

## Directors' Report

The Directors present their report on the results of the Company for the year ended 30 June, 2004 and the state of affairs at that date.

### Directors

The names of the Directors in office during the course of the year and at the date of this report are:

Christopher Kenneth George Rowe (Chairman)  
 Charles Stuart Wilkinson (Managing Director)  
 David Ian Chalmers  
 Terrence William Ransted  
 Gary Mark Lethridge (appointed 14 April 2004)  
 Neville Keith Bergin (appointed 14 April 2004)

### Principal Activity

The principal activities of the Company in the course of the year were the acquisition of mineral tenements, mineral exploration and investment.

### Operating Results

The net loss of the Company for the year, after provision for income tax amounted to \$207,528 [2003: \$102,039].

### Dividends

No dividends were paid during the year and no recommendation is made as to dividends.

### Review of Operations

In November 2003, the Company successfully listed on Australian Stock Exchange Limited. Since listing the Company has continued its exploration programs as outlined in the Initial Public Offering Prospectus.

More details of the activities of the Company for the year together with future prospects are set out in the Review of Operations section of the annual report and can also be viewed on the Company's web site.

### Significant Changes in State of Affairs

During the year 13,375,000 ordinary shares were issued at 8 cents each pursuant to a placement under an Information Memorandum to raise seed capital funds. Also during the year 25,000,000 ordinary shares were issued at 20 cents each pursuant to an Initial Public Offering prospectus dated 6 November 2003 to raise funds to explore for significant nickel and PGE deposits, explore for gold deposits with the aim of generating an early cash flow, facilitate the acquisition of additional tenements and/or projects, meet the administration and operating costs of the Company and to retire debt. Costs of this issue were \$423,031.

On successful completion of the Issue the Company listed on Australian Stock Exchange Limited on 17 December 2003.

### Subsequent Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to the financial year ended 30 June 2004.

### Likely Developments

The Company intends to continue exploration programmes on its existing tenements, and to acquire further suitable tenements for exploration.

### Meetings of Directors

During the financial year, eight meetings of directors were held. The number of meetings attended by each director during the year is as follows:

Charles Stuart Wilkinson	8
Neville Keith Bergin (1 since appointed)	1
David Ian Chalmers	8
Gary Mark Lethridge (1 since appointed)	1
Terrence William Ransted	8
Christopher Kenneth George Rowe	8

## Directors' Report - continued

### Directors' Qualifications and Experience

#### **ROWE, Christopher Kenneth George, BA, MA Economics and Law (Chairman) Age 58**

Mr Rowe has practised as a Barrister and Solicitor both in the United Kingdom and in Western Australia before becoming a full time consultant to the mining and oil and gas industry. He has been chairman or deputy chairman of a number of public listed mining and oil and gas related companies in Australia and North America. Present board positions include Hawkesbridge Ltd (Executive Chairman) and Unilink Data Systems Pty Ltd (Chairman).

#### **WILKINSON, Charles Stuart, BSc Hons, MAusIMM. (Managing Director) Age 44**

Mr Wilkinson has more than 19 years experience in the resource sector, mainly in mineral exploration, in a range of commodities, both in Australia and overseas. He was instrumental in leading the initial exploration in two significant discoveries – the West Musgrave Ni-Cu-PGM mineralisation and the Argo gold deposit at Kambalda. He was Exploration Manager – Australia with the Exploration Division of WMC Resources Ltd and has been deputy chairman of the Chamber of Minerals and Energy Exploration Council.

#### **CHALMERS, David Ian MSc, FAusIMM, FIMMM, FSEG, FAIG, FAICD, MGSA, (Non-executive Director) Age 55**

Mr Chalmers is a geologist with a Master of Science degree. He has worked in the mining and exploration industry for over 34 years during which time he has had experience in all facets of exploration through feasibility and development up to the production phase. He is a principal of Multi Metals Consultants Pty Ltd and is a director of Alkane Exploration Ltd and AuDAX Resources Ltd.

#### **RANSTED, Terrence William, B(App)Sc, MAusIMM, MGSA (Non-executive Director) Age 46**

Mr Ransted is a geologist and a graduate of the Western Australian Institute of Technology with a Bachelor of Applied Science Degree. He has had 26 years experience in many facets of exploration and regional geological programmes and has been involved in various stages of project development from grass roots exploration to mining in a variety of commodities covering differing geological terrains. Mr Ransted is a principal of Multi Metal Consultants Pty Ltd.

#### **LETHRIDGE, Gary Mark (Non-executive Director) BCom, CA, FCIS, MAICD Age 40**

Mr Lethridge is a Chartered Accountant and a Chartered Company Secretary. He has over 19 years commercial experience including senior management and board level roles, predominantly with publicly listed resource companies. Mr Lethridge is currently Jubilee Mines NL's Chief Financial Officer.

#### **BERGIN, Neville Keith (Non-executive Director) BSc Hons, ACSM, MAusIMM Age 48**

Mr Bergin is currently Jubilee Mines NL's General Manager – Operations and Projects. He has over 24 years experience in the mining industry with the last 16 years in senior operational, and more recently, corporate roles. He joined Jubilee as Resident Manager at the Cosmos Nickel Project before taking on his current role with them in February 2003.

### Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Northern Star Resources Ltd support and have adhered to the principles of corporate governance and have established a set of policies and manuals for the purpose of managing corporate governance. The Company's detailed corporate governance policy statement is contained in the additional Supplementary Information section of the annual report and can be viewed on the Company's web site at [www.nsr ltd.com](http://www.nsr ltd.com).

### Audit Committee

The audit committee comprises Mr Terrence Ransted, Mr Neville Bergin and Mr Gary Lethridge.

### Environmental Issues

The Company is subject to environmental regulation in respect to its mineral tenements relating to any exploration activity on those tenements. No breaches of any environmental restrictions were recorded during the year. Performance bonds are required by the Mines Department to cover environmental regulation rehabilitation.

### Share Options

Options to take up ordinary shares in the capital of Northern Star Resources Ltd granted and still outstanding are as follows:

Unlisted Options - exercisable at 25 cents on or before 17 December 2006	
Outstanding as at date of this report	13,375,000
Outstanding at end of year	13,375,000
Granted during year	13,375,000
Exercised during year	Nil

## Directors' Report - continued

### Share Options - continued

Unlisted Options - exercisable at 20 cents on or before 17 December 2008	
Outstanding as at date of this report	5,000,000
Outstanding at end of year	5,000,000
Granted during year	5,000,000
Exercised during year	Nil

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

### Directors' Interests and Benefits

Professional fees of \$54,288 and re-imbusement of disbursements of \$81,723, totalling \$136,011 were paid during the year to Multi Metal Consultants Pty Ltd, a company in which both Mr Chalmers and Mr Ransted have a substantial financial interest.

This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as directors' fees and shown in the financial statements, prepared in accordance with the Corporations Regulations, or the fixed salary of a full-time employee.

### Directors' and Executives' Emoluments

#### *Principles used to determine the nature and amount of remuneration*

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward corporate governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency
- capital management

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

#### Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in share price and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

#### Alignment to program participants interests:

- rewards capability and experience
- reflects competitive reward for contribution to shareholder growth
- provides a clear structure for earning rewards
- provides recognition for contribution

#### *Non-executive directors*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

#### *Directors fees*

Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$150,000 in aggregate. This amount is separate from any specific tasks the directors or their related entities may take on for the Company. For example, Multi Metal Consultants Pty Ltd of which Messrs Chalmers and Ransted are principals, provide some administration services for the Company, separate from their tasks as non-executive Directors. Their remuneration is set out earlier in this report and is also disclosed in the Notes to the Financial Statements.

## Directors' Report - continued

### Directors' and Executives' Emoluments - continued

All remuneration of directors is disclosed in Note 14 in the Notes to the Financial Statements.

There are no executive officers of the Company other than directors.

Amounts paid to directors is as set out below:

#### Executive Director of Northern Star Resources Ltd

Name	Base Salary	Superannuation	Total
	\$	\$	\$
CS Wilkinson	135,000	12,150	147,150

#### Non-executive Directors of Northern Star Resources Ltd

Name	Directors' Base Fee	Fees and Disbursements	Superannuation	Total
	\$	\$	\$	\$
N Bergin	5,331	-	480	5,811
I Chalmers	12,500	*136,011	1,125	149,636
G Lethridge	5,331	-	480	5,811
T Ransted	12,500	*136,011	1,125	149,636
C Rowe	15,000	-	1,350	14,350

\*This amount paid to Messrs Chalmers and Ransted relates a single amount for fees and disbursements paid to a company in which they both have an interest.

### Directors' Interests in the Share Capital of the Company as at 30 September 2004

Name of Director	Shares Held Directly	Shares Held Indirectly	Options Held Directly	Options Held Indirectly
N Bergin	-	-	-	-
DI Chalmers	1	2,145,000	-	*5,000,000
G Lethridge	-	-	-	-
T Ransted	2,000,001	145,000	-	*5,000,000
C Rowe	-	2,720,000	-	650,000
C Wilkinson	-	2,040,000	-	-

\* This refers to 5,000,000 options granted to Biscay Resources Pty Ltd, a company in which Messrs Ransted and Chalmers are each 25% beneficial owners.

650,000 shares and 650,000 free attaching options exercisable at 25 cents on or before 17 December 2006 were issued to Little Breton Nominees Pty Ltd (The Little Breton Superannuation a/c), a company of which Mr C Rowe is a director and beneficial shareholder, pursuant to seed capital placement at an issue price of 8 cents per share. The options were not issued as part of any remuneration package. At the time of grant of the options the Company was not listed on Australian Stock Exchange Limited. A Black and Scholes valuation model assuming an issue price at that applicable to seed capitalists of 8 cents, a risk free rate of 5.6%, a volatility rate of .5 and then applying a 30% discount factor to compensate for the fact that the options are unlisted, provides a notional value to these options of \$3,516. 337,500 of these shares and 337,500 options are held as nominee for the beneficial interest of a third party.

13,000 shares were issued to Catherine Wilkinson, spouse of Mr C Wilkinson, pursuant to Initial Public Offering at an issue price of 20 cents per share.

## Directors' Report - continued

5,000,000 options exercisable at 20 cents each on or before 17 December 2008 were issued to Biscay Resources Pty Ltd, a company in which Messrs Chalmers and Ransted each hold a 25% beneficial interest as part consideration for acquisition of mineral interests as noted above. The options issued were not part of any remuneration package. At the time of grant of the options the Company was not listed on Australian Stock Exchange Limited. A Black and Scholes valuation model assuming an issue price at that applicable to seed capitalists of 8 cents, a risk free rate of 5.6%, a volatility rate of .5 and then applying a 30% discount factor to compensate for the fact that the options are unlisted, provides a notional value to these options of \$75,072.

Signed at Perth in accordance with a resolution of Directors.

Charles Wilkinson  
Managing Director

Dated this 30th day of September 2004

## Directors' Declaration

In the opinion of the Directors of Northern Star Resources Ltd:

- (a) the financial statements and notes, set out on the following pages are in accordance with the Corporations Act 2001 including:
  - i. giving a true and fair view of the financial position of the Company as at 30 June 2004 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date, and
  - ii complying with Accounting Standards, other mandatory professional reporting requirements and the Corporations Regulations; 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.

Signed at Perth in accordance with a resolution of the Directors:

Charles Wilkinson  
Managing Director

Dated this 30th day of September 2004

## Statement of Financial Position

As at 30 June, 2004

	NOTES	2004 \$	2003 \$
<b>CURRENT ASSETS</b>			
Receivables	3	31,409	84,036
Cash assets	4	4,578,987	2,658
<b>TOTAL CURRENT ASSETS</b>		<u>4,610,396</u>	<u>86,694</u>
<b>NON-CURRENT ASSETS</b>			
Plant & Equipment	5	143,166	-
Exploration & Evaluation expenditure	6	922,938	313,694
<b>TOTAL NON-CURRENT ASSETS</b>		<u>1,066,104</u>	<u>313,694</u>
<b>TOTAL ASSETS</b>		<u>5,676,500</u> =====	<u>400,388</u> =====
<b>CURRENT LIABILITIES</b>			
Payables	7	101,254	278,083
Provisions	8	13,500	-
<b>TOTAL CURRENT LIABILITIES</b>		<u>114,754</u>	<u>278,083</u>
<b>TOTAL LIABILITIES</b>		<u>114,754</u>	<u>278,083</u>
<b>NET ASSETS</b>		<u>5,561,746</u> =====	<u>122,305</u> =====
<b>SHAREHOLDERS' EQUITY</b>			
Contributed Equity	2	5,891,971	245,002
Accumulated Losses	18	(330,225)	(122,697)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>5,561,746</u> =====	<u>122,305</u> =====

The accompanying notes form part of these statements.

## Statement of Financial Performance

For the year ended 30 June, 2004

	NOTES	2004 \$	2003 \$
Interest income		111,848	-
Other revenue from ordinary activities		4,230	-
		-----	-----
Total revenue from ordinary activities		116,078	-
Corporate costs		(146,891)	(36,590)
Depreciation expense		(12,589)	-
Exploration written-off		(10,037)	(30,617)
Personnel & support		(142,352)	(34,832)
Other expenses from ordinary activities		(11,737)	-
		-----	-----
(Loss) from ordinary activities before related income tax expense		(207,528)	(102,039)
Income tax expense relating to ordinary activities	10	-	-
		-----	-----
(Loss) from ordinary activities after related income tax expense		(207,528)	(102,039)
		=====	=====
Basic earnings per share (cents per share)	11	(0.01)	(0.01)

Diluted earnings per share are not disclosed as they are not materially different to basic earnings per share.

The accompanying notes form part of these statements.

## Statement of Cash Flows

For the year ended 30 June, 2004

		Inflow/ (Outflow) 2004 \$	Inflow/ (Outflow) 2003 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>NOTE</b>		
Payments to Suppliers & Employees		(224,719)	(197,710)
Interest Received		111,848	-
Other Income		4,229	-
		<hr/>	<hr/>
Net Cash Provided (Utilised) by Operating Activities	17	(108,642)	(197,710)
		<hr/>	<hr/>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Payment for Plant & Equipment		(155,756)	-
Payment for Exploration and Evaluation		(609,244)	-
		<hr/>	<hr/>
Net Cash Provided (Utilised) by Investing Activities		(765,000)	-
		<hr/>	<hr/>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of Shares		5,646,971	-
Proceeds from loans		(197,000)	177,000
		<hr/>	<hr/>
Net Cash Provided (Utilised) by Financing Activities		5,449,971	177,000
		<hr/>	<hr/>
Net Increase in Cash Held		4,576,329	(20,710)
Cash at 1 July		2,658	23,368
		<hr/>	<hr/>
Cash at 30 June	17	4,578,987	2,658
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form part of these statements.

## Notes to and Forming Part of the Statements

For the year ended 30 June, 2004

### NOTE 1 - STATEMENT OF ACCOUNTING POLICIES

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

It has been prepared on the basis of historical costs and except where stated does not take into account changing money values or current valuation of non-current assets. The following specific accounting policies have been consistently applied, unless otherwise stated.

a. Income Tax

The Company adopts the liability method of tax effect accounting whereby the income tax expense shown in the profit and loss account is based on the operating profit before tax, adjusted for permanent differences. Timing differences which arise due to the different accounting years in which items of revenue and expense are included in the determination of operating profit and taxable income are brought to account as either provision for deferred income tax or an asset described as future income tax benefit. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit. The amount of these benefits is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Company will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

b. Exploration Expenses

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Such costs are carried forward where they are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or where activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in, or in relation to, the area are continuing.

The ultimate recoupment of costs related to areas of interest in the exploration and/or evaluation phase is dependent on the successful development and commercial exploitation or sale of the relevant areas.

Each area of interest is reviewed annually to determine whether costs should continue to be carried forward in respect of that area of interest. Where it is decided to abandon an area of interest, costs carried forward in respect of that area are written off in full in the year in which the decision is taken. Otherwise, such costs are amortised over the life of the area of interest based on the rate of depletion of the economically recoverable reserves. Provision for the cost of restoration of sites is made at the various relevant stages and included in the cost of that stage.

c. Plant & Equipment

These are included at cost. Plant and equipment are depreciated using the straight line method over their estimated useful life (being 3 to 5 years) commencing from the time the asset is first used or held ready for use.

d. Mineral Tenements

The Company's activities in the mining industry are subject to regulations and approvals including mining heritage, environmental regulation, the implications of the High Court of Australia decision in what is known generally as the "Mabo" case and any State or Federal legislation regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined and could effect any mining title area whether granted by the State or not.

e. Employee Benefits

Provision is made in respect of the Company's liability for annual leave at the reporting date. Employee benefits expected to be settled within one year, together with benefits arising from wages and salaries, annual leave and long service leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled.

Where shares or options are issued to employees, including directors, as remuneration for services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity.

## Notes to and Forming Part of the Statements

For the year ended 30 June, 2004

	Number	2004 \$	Number	2003 \$
<b>NOTE 2 – CONTRIBUTED EQUITY</b>				
a) Issued Capital – Ordinary Fully paid shares				
Balance at beginning of year	13,000,002	245,002	26,000,002	245,002
Placement	13,375,000	1,070,000	-	-
Offer under Initial Public Offer document	25,000,000	5,000,000	-	-
	<u>51,375,002</u>	<u>6,315,002</u>	<u>26,000,002</u>	<u>245,002</u>
Less: cancellation of shares	-	-	(13,000,000)	-
	<u>51,375,002</u>	<u>6,315,002</u>	<u>13,000,002</u>	<u>245,002</u>
Less: accumulated costs of issues	-	(423,031)	-	-
Balance at end of year	<u>51,375,002</u>	<u>5,891,971</u>	<u>13,000,002</u>	<u>245,002</u>

During the year 13,375,000 ordinary shares were issued at 8 cents each pursuant to a placement under an Information Memorandum to raise seed capital funds. Also during the year 25,000,000 ordinary shares were issued at 20 cents each pursuant to an Initial Public Offering prospectus dated 6 November 2003 to raise funds to explore for significant nickel and PGE deposits, explore for gold deposits with the aim of generating an early cash flow, facilitate the acquisition of additional tenements and/or projects, meet the administration and operating costs of the Company and to retire debt. Costs of this issue were \$423,031.

Terms and conditions of contributed equity

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the company, ordinary shareholders rank after all other shareholders and creditors are fully entitled to any proceeds of liquidations.

b) Options				
Unlisted options expiring 17/12/2008 exercisable at 20 cents each				
Balance at beginning of year	-	-	-	-
Issued	5,000,000	-	-	-
Balance at end of year	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unlisted options expiring 17/12/2006 exercisable at 25 cents each				
Balance at beginning of year	-	-	-	-
Placement	13,375,000	-	-	-
Balance at end of year	<u>13,375,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

During the year 5,000,000 free options exercisable at 20 cents each on or before 17 December 2008 were issued as part consideration for acquisition of mineral interests. Also during the year 13,375,000 free options exercisable at 25 cents each on or before 17 December 2006 were issued pursuant to a placement under an Information Memorandum to raise seed capital funds. No options were exercised during the year. No options expired during the year.

## Notes to and Forming Part of the Statements

For the year ended 30 June, 2004

	2004 \$	2003 \$
<b>NOTE 3 - RECEIVABLES</b>		
Trade Debtors & prepayments	-	84,036
GST Receivable	31,409	-
	<u>31,409</u>	<u>84,036</u>
	=====	=====
<b>NOTE 4 - CASH ASSETS</b>		
Cash at Bank and on hand	25,841	2,658
Cash on Deposit	4,553,146	-
	<u>4,578,987</u>	<u>2,658</u>
	=====	=====
<b>NOTE 5 - PLANT &amp; EQUIPMENT</b>		
Plant & equipment - at cost	155,755	-
Less: Accumulated Depreciation	(12,589)	-
	<u>143,166</u>	<u>-</u>
	=====	=====
Reconciliations of the carrying amounts for each class of plant and equipment follow:		
<b>Plant &amp; Equipment</b>		
Carrying amount at beginning of year	-	-
Additions	155,755	-
Depreciation	(12,589)	-
	-----	-----
Carrying amount at end of year	<u>143,166</u>	<u>-</u>
	=====	=====
<b>NOTE 6 - EXPLORATION &amp; EVALUATION EXPENDITURE</b>		
Exploration & Evaluation expenditure costs brought forward in respect of areas of interest	313,694	163,622
Expenditure during year	619,765	180,689
Less: expenditure written off	(10,521)	(30,617)
	-----	-----
Carrying value at end of year	<u>922,938</u>	<u>313,694</u>
	=====	=====

During the year ended 30 June 2004 the Directors reviewed the valuation of the Company's interests in mining tenements to reflect the future exploration and income potential of the areas.

There may exist on the company's exploration properties, areas subject to claim under native title or containing sacred sites or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration and mining restrictions.

### NOTE 7 - PAYABLES

Trade Creditors	101,254	81,083
Unsecured loan at call	-	197,000
	<u>101,254</u>	<u>278,083</u>
	=====	=====

## Notes to and Forming Part of the Statements

For the year ended 30 June, 2004

	2004 \$	2003 \$
<b>NOTE 8 - PROVISIONS</b>		
Employee entitlements	13,500 =====	- =====

There are 8 employees including the directors.

### NOTE 9 - AUDITORS' REMUNERATION

Amount received or due and receivable by the auditor for:

**(a) Auditing the financial statements (including audit review)**

Current year audits	4,500	1,200
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**(b) Other services**

Independent Accountants Report	5,000	-
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Total remuneration of auditors	<u>9,500</u>	<u>1,200</u>
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The Company has received notification from the Company's auditor that he satisfies the independence criterion and that there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct in relation to the audit. The Company is satisfied that the non-audit services provided is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

### NOTE 10 - INCOME TAX EXPENSE

Prima facie tax on loss from ordinary activities calculated at 30%	(62,259)	(30,612)
Future income tax benefit not brought to account	62,259 -----	30,612 -----
Income tax expense relating to ordinary activities	- =====	- =====

Estimated future income tax benefits attributable to tax losses and timing differences available to be carried forward amount to \$92,871 (2003: \$30,612)

This benefit which has not been brought to account, will only be obtained if the Company:

- derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- continues to comply with the conditions for deductibility imposed by the law; and
- there are no changes in the tax legislation affecting the Company in realising the benefit.

### NOTE 11 - EARNINGS PER SHARE

Basic earnings per share (cents per share)	(.01)	(.01)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	36,237,024	24,504,112

Diluted earnings per share are not disclosed as they are not materially different to basic earnings per share.

### NOTE 12 - CAPITAL COMMITMENTS

In order to maintain current rights of tenure to exploration tenements the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the WA State Government. The estimated exploration and joint venture expenditure commitments for the ensuing year amount to \$669,300 (2003: \$500,000). This expenditure will only be incurred should the Company retain its existing level of interest in its various exploration areas and provided access to mining tenements is not restricted.

## Notes to and Forming Part of the Statements

For the year ended 30 June, 2004

### NOTE 13 - SEGMENTAL INFORMATION

The Company operates only in Australia and predominantly in the area of mineral exploration in Western Australia.

### NOTE 14 - REMUNERATION OF DIRECTORS

	2004	2003
	\$	\$
Directors' income paid or payable or otherwise made available to Directors of the Company	336,383	135,000
	=====	=====

The details of remunerations paid are as follows:

#### Executive Director of Northern Star Resources Ltd

Name	Base Salary	Superannuation	Total
	\$	\$	\$
CS Wilkinson	135,000	12,150	147,150

#### Non-executive Directors of Northern Star Resources Ltd

Name	Directors' Base Fee	Fees and Disbursements	Superannuation	Total
	\$	\$	\$	\$
N Bergin	5,331	-	480	5,811
I Chalmers	12,500	*136,011	1,125	149,636
G Lethridge	5,331	-	480	5,811
T Ransted	12,500	*136,011	1,125	149,636
C Rowe	15,000	-	1,350	14,350

\*This amount paid to Messrs Chalmers and Ransted relates a single amount for fees and disbursements paid to a company in which they both have an interest.

The Company did not have any executive officers other than the managing director.

Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate for Northern Star. The Board has adopted the following policies of Directors and executives remuneration:

#### Non-Executive Directors' Remuneration

Non-Executive Directors' fees are paid within an aggregate limit which is approved by the shareholders from time to time and currently stands at \$150,000. This amount is separate from any specific tasks the directors may take on for the Company. Retirement payments, if any, are agreed to be determined in accordance with the rules set out in the Corporations Act 2001 as at the time of the Director's retirement or termination.

#### Executive Remuneration

Senior executives, including Executive Directors, are engaged under the terms of individual employment contracts. Such contracts are based upon standard terms drafted by the Company's lawyers. Executive Directors do not receive any directors' fees in addition to their remuneration arrangements. Executive Directors may be offered options as part of their remuneration, subject to Shareholder approval. The monetary package is divided between a base salary/consulting fee and, for non-directors, an incentive portion if considered appropriate. Base salary/consulting fees are set to reflect the market salary for a position and individual of comparable responsibility and experience. Base salary/consulting fees are regularly compared with the external market and recruitment activities generally. It is the policy of the Company to maintain a competitive salary structure to ensure continued availability of experienced and effective management and staff.

## Notes to and Forming Part of the Statements

For the year ended 30 June, 2004

### NOTE 15 - RELATED PARTY TRANSACTIONS

Messrs Chalmers and Ransted are directors and shareholders of Multi Metal Consultants Pty Ltd, a company that was paid \$136,011 for professional services including reimbursement of expenses in the normal course of business at commercial rates.

Mr Chalmers and Ransted each hold 25% beneficial interest in Biscay Resources Pty Ltd, a company that was issued with 5,000,000 options exercisable at 20 cents each on or before 17 December 2008 as part consideration for acquisition of mineral interests. Under a Farm In Agreement and subsequent supplementary agreement between the Company and Biscay Resources Pty Ltd, the Company was deemed to have earned a 100% interests in certain mineral tenements in consideration of the grant by the Company of a 1% net smelter return (NSR). The 1% NSR essentially comprises on per cent of the total purchased price received by the Company from the sale of any minerals (or product) produced from the tenements less all costs of transporting, concentrating, smelting, refining or otherwise treating the minerals or product, all taxes and other imposts or levies calculated on production or the value of production. To date no minerals or product has been produced from the relevant mineral tenements and therefore no NSR has become due and payable.

### Directors And Director Related Entities' Shareholdings

The interests of Directors and their Director related entities in shares and share options at year end are as follows:

	2004	2003
Ordinary shares	8,905,002	8,000,002
Options over ordinary shares	5,650,000	-

Name	Balance at the start of the year	Issued	Purchased/Sold	Balance as the end of the year
<b>Shares</b>				
N Bergin	-	-	-	-
I Chalmers	2,000,001	-	*145,000	*2,145,001
G Lethridge	-	-	-	-
T Ransted	2,000,001	-	*145,000	*2,145,001
C Rowe	2,000,000	650,000	70,000	2,720,000
C Wilkinson	2,000,000	13,000	27,000	2,040,000
<b>Total shares</b>	<b>8,000,002</b>	<b>663,000</b>	<b>242,000</b>	<b>8,905,002</b>
<b>Options</b>				
N Bergin	-	-	-	-
I Chalmers	-	**5,000,000	-	**5,000,000
G Lethridge	-	-	-	-
T Ransted	-	**5,000,000	-	**5,000,000
C Rowe	-	650,000	-	650,000
C Wilkinson	-	-	-	-
<b>Total options</b>	<b>-</b>	<b>5,650,000</b>	<b>-</b>	<b>5,650,000</b>

\* This refers to 145,000 shares purchased by Multi Metal Consultants Pty Ltd <MMC Superannuation A/C> - a superfund account of which Messrs Ransted and Chalmers are beneficiaries.

\*\* This refers to 5,000,000 options granted to Biscay Resources Pty Ltd, a company in which Messrs Ransted and Chalmers are each 25% beneficial owners.

## Notes to and Forming Part of the Statements

For the year ended 30 June, 2004

During the year the following shares and options were issued to Directors and Director related entities:

650,000 shares and 650,000 free attaching options exercisable at 25 cents on or before 17 December 2006 were issued to Little Breton Nominees Pty Ltd (The Little Breton Superannuation a/c), a company of which Mr C Rowe is a director and beneficial shareholder, pursuant to seed capital placement at an issue price of 8 cents per share. The options were not issued as part of any remuneration package. At the time of grant of the options the Company was not listed on Australian Stock Exchange Limited. A Black and Scholes valuation model assuming an issue price at that applicable to seed capitalists of 8 cents, a risk free rate of 5.6%, a volatility rate of .5 and then applying a 30% discount factor to compensate for the fact that the options are unlisted, provides a notional value to these options of \$3,516. 337,500 of these shares and 337,500 options are held as nominee for the beneficial interest of a third party.

13,000 shares were issued to Catherine Wilkinson, spouse of Mr C Wilkinson, pursuant to Initial Public Offering at an issue price of 20 cents per share.

5,000,000 options exercisable at 20 cents each on or before 17 December 2008 were issued to Biscay Resources Pty Ltd, a company in which Messrs Chalmers and Ransted each hold a 25% beneficial interest as part consideration for acquisition of mineral interests as noted above. The options issued were not part of any remuneration package. At the time of grant of the options the Company was not listed on Australian Stock Exchange Limited. A Black and Scholes valuation model assuming an issue price at that applicable to seed capitalists of 8 cents, a risk free rate of 5.6%, a volatility rate of .5 and then applying a 30% discount factor to compensate for the fact that the options are unlisted, provides a notional value to these options of \$75,072.

### NOTE 16 - FINANCIAL INSTRUMENTS

#### Significant Accounting Policies

Details of significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the accounts.

#### Interest Rate Risk

The following table details the Company's exposure to interest rate risk as at the reporting date:

	Average Interest Rate	Variable Interest Rate 1 Year	Fixed Interest Rate Maturity Less than 1 year	Non-interest Bearing	Total
<b>2003</b>	%	\$	\$	\$	\$
Cash	-	-	-	2,658	2,658
Receivables	-	-	-	84,036	84,036
Deposits	-	-	-	-	-
Loan	-	-	-	197,000	197,000
Accounts Payable	-	-	-	278,083	278,083
<b>2004</b>					
Cash	-	-	-	25,841	25,841
Receivables	-	-	-	31,409	31,409
Deposits	5.5	-	4,553,146	-	4,553,146
Accounts Payable	-	-	-	101,254	101,254

#### Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair basis.

The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

**Net Fair Value**

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the accounts.

## Notes to and Forming Part of the Statements

For the year ended 30 June, 2004

### NOTE 17 - STATEMENT OF CASH FLOWS

#### RECONCILIATION OF CASH

For the purposes of this Statement of Cash Flows, cash includes:

Cash on hand and at call deposits with banks or financial institutions, net of bankoverdrafts and investments in money market instruments.

Cash at the end of the year is shown in the balance sheet as:

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
Cash at Bank	25,841	2,658
Cash on Deposit	4,553,146	-
	<u>4,578,987</u>	<u>2,658</u>
	=====	=====

#### RECONCILIATION OF CASH FLOWS FROM OPERATIONS WITH OPERATING PROFIT(LOSS) AFTER INCOME TAX

	<b>Inflow/ (Outflow) 2004</b>	<b>Inflow/ (Outflow) 2003</b>
	<b>\$</b>	<b>\$</b>
Operating Profit(Loss) after Income Tax	(207,528)	(102,039)
Non Cash Flows in Operating Profit(Loss)		
Depreciation	12,589	-
Movements in Provisions	13,500	-
Decrease (Increase) in Receivables	52,626	54,401
(Decrease) Increase in Accounts Payable	20,171	(150,072)
Net Cash Provided (Utilised) by Operating Activities	<u>(108,642)</u>	<u>(197,710)</u>
	=====	=====

#### Financing arrangements

The company has no financing facilities available to it. The company had a loan facility of \$197,000 in 2003 which had been fully utilised.

### NOTE 18 – ACCUMULATED LOSSES

Loss from ordinary activities after related income tax expense	(207,528)	(102,039)
Accumulated Losses at the beginning of the financial year	(122,697)	(20,658)
Accumulated Losses at the end of the financial year	<u>(330,225)</u>	<u>(122,697)</u>
	=====	=====

## Notes to and Forming Part of the Statements

For the year ended 30 June, 2004

### NOTE 19 THE IMPACT OF ADOPTING INTERNATIONAL ACCOUNTING STANDARDS

The Australian Accounting Standards Board is adopting the Standards of the International Accounting Standards Board for application to reporting periods beginning on or after 1 January 2005. Pending Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' prescribes transitional provision for first-time adopters.

AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires financial reports to disclose information about the impacts of any changes in accounting policies in the transition period leading up to the adoption date and will apply for June 2004 reporting.

#### *Taxation*

Under the Australian equivalent to IAS 12 "Income Taxes", a balance sheet approach will be adopted for calculating taxation, replacing the "statement of financial performance approach". This method recognizes deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statement of financial position or performance.

#### *Share based payments*

The company currently does not recognize an expense for options issued to directors and staff. Under AASB 2 "Share Based Payments", the company will be required to recognize an expense for all share based remuneration, including options, and will amortise those expenses over the relevant vesting periods.

#### *Impairment of Assets*

Under the Australian equivalent to IAS 36 "Impairment of Assets" the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in the company's current accounting policy which determines recoverable amount of an asset on the basis of discounted (undiscounted) cashflows. Under the new policy it is likely that the impairment of assets will be recognized sooner and the amount of write downs will be greater.

With regard to exploration and evaluation costs, given that the International Accounting Standards Board has not yet finalised its proposed standard, the new policy cannot be determined until finalisation of the relevant accounting standard and therefore it is not possible to identify whether there will be a significant impact on the financial statements as a result of the move to International Financial Reporting Standards in future years.

At present, the Company is not aware of any key differences in accounting policies that are expected to arise from adopting A-IFRS. The company is continuing to monitor the Standards and have a committee in place to evaluate the new Standards and their impact on a continuing basis.

### NOTE 20 - SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to the financial year ended 30 June 2004.



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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF  
NORTHERN STAR RESOURCES LTD  
ACN 092 832 892

**Scope**

The financial report comprises the statement of financial performance, statement of financial position, statement of cashflows, accompanying notes and the directors' declaration for Northern Star Resources Limited, the company, for the year ended 30 June 2004.

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

**Audit approach**

We conducted an independent audit of the financial report in order to express an opinion on it 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, Australian Accounting Standards and other mandatory professional reporting requirements in Australia a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

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

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

**Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical requirements and the Corporations Act 2001.

**Audit opinion**

In our opinion, the financial report of Northern Star Resources Limited is in accordance with:

- a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2004 and its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements.

Rothsay

Graham R Swan  
Partner Dated 30 September 2004

The liability of Rothsay Chartered Accountants is limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).