of Key Management Personnel

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

	Balance 1 Jan 05	Granted as Compensation	On Exercise of Options	Net Change Other	Balance 31 Dec 05
<b>Directors</b>					
M. Atkins	-	-	-	-	-
M. Wilson	-	-	-	-	-
D. Ryan	-	-	-	-	-
	-	-	-	-	-
	Balance 1 Jan 04	Granted as compensation	On exercise of options	Net change other	Balance 31 Dec 04
<b>Directors</b>					
M. Atkins	-	-	-	-	-
M.V. McDonald	4,000,000	-	-	-	4,000,000
I.D. Cowden	100,000	-	-	-	100,000
	4,100,000	-	-	-	4,100,000

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

	Balance 1 Jan 05	Granted as compensation	On exercise of options	Net change additions	Balance 31 Dec 05
<b>Directors</b>					
M. Atkins	500,000	-	-	-	500,000
M. Wilson	-	-	-	-	-
D. Ryan	-	-	-	-	-
	500,000	-	-	-	500,000
	Balance 1 Jan 04	Granted as compensation	On exercise of options	Net change additions	Balance 31 Dec 04
<b>Directors</b>					
M. Atkins	-	-	-	500,000	500,000
M.V. McDonald	500,000	-	-	500,000	1,000,000
I.D. Cowden	500,000	-	-	500,000	1,000,000
	1,000,000	-	-	1,500,000	500,000

The 500,000 options granted to M. Atkins had vested and were exercisable at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## 21: COMPENSATION OF KEY MANAGEMENT PERSONNEL (CONTD)

### (f) Shareholdings of Key Management Personnel

#### Directors

M. Atkins (Windamurah Pty Ltd) (Alkali Exploration Pty Ltd)	155,000	-	-	-	155,000
M. Wilson	-	-	-	-	-
D. Ryan	-	-	15,000	-	15,000
	<u>155,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>170,000</u>

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.

### (h) 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 \$66,000 (2004: \$72,911). The balance owing to Windamurah Pty Ltd at the end of the year was \$5,500.

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 \$105,600 (2004:\$ nil).

During the year Iana Pty Ltd ( a company controlled by Mr I Cowden) received fees for the provision of geological services to the Company. The aggregate amount charged for such services and expenses was \$105,335 (2004: \$168,207).

## 22: RELATED PARTIES

### (i) Wholly-owned Group Transactions

Loans made by Legend Mining Limited to wholly-owned subsidiaries have no repayment terms 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.

### (iii) Ultimate Parent

Legend Mining Limited is the ultimate parent company.

### (iv) Loans to Related Parties

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

Gibson Metals Pty Ltd	\$2,388,103
Armada Mining Limited	\$ 1,293
Gidgee Resources Limited	(\$2,064,212)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## 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	
	2005 \$	2004 \$	2005 \$	2004 \$
Cash on hand	300	303	300	300
Cash at bank	391,019	2,146,470	389,713	2,146,470
Deposits at call	16,658	16,601	16,658	16,601
8	407,977	2,163,374	406,671	2,163,371

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

Net Loss	(7,563,178)	(9,213,720)	(7,565,123)	(9,207,322)
Adjusted for:				
(Gain)/ Loss on disposal of available or sale investments	(2,804)	-	(2,804)	-
(Gain)/Loss on disposal of property, plant & equipment	(6,319)	33,309	(6,319)	26,911
Interest expense paid by issue of shares	-	200,000	-	200,000
Depreciation	236,952	853,146	227,466	853,146
Amortisation	-	7,515,946	-	7,515,946
Deferred exploration expenditure written off	4,502,813	495,563	293,866	495,563
Investments and receivables in subsidiary companies written down	-	-	4,225,814	-
	(2,832,536)	(115,756)	(2,827,100)	(115,756)
<i>Change in assets and liabilities:</i>				
(Increase)/ decrease in prepayments	34,842	(64,459)	34,842	(64,459)
(Increase)/ decrease in receivables	301,837	(97,426)	301,838	(98,492)
Decrease / (Increase) in inventory	1,490,166	(1,065,584)	1,490,166	(1,065,584)
(Decrease)/Increase in provision for annual leave	(66,218)	189,121	(66,218)	189,121
(Decrease)/ Increase in payables in operating activities	(3,229,419)	1,157,096	(3,236,159)	1,158,259
Net Cash (Used)/ provided in operating activities	(4,301,328)	2,992	(4,302,631)	3,089

### (iii) Non Cash Financing and Investment Activities

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

- Acquisition of Gidgee Resources Pty Ltd by the issue of 75,000,000 ordinary shares and the issue of 75,000,000 ordinary share options.
- Acquisition of the Mt Gibson Gold Project assets by the issue of 30,000,000 ordinary shares.
- Capital raising costs were settled by the issue of 4,994,176 ordinary shares and by the issue of 3,000,000 ordinary share options.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## 24: FINANCE LEASE COMMITMENTS

	Consolidated		Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
Finance lease commitments are payable:				
- Within one year	-	24,122	-	24,122
- One year but not later than five years	-	-	-	-
- Less future finance charges	-	(87)	-	(87)
	-	24,035	-	24,035
Consists of:				
- Current	-	24,035	-	24,035
- Non Current	-	-	-	-
Total lease liability	-	24,035	-	24,035

## 25: COMMITMENTS

### (a) Exploration expenditure commitments.

In order to maintain current rights of tenure to exploration tenements, the Company will be required to outlay in 2006 amounts of approximately \$3,958,516 (2004: \$2,606,286) 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 would be significantly less than \$3.9 million, while still holding all the tenements in good standing.

## 26: INVESTMENTS IN CONTROLLED ENTITIES

Name	Class of Share	Interest Held 2005	Interest Held 2004
Gibson Metals Pty Ltd (formerly ARBOTECH Pty Ltd)	Ordinary	100%	100%
Armada Mining Ltd	Ordinary	100%	100%
Gidgee Resources Ltd	Ordinary	100%	-

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## 27: 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 / Company 2004	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest Rate	Non- Interest Bearing	Total
Financial assets:					
Cash and cash equivalents	3.0%	2,146,773	16,601	-	2,163,374
Other Financial Assets	5.3%	-	2,120,000	13,077	2,133,077
Trade & Other Receivables		-	-	354,125	354,125
		2,146,773	2,136,601	367,202	4,650,576
Financial liabilities					
Trade & Other Payables Payable		-	-	4,372,956	4,372,956
Interest bearing loans and borrowings	10%	-	5,564,201	-	5,564,201
		-	5,564,201	4,372,956	9,937,157

Consolidated / Company 2005	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest Rate	Non- Interest Bearing	Total
Financial assets:					
Cash and cash equivalents	3.0%	391,319	16,658	-	407,977
Other Financial Assets	5.3%	-	3,220,177	66,134	3,286,311
Trade & Other Receivables		-	-	52,288	52,288
		391,319	3,236,835	118,422	3,746,576
Financial liabilities					
Trade & Other Payables		-	-	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

The maturity date for all financial instruments is 1 year or less from balance date.

### (b) Credit Risk

The Group trades only with recognised, creditworthy third parties.

It is the Groups' 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 Groups' exposure to bad debt is not significant.

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

The maximum credit risk within the Group at balance date was \$4,000.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

## 27: FINANCIAL INSTRUMENTS DISCLOSURE (CONTD)

### (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.

Following are the carrying amounts and estimated net fair values of the consolidated entity's non-current financial instruments as at the reporting date. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing partners.

	2005 Carrying Amount \$	2005 Net Fair Value \$	2004 Carrying Amount \$	2004 Net Fair Value \$
Investments in listed corporations	-	-	13,077	13,077

No financial assets and financial liabilities are traded on organised markets in standardised form other than listed investments.

## 28: INTEREST IN JOINT VENTURE ASSETS

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

Joint Venture	Project	Activity	2005 Interest	2004 Interest
East Coast Minerals Joint Venture Munni Munni Project	Elizabeth Hill	Silver Exploration	30.12%	33.33%

Net assets employed in the joint venture totalling \$235,409 (2004 \$180,000) are included as deferred exploration expenditure carried forward in the financial statements.

## 29: AUDITORS REMUNERATION

	Consolidated		Company	
	2005 \$	2004 \$	2005 \$	2004 \$
Remuneration of the auditor of the parent entity by Ernst & Young for				
- auditing or reviewing the financial report	28,228	26,545	28,228	26,545
- consulting fees corporate advice	43,827	110,552	43,827	110,552

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2005

### NOTE 30: 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 31: EVENTS AFTER THE BALANCE SHEET DATE

Legend signed a legally binding Terms Sheet with Sunloop Pty Ltd on the 25 January 2006, for the sale of Legend's 30.12% interest in the East Coast Minerals Joint Venture (ECMJV) covering the Munnii Munnii project. The key points of the Terms Sheet are:-

- the consideration is \$400,000 with a \$10,000 non-refundable deposit paid upon signing the Terms Sheet, with the balance (\$390,000) payable on or before 25 April 2006,
- the sale is conditional upon Sunloop completing due diligence on or before the 25 February 2006, and
- the sale is subject to the waiver (or exercise) of East Coast Minerals NL's (ECM) pre-emptive right held by ECM under the ECMJV agreement, with such waiver (or exercise) to be advised to Legend on or before 25 March 2006.

Legend announced on the 10 March 2006 that:-

- Yandal Investments Pty Ltd had agreed to provide \$10,000,000 of new equity to Legend Mining Limited, by the conversion of its \$5,000,000 Convertible Note to 125,000,000 Ordinary Shares at \$0.04 each and by the immediate exercise of its 125,000,000 Options attaching to the Convertible Note at \$0.04 each, to raise \$5,000,000, and
- that a prospectus would be issued for a non-renounceable 1-for -3 rights issue of ordinary fully paid Legend shares at \$0.04 per share to raise \$6.12 million, with a free attaching option exercisable at \$0.04 within 24 months of the issue – these options to be listed on the ASX.

Both the conversion of the Convertible Note and the rights issue are dependant upon Legend shareholders agreeing at a shareholders meeting on a date as soon as practicable, to the issue of 125,000,000 unlisted options exercisable at \$0.04 each to Yandal Investments Pty Ltd, as a fee for the early conversion of the note and the immediate exercise of the attaching options.

### NOTE 32: TAX CONSOLIDATION

As at 31 December, 2005 Legend Mining Limited and its subsidiaries had not formed a tax consolidated group. This will not have any material financial impact on the consolidated entity.

### NOTE 33: DIVIDENDS PAID AND PROPOSED

No dividends were paid or proposed this financial year.

## 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. Give a true and fair view of the financial position as at 31 December 2005 and the 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.

On behalf of the Board.



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**M. Wilson**

**Managing Director**

**Dated this 30th day of March 2006**

# DECLARATION OF AUDITOR'S INDEPENDENCE



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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 year ended 31 December 2005, 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 &amp; Young', written in a cursive style.

Ernst & Young

A handwritten signature in black ink, appearing to read 'G H Meyerowitz', written in a cursive style.

G H Meyerowitz

Partner

Perth

30 March 2006

# INDEPENDENT AUDITOR'S REPORT



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

■ Tel 61 8 9429 2222  
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## 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, statement of cash flows, 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 2005. 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
- 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.


### 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### Audit opinion

In our opinion:

1. 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 2005 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.

  
Ernst & Young

  
G H Meyerowitz  
Partner  
Perth 30 March 2006

Liability limited by a scheme approved under  
Professional Standards Legislation

## SHAREHOLDER INFORMATION

The issued capital of the company as at 31 December 2005 is 458,578,322 ordinary fully paid shares.

### Distribution of Share Holders as at 31 December 2005

Fully Paid Shares	Number
1 - 1,000	34
1,001 - 5,000	166
5,001 - 10,000	329
10,001 - 100,000	1,160
100,001 and over	412
	2,101

Number holding less than a marketable parcel (1,000 shares) 5

### Substantial Shareholder as at 17 March 2006

Australian Gold Resources Pty Ltd 149,985,000

### Top 20 Shareholders as at 17 March 2006

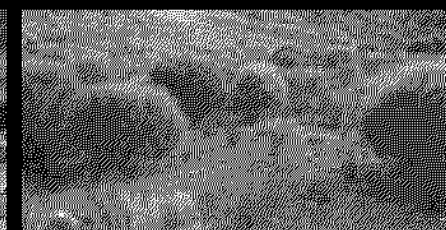
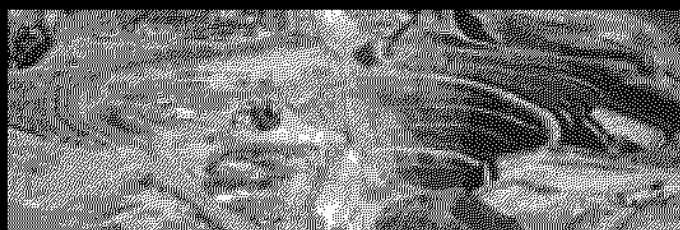
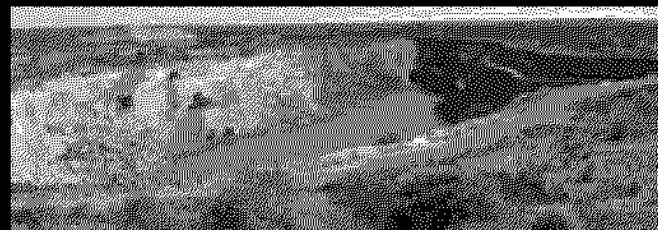
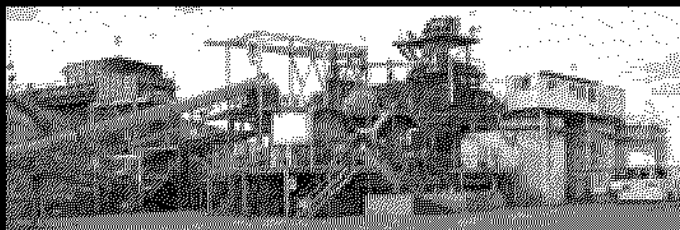
Name	Total Holdings	% Issued Capital
Australian Gold Resources Pty Ltd	149,985,000	32.707
Oroya Mining Limited	30,000,000	6.542
Donwillow Pty Ltd	16,666,666	3.634
National Nominees Limited	7,516,433	1.639
Yandal Investments Pty Ltd	7,500,000	1.635
Rigi Investments Pty Ltd	5,688,136	1.240
Mr Johnny Kahlbetzer	5,300,000	1.156
Ronay Investments Pty Ltd	4,628,190	1.009
Comsec Nominees Pty Ltd	3,634,093	0.792
Yarandi Investments Pty Ltd	3,580,238	0.781
Mr Brendan Michael Anthony Hopkins	3,336,500	0.728
Citicorp Nominees Pty Ltd	2,809,000	0.613
Mr David Robert Hannon	2,806,667	0.612
Fleet Nominees Pty Ltd	2,500,000	0.545
Maminda Pty Ltd	2,000,000	0.436
Arinya Investments Pty Ltd	1,672,000	0.365
Masflex Holdings Pty Ltd	1,575,000	0.343
ANZ Nominees Limited	1,507,500	0.329
Royle Investments Pty Ltd	1,372,959	0.299
Mrs Majda Bunderla	1,356,264	0.296
	255,434,646	55.701



# SHAREHOLDER INFORMATION

## Unlisted Option holders as at 17 March, 2006

Name	Total Holdings	% Holding
<b>20 April 2007 exercisable at 20 cents per share</b>		
National Nominees Limited	14,000,000	93.34
Captain Starlight Nominees Pty Ltd	500,000	3.33
Mr Gerard Farley	500,000	3.33
	<b>15,000,000</b>	<b>100.00</b>
<b>07 February 2008 exercisable at 10 cents per share</b>		
Captain Starlight Nominees Pty Ltd	1,000,000	50.00
Mr Gerard Farley	1,000,000	50.00
	<b>2,000,000</b>	<b>100.00</b>
<b>30 July 2009 exercisable at 30 cents per share</b>		
Mr Michael Atkins	500,000	33.33
Mr Murray McDonald	500,000	33.33
Mr Ian Cowden	500,000	33.33
	<b>1,500,000</b>	<b>100.00</b>
<b>30 May 2006 exercisable at 22 cents per share</b>		
May 96 Pty Ltd	1,000,000	42.56
Iana Pty Ltd	500,000	21.27
Revlis Pty Ltd	500,000	21.27
Mr Albert Watson	250,000	10.64
Calidion Pty Ltd	100,000	4.26
	<b>2,350,000</b>	<b>100.00</b>
<b>30 July 2007 exercisable at 20 cents per share</b>		
Kyah Kani	50,000	100.00
	<b>50,000</b>	<b>100.00</b>



Legend Mining Limited

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