

Northern Star Resources Ltd

ACN 092 832 892

ANNUAL FINANCIAL STATEMENTS 2006

Directors' Report

The Directors present their report on the results of the Company for the year ended 30 June, 2006 and the state of affairs at that date. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

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

Christopher K G Rowe (Chairman)
Charles S Wilkinson (Managing Director)
D (Ian) Chalmers
Terrence W Ransted
Gary M Lethridge
Peter J Langworthy
Neville K Bergin

The above named directors held office since the start of the financial year to the date of this report except for Mr Bergin who resigned on 16 June 2006 and Mr Langworthy who was appointed on 16 June 2006.

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 \$692,980 [2005: \$265,286].

Dividends

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

Review of Operations

The Company continues to be actively involved in, mineral exploration, focussing primarily on three project groups around Halls Creek in the largely under-explored East Kimberley region of Western Australia. Drilling was conducted on a number of priority projects, including the Red Billabong and Golden Crown projects. Reconnaissance exploration, comprising a combination of geochemical, geological and/or geophysical surveys, was conducted on these and the other projects to define drill targets.

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.

Significant Changes in State of Affairs

The state of affairs of the Company was not affected by any significant changes during the year.

Matters Subsequent to the end of the financial year

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 2006.

Likely Developments and Expected Results of Operations

The Company intends to continue exploration programmes on its existing tenements, and to acquire further suitable tenements for exploration. Further information on the likely developments in the operations of the Company and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

Directors' Qualifications, Experience and Special Responsibilities

ROWE, Christopher Kenneth George, BA, MA Economics and Law (Chairman) Age 62

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 holding both executive and nonexecutive positions. Present board positions include Advance Healthcare Group Limited (from June 2006), Hawkesbridge Ltd (Chairman), PermoDrive Technologies Ltd, Unilink Data Systems Pty Ltd (Chairman) and Persia Petroleum Services PLC Member of nomination and remuneration committees.

Directors' Report - continued

Directors' Qualifications and Experience continued

WILKINSON, Charles Stuart, BSc Hons, MAusIMM. (Managing Director) Age 46

Mr Wilkinson has more than 20 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.

Member of nomination and remuneration committees.

CHALMERS, David Ian MSc, FAusIMM, FIMMM, FSEG, FAIG, FAICD, MGSA, MSGA (Non-executive Director) Age 57

Mr Chalmers is a geologist with a Master of Science degree. He has worked in the mining and exploration industry for over 36 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 (since July 1986) and AuDAX Resources Ltd (since October 1993).

Member of nomination and remuneration committees.

RANSTED, Terrence William, B(App)Sc, MAusIMM, MGSA (Non-executive Director) Age 50

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.

Member of audit, nomination and remuneration committees.

LETHRIDGE, Gary Mark (Non-executive Director) BCom, CA, FCIS, MAICD Age 42

Mr Lethridge is a Chartered Accountant and a Chartered Company Secretary. He has over 20 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 and is a non-executive director of Falcon Minerals Ltd.

Member of audit, nomination and remuneration committees.

LANGWORTHY, Peter James (Non-executive Director) BSc Hons, MAusIMM, Age 42

Mr Langworthy is currently Jubilee Mines NL's General Manager – Exploration. He has over 20 years experience in the mining industry including senior technical and management roles. He has extensive experience in nickel, gold and base metal exploration, and has also worked in operational and project development roles.

Mr Langworthy is a current non executive director of Pioneer Nickel Ltd (since November 2004).

Member of audit, nomination and remuneration committees.

Company Secretary

Karen Elizabeth Vere Brown, BEc (Hons) Age 46.

Miss Brown is an honours graduate in economics from the University of Western Australia and is a director of Mineral Administration Services Pty Ltd which provides secretarial, financial and administration services to the Company. Miss Brown has considerable experience in corporate administration of listed companies over a period exceeding 20 years, primarily in the mineral exploration industry.

Meetings of Directors

During the financial year, nine (9) meetings of directors were held. There were four (4) Audit, three (3) Nomination and two (2) Remuneration Committee Meetings held during the financial year.

The full Board carried out the functions of the Nomination and Remuneration Committees.

The number of meetings attended by each director during the year is as follows:

Director	Number of meetings attended	Audit	Committee Meetings	
			Nomination	Remuneration
Christopher K. G. Rowe	9	N/A	3	2
Charles S. Wilkinson	7	N/A	3	1
Neville K. Bergin *1	8	4	2	2
D. (Ian) Chalmers	8	N/A	3	2
Gary M. Lethridge	8	4	2	1
Terrence W. Ransted	9	4	3	2
Peter J. Langworthy *2				

*1 N K Bergin resigned from 16 June 2006.

*2 Peter J. Langworthy appointed from 16 June 2006. No meetings, since appointment, during remainder of financial year.

Directors' Report - continued

Audit Committee

The audit committee comprises Mr Terrence Ransted, Mr Peter Langworthy and Mr Gary Lethridge.

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.nsrld.com.

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	Nil
Exercised during year	Nil

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	Nil
Exercised during year	Nil

Unlisted Options – 1,000,000 granted during the year - divided into four classes as follows:

Incentive Option Class	Number	Exercise price	Exercise Dates
Class A	250,000	\$0.30	Between 18 November 2005 and 31 December 2008
Class B	250,000	\$0.30	Between 1 May 2006 and 31 December 2008
Class C	250,000	\$0.45	Between 1 May 2007 and 31 December 2009
Class D	250,000	\$0.60	Between 1 May 2008 and 31 December 2010

Outstanding as at date of this report	1,000,000
Outstanding at end of year	1,000,000
Granted during year (18 November 2005)	1,000,000
Exercised during year	Nil

No ordinary shares were issued as no options were exercised during the year.

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 \$31,445 and re-imbusement of disbursements of \$37,469 totalling \$68,914 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' Report - continued

Remuneration Report

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation.

The information provided within this remuneration report includes remuneration disclosures that are required under Accounting Standard AASB 124 'Related Party Disclosures'. These disclosures have been transferred from the financial report and have been audited.

A *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 complementary to the reward strategy for the organisation.

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 below.

The Company has no performance based remuneration component built into director and executive remuneration packages.

B *Details of remuneration*

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

	2006	2005
	\$	\$
Directors' income paid or payable or otherwise made available to Directors of the Company	<u>374,333</u>	<u>307,040</u>

Directors' Report - continued

Remuneration Report - continued

B Details of remuneration - continued

The details of remunerations paid are as follows:

Executive Director of Northern Star Resources Ltd

Name	<u>Short-term benefits</u> Cash Salary	<u>Short-term benefits</u> Cash Fees and Disbursements	<u>Post-employment</u> <u>benefits</u> Superannuation	<u>Share-based</u> <u>payment</u>	Total \$
	\$	\$	\$	\$	\$
2006					
CS Wilkinson	<u>154,167</u>	<u>15,846</u>	<u>13,875</u>	<u>48,745</u>	<u>232,633</u>

2005					
CS Wilkinson	<u>136,667</u>	<u>16,373</u>	<u>12,300</u>	-	<u>165,340</u>

Non-executive Directors of Northern Star Resources Ltd

Name	<u>Short-term benefits</u> Directors' Cash Fee	<u>Short-term benefits</u> Cash Fees and Disbursements	<u>Post-employment</u> <u>benefits</u> Superannuation	<u>Share-based</u> <u>payment</u>	Total \$
	\$	\$	\$	\$	\$
2006					
C Rowe	30,000	-	2,700	-	32,700
N Bergin*	24,038	-	2,163	-	26,201
I Chalmers	25,000	-	2,250	-	27,250
G Lethridge*	25,000	-	2,250	-	27,250
T Ransted	25,000	-	2,250	-	27,250
P Langworthy*	962	-	87	-	1,049
	<u>130,000</u>		<u>11,700</u>		<u>141,700</u>

2006

*The directors' cash fees (\$50,000 in aggregate) and superannuation (\$4,500 in aggregate) to Messrs Bergin, Lethridge and Langworthy, were paid to Jubilee Mines, of which these directors are employees.

2005					
C Rowe	30,000	-	2,700	-	32,700
N Bergin*	25,000	-	2,250	-	27,250
I Chalmers	25,000	-	2,250	-	27,250
G Lethridge*	25,000	-	2,250	-	27,250
T Ransted	<u>25,000</u>	-	<u>2,250</u>	-	<u>27,250</u>
	<u>130,000</u>		<u>11,700</u>		<u>141,700</u>

2005

*Included in directors' base fee of \$25,000 and superannuation of \$2,250 to Messrs Bergin and Lethridge, are amounts of \$12,500 in directors' base fee and \$1,125 in superannuation paid to Jubilee Mines, of which both are employees.

C Service Agreements

WILKINSON, Charles Stuart (Managing Director)

Term of Agreement - 1 year commencing 1 May 2006.

Agreement - Base salary, exclusive of statutory superannuation and provision of motor vehicle, of \$200,000 to be reviewed on an annual basis by the remuneration committee. Under the terms of the agreement the Company is to provide a vehicle up to the value of \$80,000 and pay all running costs.

Termination - Payment of a termination benefit on early termination by the Company, other than for gross misconduct, is by mutual agreement.

Directors' Report - continued

Remuneration Report - continued

D *Share-based compensation*

Options were issued to a Director related party during the year.

1,000,000 options, approved by shareholders at the 2005 annual general meeting, were granted to the wife of CS Wilkinson.

Options were granted for no consideration as a one off incentive bonus. The options carry no dividend or voting rights and are exercisable at any time. When exercised, each option is convertible into one ordinary share, which would result in the issue of 1,000,000 ordinary shares.

The 1,000,000 free incentive options, granted on 18 November 2005, are divided into four classes.

Incentive Option Class	Number	Exercise price	Exercise Dates
Class A	250,000	\$0.30	Between 18 November 2005 and 31 December 2008
Class B	250,000	\$0.30	Between 1 May 2006 and 31 December 2008
Class C	250,000	\$0.45	Between 1 May 2007 and 31 December 2009
Class D	250,000	\$0.60	Between 1 May 2008 and 31 December 2010

Fair value of options granted

The assessed fair value at grant date, of shares granted on 18 November 2005 were an average \$0.049 cents per option.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility (78%) of the underlying share, the expected dividend yield (nil) and the risk-free interest rate (5.31%) for the term of the option.

The share price at the grant date was \$0.135.

Grant Date	Expiry Date	Exercise Price	Value per option at grant date	Date exercisable
18 November 2005	31 December 2008	\$0.30	\$0.048	After 18 November 2005
18 November 2005	31 December 2008	\$0.30	\$0.048	After 1 May 2006
18 November 2005	31 December 2009	\$0.45	\$0.048	After 1 May 2007
18 November 2005	31 December 2010	\$0.60	\$0.051	After 1 May 2008

Key Management Personnel

Other than the executive director, there are no key management personnel.

Directors' Interests in the Share Capital of the Company as at the date of this report.

Name of Director	Shares Held Directly	Shares Held Indirectly	Options Held Directly	Options Held Indirectly
C Rowe	-	1,408,650	-	312,500
C Wilkinson	-	2,040,000	-	1,000,000
DI Chalmers	1	2,145,000	-	*5,000,000
G Lethridge	-	-	-	-
T Ransted	2,000,001	145,000	-	*5,000,000
P Langworthy	-	-	-	-

* This refers to 5,000,000 options granted to Biscay Resources Pty Ltd in the 2004 financial year, a company in which Messrs Ransted and Chalmers are each 25% beneficial owners.

5,000,000 options exercisable at 20 cents each on or before 17 December 2008 were issued in the 2004 financial year, 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.

Directors' Report - continued

Directors' Interests in the Share Capital of the Company as at the date of this report - continued

650,000 shares and 650,000 free attaching options exercisable at 25 cents on or before 17 December 2006 were issued in the 2004 financial year, 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 were held as nominee for the beneficial interest of a third party

Insurance of Officers and auditors

During the financial year, Northern Star Resources Ltd paid a premium of \$18,375 (2005: \$20,596) to insure the directors, secretary and/or officers of the Company.

The liability insured is the indemnification of the Company against any legal liability to third parties arising out of any Directors or Officers duties in their capacity as a Director or Officer.

No liability has arisen under this indemnity as at the date of this report.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate, against a liability incurred as such by an officer or auditor.

AUDIT INDEPENDENCE AND NON-AUDIT SERVICES

Auditors' independence -section 307C

The following is a copy of a letter received from the Company's auditors:

“Lead auditor’s independence declaration under Section 307C of the Corporations Act 2001

To: the directors of Northern Star Resources Ltd

I declare that, to the best of my knowledge and belief, for the financial year ended 30 June 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Graham Swan
Lead auditor
Rothsay Chartered Accountants”

During the year the following fees were paid or payable for services provided by the auditor:

	2006	2005
	\$	\$
Audit services		
Audit and review of financial reports under the Corporations Act 2001	14,000	8,000

Non-audit services

No other services were provided by the auditor.

Signed at Perth in accordance with a resolution of Directors.

Charles Wilkinson
Managing Director

Dated this 28th day of September 2006

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 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; and
 - ii complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements ; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

Charles Wilkinson
Managing Director

PERTH
Dated this 28th day of September 2006

Income Statement

For the year ended 30 June, 2006

	NOTES	2006 \$	2005 \$
Revenue from continuing operations			
Interest income		108,643	174,241
Total revenue from continuing operations		108,643	174,241
Expenses			
Administration and secretarial services		(41,664)	(40,125)
Audit fees	9	(14,000)	(8,000)
Depreciation expense		(53,114)	(48,551)
Employee benefits		(48,745)	-
Exploration expensed		(277,846)	(31,465)
Insurance		(31,116)	(32,453)
Office rent, ancillaries and running		(33,831)	(33,022)
Personnel & support		(215,822)	(182,238)
Public relations		(30,972)	(29,628)
Share registry and ASX listing fees and other corporate costs		(32,842)	(27,797)
Other expenses from continuing operations		(21,671)	(6,248)
Total Expenses		(801,623)	(439,527)
(Loss) before income tax expense		(692,980)	(265,286)
Income tax expense	10	-	-
(Loss) for the year		(692,980)	(265,286)
(Loss) attributable to members of Northern Star Resources Ltd		(692,980)	(265,286)
(Loss) per share for loss from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share (cents per share)	11	(1.35c)	(0.52c)
Diluted earnings per share are not disclosed as they are not materially different to basic earnings per share.			

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

Balance sheet

As at 30 June, 2006

	NOTES	2006 \$	2005 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	1,344,577	3,094,469
Receivables	4	60,662	37,236
TOTAL CURRENT ASSETS		1,405,239	3,131,705
NON-CURRENT ASSETS			
Plant & Equipment	5	64,744	105,823
Capitalised Exploration & Evaluation expenditure	6	3,634,957	2,294,261
TOTAL NON-CURRENT ASSETS		3,699,701	2,400,084
TOTAL ASSETS		5,104,940	5,531,789
LIABILITIES			
CURRENT LIABILITIES			
Trade Payables	7	340,720	136,834
Provisions	8	36,923	23,423
TOTAL CURRENT LIABILITIES		377,643	160,257
TOTAL LIABILITIES		377,643	160,257
NET ASSETS		4,727,297	5,371,532
EQUITY			
Contributed Equity	2	5,888,455	5,888,455
Reserves	17	48,745	78,588
Accumulated Losses	17	(1,288,491)	(595,511)
TOTAL EQUITY		4,727,297	5,371,532

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

Statement of changes in equity

For the year ended 30 June, 2006

	2006 \$	2005 \$
Total equity at the beginning of the financial year	5,371,532	5,561,746
Total recognised income and expense for the year	(692,980)	(265,286)
<u>Transactions with equity holders in their capacity as equity holders</u>		
Share-based payment	127,333	78,588
Cost of share issue	-	(3,516)
Total equity at the end of the financial year	4,805,885	5,371,532

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statement

For the year ended 30 June, 2006

	NOTES	2006 \$	2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to Suppliers & Employees (inclusive of goods and services tax)		(227,957)	(319,835)
Net cash (outflow) inflow from operating activities	16	<u>(227,957)</u>	<u>(319,835)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for Plant & Equipment		(12,034)	(11,208)
Payment for Exploration and Evaluation		(1,618,544)	(1,327,716)
Interest received		108,643	174,241
Net cash (outflow) inflow from investing activities		<u>(1,521,935)</u>	<u>(1,164,683)</u>
Net (decrease) increase in cash and cash equivalents		(1,749,892)	(1,484,518)
Cash and cash equivalents at the beginning of the financial year		3,094,469	4,578,987
Cash and cash equivalents at end of financial year	3	<u>1,344,577</u>	<u>3,094,469</u>

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

Notes to the financial statements

For the year ended 30 June, 2006

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

- a. **Basis of preparation**
 This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.
- Compliance with IFRSs
 Australian Accounting Standards include AIFRS. Compliance with AIFRSs ensure that the financial statements and notes of Northern Star Resources Ltd comply with International Financial Reporting Standards (IFRS).
- Application of AASB1 First time Adoption of Australian Equivalents to International Financial Reporting Standards
 These financial statements are the first Northern Star Resources Ltd financial statements to be prepared in accordance with AIFRSs. AASB1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.
- Financial statements of the Company until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Company's equity and its net income are given at note 20.
- Historical cost convention
 These financial statements have been prepared under the historical cost convention.
- b. **Income Tax**
 The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the national income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.
- Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.
- Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.
- Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.
- Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.
- c. **Exploration and evaluation expenditure**
 Expenditure on acquisition, exploration and evaluation relating to an area of interest is carried forward where rights to tenure of the area of interest are current and:
- i) the area has proven commercially recoverable reserves; or
 - ii) exploration and evaluation activities are continuing in an area of interest but have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.
- At the end of each financial year the Directors assess the carrying value of the exploration expenditure carried forward in respect of each area of interest and where the carried forward carrying value is considered to be in excess of (i) above, the value of the area of interest is written down or provided against.

Notes to the financial statements

For the year ended 30 June, 2006

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- c. Exploration and evaluation expenditure (Continued)
Capitalised exploration expenditure is considered for impairment based upon areas of interest on an annual basis, depending on the existence of impairment indicators including:
- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
 - substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted or planned;
 - exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and
 - sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.
- Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.
- d. Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- e. Plant and equipment
Plant and equipment is stated at historical cost less depreciation. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset during their expected useful life of 3 to 5 years.
- f. Earnings per share
Basic earnings per share is determined by dividing the profit (loss) after income tax attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.
- g. Employee Benefits
Provision is made in respect of the Company's liability for annual leave at the reporting date. Employee benefits, including annual leave in respect of employee's service up to the reporting date, expected to be settled within twelve (12) months of the reporting date are recognised in provisions and are measured at the amounts expected to be paid when the liability is settled.
- h. Share-based payments
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.
- i. Fair value estimation
The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.
The nominal value, less any estimated credit adjustments, of trade receivables and payables are assumed to approximate their fair value.
- j. New accounting standards and UIG interpretations
Certain new accounting standards and UIG interpretations, effective for the 2007 financial statements, have been published that are not mandatory for 30 June 2006 reporting periods. The Company has elected not to adopt, where available, these standards and UIG interpretations early. Application of the standards and UIG interpretations is not expected to effect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in the notes to the financial statements.

Notes to the financial statements

For the year ended 30 June, 2006

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- k. **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.
- l. **Revenue Recognition**
Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.
- m. **Impairment of assets**
At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.
Recoverable amount is the higher 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 for which the estimates of future cash flows have not been adjusted.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.
A reversal of an impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation increase.
- n. **Trade Payables**
Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.
- o. **Provisions**
Provisions are recognised when the Company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be reliably measured.
The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.
- p. **Leases**
Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised. The Company has no finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating (Refer note 12). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Notes to the financial statements

For the year ended 30 June, 2006

	Number	2006 \$	Number	2005 \$
NOTE 2 – CONTRIBUTED EQUITY				
a) Share Capital				
Ordinary shares - Fully paid	51,375,002	5,888,455	51,375,002	5,888,455
Movement in ordinary share capital				
At 1 July	51,375,002	5,888,455	51,375,002	5,891,971
Placement	-	-	-	-
Less: costs of issues	-	-	-	3,516
At 30 June	51,375,002	5,888,455	51,375,002	5,888,455

Terms and conditions of ordinary shares:

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	5,000,000	-	5,000,000	-
Movement in options expiring 17/12/2008				
At 1 July	5,000,000	-	5,000,000	-
Issued	-	-	-	-
At 30 June	5,000,000	-	5,000,000	-
Unlisted options expiring 17/12/2006				
exercisable at 25 cents each	13,375,000	-	13,375,000	-
Movement in options expiring 17/12/2006				
At 1 July	13,375,000	-	13,375,000	-
Issued	-	-	-	-
At 30 June	13,375,000	-	13,375,000	-
Unlisted incentive options with various				
exercise dates and prices	1,000,000	-	-	-
Movement in these options				
At 1 July	-	-	-	-
Issued	1,000,000	-	-	-
At 30 June	1,000,000	-	-	-

No options were exercised during the year. No options expired during the year.

	2006 \$	2005 \$
NOTE 3 – CASH AND CASH EQUIVALENTS		
(Current assets)		
Cash at Bank and on hand	67,547	102,082
Cash on Deposit	1,277,030	2,992,387
	<u>1,344,577</u>	<u>3,094,469</u>

- (a) Cash at bank bears nil interest per annum.
 (b) Cash on deposit bears interest at 5.05% per annum.

Notes to the financial statements

For the year ended 30 June, 2006

	2006 \$	2005 \$
NOTE 4 – RECEIVABLES (Current asset)		
GST Receivable	<u>60,662</u>	<u>37,236</u>
	<u>60,662</u>	<u>37,236</u>
NOTE 5 – PLANT & EQUIPMENT (Non – current assets)		
At 1 July		
Cost	166,963	155,755
Less: Accumulated Depreciation	<u>(61,140)</u>	<u>(12,589)</u>
Net book value	<u>105,823</u>	<u>143,166</u>
Year ended 30 June 2006		
Opening net book amount	105,823	143,166
Additions	12,035	11,208
Depreciation charge	<u>(53,114)</u>	<u>(48,551)</u>
Closing net book amount	<u>64,744</u>	<u>105,823</u>
At 30 June		
Cost	178,998	166,963
Less: Accumulated Depreciation	<u>(114,254)</u>	<u>(61,140)</u>
Net book value	<u>64,744</u>	<u>105,823</u>
NOTE 6 – OTHER ASSETS - (Non – current assets)		
EXPLORATION & EVALUATION EXPENDITURE		
Exploration & Evaluation expenditure costs brought forward in respect of areas of interest		
Balance 1 July	2,294,261	922,938
Expenditure during year	1,618,542	1,402,788
Less expensed to profit or loss	<u>(277,846)</u>	<u>(31,465)</u>
Balance 30 June	<u>3,634,957</u>	<u>2,294,261</u>
Exploration and evaluation expenditure is recorded at historical cost on an area of interest basis. Recovery of these costs is dependent upon the commercial success of future exploration and development or realisation by disposal of the interests therein.		
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 (Current liabilities)		
Trade payables	<u>340,720</u>	<u>136,834</u>
Trade payables are unsecured and payable on supplier credit terms, usually payable within 30 days of recognition. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.		
NOTE 8 – PROVISIONS (Current liabilities)		
Employee benefits	<u>36,923</u>	<u>23,423</u>

Notes to the financial statements

For the year ended 30 June, 2006

	2006 \$	2005 \$
NOTE 9 - AUDITORS' REMUNERATION		
During the year the following fees were paid or payable for services provided by the auditor:		
(a) Audit services	14,000	8,000
Audit and review of financial reports under the Corporations Act 2001		
(b) Other services	-	-
	-	-
Total remuneration of auditors	<u>14,000</u>	<u>8,000</u>

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.

NOTE 10 - INCOME TAXES

(a) INCOME TAX EXPENSE

Income tax expense	<u>-</u>	<u>-</u>
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The aggregate amount of income tax attributable to the financial period differs from the amount calculated on the operating loss as follows:

Accounting loss	<u>(644,235)</u>	<u>(265,286)</u>
Prima facie tax payable at 30%	<u>(193,271)</u>	<u>(79,586)</u>
Add tax effect of:		
Adjustments in respect of deferred income tax of previous years	<u>(83,353)</u>	<u>7,027</u>
Tax losses not brought to account as a deferred tax asset	<u>276,624</u>	<u>72,559</u>
Income tax expense on loss	<u>-</u>	<u>-</u>

(b) DEFERRED INCOME TAX

Deferred tax liabilities

Exploration expenses	<u>(1,007,133)</u>	<u>(681,252)</u>
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Deferred tax assets

Expenses not yet deductible for taxation purposes	<u>11,076</u>	<u>7,027</u>
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Net deferred tax liability	<u>(996,057)</u>	<u>(674,225)</u>
Set-off of deferred tax assets to net deferred tax liability	<u>996,057</u>	<u>674,225</u>
	<u>-</u>	<u>-</u>

(c) TAX LOSSES

At 30 June 2006, the Company has \$1,202,823 of tax losses that are available indefinitely for offset against future profits of the Company. No deferred tax asset has been recognised on the Balance Sheet in respect of the amount of these losses.

Unrecognised deferred tax balances

Deferred tax assets

Tax losses - revenue	<u>361,678</u>	<u>172,457</u>
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The potential deferred tax asset will only be obtained if:

- assessable income is derived of a nature and of an amount sufficient to enable the benefit from the deductions to be realised or the benefit can be utilised by the Company in accordance with Division 170 of the Income Tax Assessment Act 1997;
- conditions for deductibility imposed by the law are complied with; and
- no change in tax legislation adversely affect the realisation of the benefit from the deductions

Notes to the financial statements

For the year ended 30 June, 2006

NOTE 11 – EARNINGS / LOSS PER SHARE

	2006 Cents	2005 Cents
(a) Basic loss per share		
Loss attributable to the ordinary equity holders of the Company	<u>(1.35)</u>	<u>(0.52)</u>
(b) Weighted average number of shares used as the denominator		
	2006 Number	2005 Number
Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share`	51,375,002	51,375,002

NOTE 12 - COMMITMENTS

Mining Tenement Leases

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, but not recognised as a liability in the financial statements, amount to \$1,126,510 (2005: \$873,980). 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.

Building Lease

The Company leases a house and shed at Hall Creek, Western Australia, under a non-cancellable operating lease expiring in 2007.

Commitments for minimum lease payments are:

	2006 \$	2005 \$
Within one year	9,450	-
Later than one year but less than five years	-	-

NOTE 13 - SEGMENTAL INFORMATION

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

NOTE 14 - RELATED PARTY TRANSACTIONS

Messrs Chalmers and Ransted are directors and shareholders of Multi Metal Consultants Pty Ltd, a company that was paid, during the year, \$68,914 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, in the 2004 financial year, 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 one 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.

Notes to the financial statements

For the year ended 30 June, 2006

NOTE 14 - RELATED PARTY TRANSACTIONS - continued

(a) 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:

(1) Shares

			2006 Number	2005 Number
Ordinary shares			7,593,652	8,966,152
Name	Balance at the start of the year	Issued	Purchased/Sold	Balance as the end of the year
Shares				
C Rowe	2,781,150	-	(1,372,500)	1,408,650
C Wilkinson	2,040,000	-	-	2,040,000
I Chalmers	*2,145,001	-	-	*2,145,001
G Lethridge	-	-	-	-
T Ransted	*2,145,001	-	-	*2,145,001
P Langworthy	-	-	-	-
Total shares	8,966,152	-	(1,372,500)	7,593,652

* Included in this total are 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.

No shares were issued to Directors and Director related entities during the year.

(2) Options

			2006 Number	2005 Number
Options over ordinary shares			6,312,500	5,650,000
Name	Balance at the start of the year	Issued	Purchased/Sold	Balance as the end of the year
Options				
C Rowe	650,000	-	(337,500)	312,500
C Wilkinson	-	1,000,000	-	1,000,000
I Chalmers	**5,000,000	-	-	**5,000,000
G Lethridge	-	-	-	-
T Ransted	**5,000,000	-	-	**5,000,000
P Langworthy	-	-	-	-
Total options	5,650,000	1,000,000	-	6,312,500

** 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.

Options were issued to a Director related party as follows:

1,000,000 options, approved by shareholders at the 2005 annual general meeting, were granted to the wife of CS Wilkinson.

The options were granted for no consideration as a one off incentive bonus. The options carry no dividend or voting rights and are exercisable at any time. When exercised, each option is convertible into one ordinary share which would result in the issue of 1,000,000 ordinary shares.

The 1,000,000 free incentive options, granted on 18 November 2005, are divided into four classes.

Incentive Option Class	Number	Exercise price	Exercise Dates
Class A	250,000	\$0.30	Between 18 November 2005 and 31 December 2008
Class B	250,000	\$0.30	Between 1 May 2006 and 31 December 2008
Class C	250,000	\$0.45	Between 1 May 2007 and 31 December 2009
Class D	250,000	\$0.60	Between 1 May 2008 and 31 December 2010

Notes to the financial statements

For the year ended 30 June, 2006

NOTE 14 - RELATED PARTY TRANSACTIONS - continued

(a) Directors And Director Related Entities' Shareholdings

Fair value of options granted

The assessed fair value at grant date, of shares granted on 18 November 2005 was \$0.048 cents per option.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility (78%) of the underlying share, the expected dividend yield and the risk-free interest rate (5.31%) for the term of the option.

The share price at the grant date was \$0.135

Grant Date	Expiry Date	Exercise Price	Value per option at grant date	Date exercisable
18 November 2005	31 December 2008	\$0.30	\$0.048	After 18 November 2005
18 November 2005	31 December 2008	\$0.30	\$0.048	After 1 May 2006
18 November 2005	31 December 2009	\$0.45	\$0.048	After 1 May 2007
18 November 2005	31 December 2010	\$0.60	\$0.051	After 1 May 2008

No other options were issued to Directors and Director related entities during the year.

(b) Expenses arising from share-based payment transactions

	2006	2005
	\$	\$
Options issued	48,745	-

NOTE 15 - FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks.

Credit risk

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.

Cash flow and fair value interest rate risk

Although the Company has significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company monitors interest rates to obtain the best terms and mix of cash flow.

Financing arrangements

The Company has no financing facilities available to it.

Notes to the financial statements

For the year ended 30 June, 2006

NOTE 16 – RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 \$	2005 \$
(Loss) for the year	(692,980)	(265,286)
Non Cash Flows in Operating Profit(Loss)		
Depreciation	53,114	48,551
Movements in Provisions	13,500	9,923
Exploration written off	277,846	31,465
Interest income	(108,643)	(174,241)
Employee benefit – share-based payment	48,745	-
Movements in operating assets and liabilities		
Decrease (Increase) in Receivables	(23,426)	(5,827)
(Decrease) Increase in Accounts Payable	203,887	35,580
Net Cash Provided (Utilised) by Operating Activities	<u>(227,957)</u>	<u>(319,835)</u>

NOTE 17 – RESERVES AND ACCUMULATED LOSSES

(A) RESERVES

Equity-settled benefits reserve	<u>127,333</u>	<u>78,588</u>
Movement:		
Balance 1 July	-	-
Employee Option expense	48,745	-
Equity-settled benefits	<u>78,588</u>	<u>78,588</u>
Balance 30 June	<u>127,333</u>	<u>78,588</u>

(b) ACCUMULATED LOSSES

Balance 1 July	(595,511)	(330,225)
Loss for the year after related income tax expense	<u>(692,980)</u>	<u>(265,286)</u>
Balance 30 June	<u>(1,288,491)</u>	<u>(595,511)</u>

NOTE 18 – EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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 2006.

Notes to the financial statements

For the year ended 30 June, 2006

NOTE 19 – DIRECTOR'S REMUNERATION

(a) Remuneration

	2006	2005
	\$	\$
Directors' income paid or payable or otherwise made available to Directors of the Company	<u>374,333</u>	<u>307,040</u>

The details of remunerations paid are as follows:

Executive Director of Northern Star Resources Ltd

Name	Short-term benefits Cash Salary \$	Short-term benefits Cash Fees and Disbursements \$	Post-employment benefits Superannuation \$	Share-based payment \$	Total \$
2006					
CS Wilkinson	<u>154,167</u>	<u>15,846</u>	<u>13,875</u>	<u>48,745</u>	<u>232,633</u>
2005					
CS Wilkinson	<u>136,667</u>	<u>16,373</u>	<u>12,300</u>	-	<u>165,340</u>

Non-executive Directors of Northern Star Resources Ltd

Name	Short-term benefits Directors' Cash Fee \$	Short-term benefits Cash Fees and Disbursements \$	Post-employment benefits Superannuation \$	Share-based payment \$	Total \$
2006					
C Rowe	30,000	-	2,700	-	32,700
N Bergin*	24,038	-	2,163	-	26,201
I Chalmers	25,000	-	2,250	-	27,250
G Lethridge*	25,000	-	2,250	-	27,250
T Ransted	25,000	-	2,250	-	27,250
P Langworthy*	<u>962</u>	-	<u>87</u>	-	<u>1,049</u>
	<u>130,000</u>		<u>11,700</u>		<u>141,700</u>

2006

*The directors' cash fees (\$50,000 in aggregate) and superannuation (\$4,500 in aggregate) to Messrs Bergin, Lethridge and Langworthy, were paid to Jubilee Mines, of which these directors are employees.

2005					
C Rowe	30,000	-	2,700	-	32,700
N Bergin*	25,000	-	2,250	-	27,250
I Chalmers	25,000	-	2,250	-	27,250
G Lethridge*	25,000	-	2,250	-	27,250
T Ransted	<u>25,000</u>	-	<u>2,250</u>	-	<u>27,250</u>
	<u>130,000</u>		<u>11,700</u>		<u>141,700</u>

2005

*Included in directors' base fee of \$25,000 and superannuation of \$2,250 to Messrs Bergin and Lethridge, are amounts of \$12,500 in directors' base fee and \$1,125 in superannuation paid to Jubilee Mines, of which both are employees.

Notes to the financial statements

For the year ended 30 June, 2006

NOTE 19 – DIRECTOR'S REMUNERATION - continued

(b) *Service Agreements*

WILKINSON, Charles Stuart (Managing Director)

Term of Agreement - 1 year commencing 1 May 2006.

Agreement - Base salary, exclusive of statutory superannuation and provision of motor vehicle, of \$200,000 to be reviewed on an annual basis by the remuneration committee. Under the terms of the agreement the Company is to provide a vehicle up to the value of \$80,000 and pay all running costs.

Termination - Payment of a termination benefit on early termination by the Company, other than for gross misconduct, is by mutual agreement.

(c) *Share-based compensation*

Options were issued to a Director related party during the year.

1,000,000 options, approved by shareholders at the 2005 annual general meeting, were granted to the wife of CS Wilkinson.

Options were granted for no consideration as a one off incentive bonus. The options carry no dividend or voting rights and are exercisable at any time. When exercised, each option is convertible into one ordinary share, which would result in the issue of 1,000,000 ordinary shares.

The 1,000,000 free incentive options, granted on 18 November 2005, are divided into four classes.

Incentive Option Class	Number	Exercise price	Exercise Dates
Class A	250,000	\$0.30	Between 18 November 2005 and 31 December 2008
Class B	250,000	\$0.30	Between 1 May 2006 and 31 December 2008
Class C	250,000	\$0.45	Between 1 May 2007 and 31 December 2009
Class D	250,000	\$0.60	Between 1 May 2008 and 31 December 2010

Fair value of options granted

The assessed fair value at grant date, of shares granted on 18 November 2005 were an average \$0.049 cents per option.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility (78%) of the underlying share, the expected dividend yield (nil) and the risk-free interest rate (5.31%) for the term of the option.

The share price at the grant date was \$0.135.

Grant Date	Expiry Date	Exercise Price	Value per option at grant date	Date exercisable
18 November 2005	31 December 2008	\$0.30	\$0.048	After 18 November 2005
18 November 2005	31 December 2008	\$0.30	\$0.048	After 1 May 2006
18 November 2005	31 December 2009	\$0.45	\$0.048	After 1 May 2007
18 November 2005	31 December 2010	\$0.60	\$0.051	After 1 May 2008

Key Management Personnel

Other than the executive director, there are no key management personnel.

Notes to the financial statements

For the year ended 30 June, 2006

NOTE 20 – EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The company has adopted AASB2 Share-based Payment. This has had the effect, in the balance sheet, of recording the value of options granted in 2004 by creating an equity-settled reserve of \$78,588. The corresponding effect, in the balance sheet, has been to increase capitalised exploration expenditure by \$75,072 and cost of share issue by \$3,516. Previously the effect if any of these transactions was not recorded.

(1) **Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)**

(a) At the date of transition to AIFRS: 1 July 2004

	\$
Total equity under previous AGAAP	5,561,746
Equity-settled benefits	75,588
Cost of share issue	(3,516)
Total equity under AIFRS	<u>5,633,818</u>

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

	\$
Total equity under previous AGAAP	5,296,460
Equity-settled benefits	78,588
Cost of share issue	(3,516)
Total equity under AIFRS	<u>5,371,532</u>

(2) **Reconciliation of profit (loss) for the year ended 30 June 2005**

The adoption of AIFRS has not resulted in any material adjustment to the income statement.

(3) **Reconciliation of cash flow statement for the year ended 30 June 2005**

The adoption of AIFRS has not resulted in any material adjustment to the cash flow statement.



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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 income statement, statement of changes in equity, balance sheet, statement of cashflows, accompanying notes, the disclosures made as required by AASB 124 *Related party disclosures* of the remuneration report in the Directors' report and the Directors' declaration for Northern Star Resources Limited, the Company, for the year ended 30 June 2006.

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. The Directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under AASB 1 *First-time adoption of Australian equivalents to IFRS*.

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 and the remuneration disclosures in the Directors' report comply with AASB 124. 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 and whether the remuneration disclosures in the Directors' report comply with AASB 124.

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

- 1 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 2006 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.
- 2 the remuneration disclosures in the Directors' report comply with AASB 124

Rothsay

Graham R Swan
Partner

Dated 28 September 2006

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