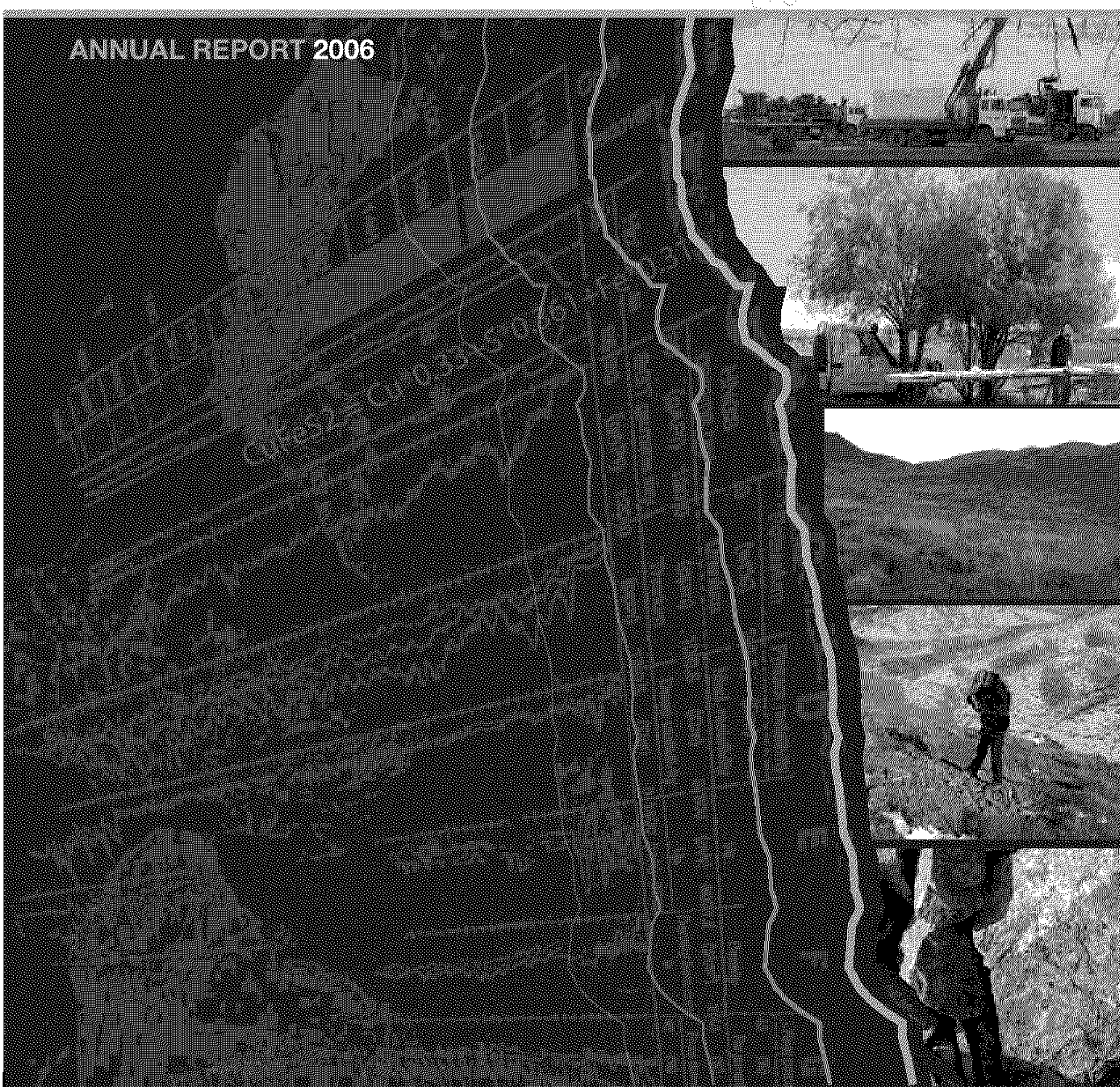
PACMAG METALS LIMITED

ABN 73066353231

(Formerly Pacific Magnesium Corporation Ltd)

ANNUAL REPORT 2006



CORPORATE INFORMATION

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Rodney Michael Joyce (Chairman)
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CHAIRMAN'S REPORT

This has been a landmark year for your Company, with the acquisition of an existing, high potential copper portfolio from Giralia Resources NL, a name change to reflect our new business, and successful capital raisings to fund accelerated exploration and development activities. PacMag is now in great shape to take advantage of the high copper price environment and strong demand for independent copper concentrates.

Significant progress has been made at the key, 100% owned Ann Mason copper deposit in Nevada USA, with an initial JORC compliant resource estimate of 810 million tonnes @ 0.4% copper, 0.004% molybdenum (7.1 billion pounds of contained copper metal) and a preliminary mining study is in progress. At Blue Rose we have recognised a development opportunity in shallow oxide copper zones. The Company also secured promising new zinc and gold prospects, and acquired a uranium exploration portfolio at low cost for the future benefit of shareholders, and completed the divestment of its remaining magnesium and bentonite interests.

On behalf of the Company I extend my thanks to the Managing Director, Mick Clifford, who has achieved much in the six months since his appointment. He has brought appropriate skills in large project exploration and development, gathered during a long career with a major mining group, which compliment the Company's asset mix.

I encourage you to visit the Company's new website (www.pacmag.com.au), which has a wealth of new information about the Company's projects and activities. You can also now register using the on-line Investor Subscription page, to have Company ASX releases emailed directly to you.

The next 12 months should be an exciting time for PacMag.

Mike Joyce
Chairman

18 October 2006

CORPORATE

During the year under review, following approval from members at the General Meeting held on 7 November 2005 and the Annual General Meeting held on 17 November 2005, the Company:

- completed the "separation" under IPOH Agreements including withdrawal from the Mantuan Downs Bentonite Project Joint Venture .
- consolidated the issued securities on a 1:12 basis.
- completed the acquisition of a portfolio of copper-molybdenum-gold projects from Giralia Resources NL including the Ann Mason and Blue Rose Projects by the issue of 50,000,000 post Consolidation shares (deemed fully paid at an issue price of 14.4 cents per share).
- raised new capital; through placements totalling 20,034,982 fully paid ordinary shares at an issue price of twelve cents ($0.12) per share for a total consideration of $2,404,198 before costs, and a later placement of 10,949,490 shares at 29.5 cents each and for shortfall options from the rights issue to raise $3,230,100 before costs from local and European sophisticated and institutional investors.
- completed a rights issue of 44,783,274 options (PMHOA exercisable at 18 cents) at 1 cent to raise $447,833 before costs.
- following a General Meeting held the 16 June 2006 the Company changed its name from Pacific Magnesium Corporation Ltd to PacMag Metals Limited and changed the registered office to Level 2/33 Ord Street, West Perth WA 6005.

REVIEW OF OPERATIONS

Introduction

During the year the company has advanced its newly acquired copper gold exploration projects, completing four drilling campaigns – one major drill program at Ann Mason and three drill programs at Blue Rose.

At Ann Mason the Company:

- completed drilling of three deep diamond core holes at the 100% owned Ann Mason porphyry copper-gold-molybdenum deposit in Nevada USA returning massive zones of copper and molybdenum mineralisation including: 1580 feet (481.6 metres) @ 0.51% copper, 0.01% molybdenum, 1 g/t silver (0.61% copper equivalent).
- contracted international consulting group Golder Associates to complete a new JORC compliant resource estimate for the Ann Mason deposit (810 million tonnes @ 0.4% copper, 0.004% molybdenum).
- re-assayed 1,945 historic drill core samples from Ann Mason, confirming previous copper grades, defining new gold zones and locally highlighting significant increases in molybdenum content. The data formed the key input information for the new resource estimate.
- compiled into a modern digital database historical geological and assay records for 44,465 metres of previous drilling which allowed computer based 3D geological modeling of sulphide zones. This work in turn led to the definition of new higher-grade copper and molybdenum resource extension targets to the immediate north-west of Ann Mason with potential to add significant resource tonnes.
- completed a metallurgical review, confirming excellent copper recoveries to 90% producing a concentrate grading 26% copper.

In addition, three drill programs at Blue Rose extended copper oxide mineralisation at the Blue Rose Prospect and obtained key drill core sections from the sulphide zones located beneath. Drilling of 6 regional targets of similar geophysical character to Blue Rose led to the discovery of strongly anomalous copper results located 0.5km and 0.4km west and east respectively.

Preliminary metallurgical testwork at Blue Rose was completed that suggests copper oxide ore would be amenable to conventional acid heap leaching with oxide copper recoveries up to 85%.

The company also applied for two new exploration licenses in South Australia and six new licenses in Western Australia deemed highly prospective for uranium mineralisation. Data compilation of this new uranium portfolio shows significant potential for a range of uranium mineralisation styles.

Projects

ANN MASON COPPER PROJECT (NEVADA, USA) – PACMAG 100%

The Ann Mason project consists of a total of 80 unpatented mining claims covering a deposit estimated in the 1970s by Anaconda Copper Corporation Ltd (Anaconda) to contain 4.4 billion pounds of copper, with areas of potential open to the north and west.

Resource and reserve estimates, and mining studies were completed by Anaconda, but it is not possible to classify these estimates in terms of the Australian resource reporting code (JORC Code). PacMag in conjunction with its consultants Golden Associates has now completed a new resource estimate for Ann Mason (810 million tonnes @ 0.4% copper, 0.004% molybdenum) that is in accordance with the JORC Code and which will form the basis for a scoping level mining study. The company is also planning to test new higher grade copper targets in the NW of the prospect as soon as a drill rig can be contracted.

Resource Estimate

The Company engaged Golder Associates, an international mining consultancy with over 90 offices world-wide and extensive experience in the evaluation of porphyry copper deposits, to complete a resource estimate and a scoping-level mining study for the Ann Mason deposit. The new inferred resource estimate is 810 million tonnes @ 0.4% copper, 0.004% molybdenum (0.3% copper cutoff) containing 7.1 billion pounds of contained copper metal.

In total approximately 45,000 metres (135,000 feet) of core was drilled at Ann Mason by Anaconda in the 1970s, with approximately 90% of the core remaining intact and in good condition on site. The drill core has a replacement value now estimated to be in excess of US$8 million.

The company has completed the digital capture of all historic drilling, the reanalysis to date of twenty Anaconda drill holes, and three dimensional modelling in order to validate the previous Anaconda exploration work as well as a new diamond drill hole Ann06001. These activities formed the core data for input into the new resource estimate.

Geological modelling of existing and new drilling data in preparation for the PacMag resource estimate has identified major exploration upside for higher grade copper mineralisation in an extension to the north-west of the Ann Mason copper-gold-molybdenum deposit.

Resource Extensions

The core of the Ann Mason deposit was defined in the 1970s by Anaconda drilling at a nominal grid spacing of 60 metres (200 feet) with the last detailed western section at grid 13,600 feet east. The distance to the next drilling along the higher grade copper mineralised trend is a further 365 metres (1200 feet) north-west and includes holes D346 which intersected copper mineralisation grading up to 10.5% and hole D293; 29 metres (95 feet) @ 0.7% copper at end of hole. Hole D362 is a further 365 metres (1200 feet) to the north-northwest of hole D293 and intersected 20 metres (66 feet) @ 1.11% copper (Anaconda results) within a broader envelope of 0.4% copper mineralisation at the north western limit of current drilling (Figure 1).

Note that holes D293, D346 and D362 were not included in the 1970s Anaconda estimate of 4.4 billion pounds of contained copper metal for Ann Mason.

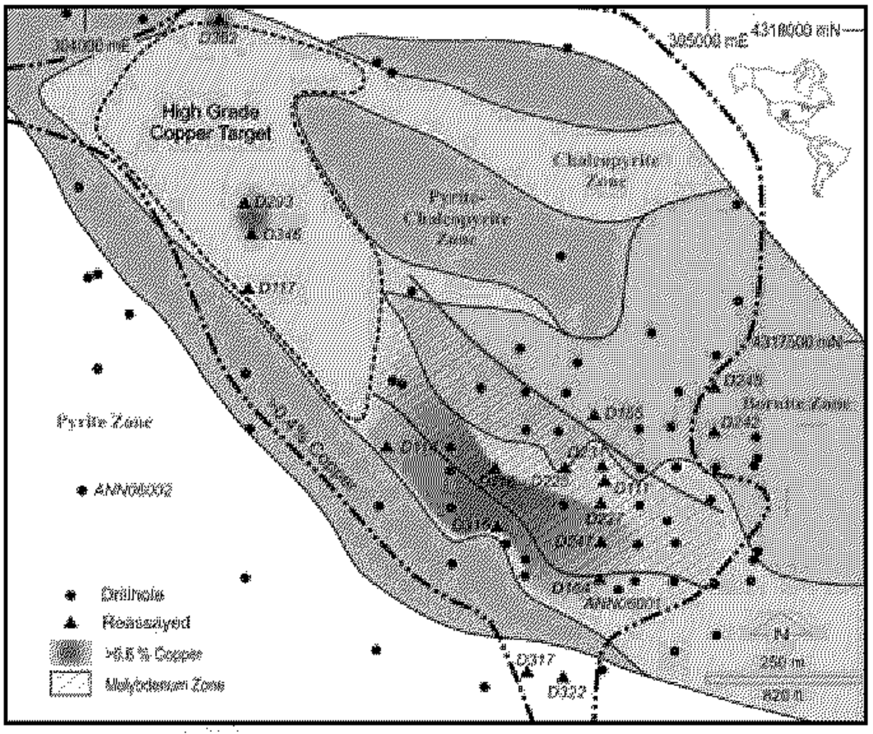

Figure 1: Ann Mason copper deposit >0.4% copper outline, sulphide zones at 4400 feet RL, high grade copper zone, high grade molybdenum zone and resource extension targets.

Two large gaps in drilling lie along the trend of high-grade copper mineralisation and are located within the prospective chalcopyrite (copper sulphide) zone as defined by recent three dimensional modelling. The drilling gaps (shown in figure 1) represent a large target with potential to add significantly to the existing resource, with mineralisation remaining open in this direction.

The Company is currently sourcing a drill contractor to undertake a new program of drilling to test these exciting resource extension targets.

New Drilling

During May–June 2006 the company completed 3 holes totalling 1707 metres (5602 feet) including 549 metres (1800 feet) of RC precollars at Ann Mason (Table 1 and Figure 2).

Hole Ann06001 was drilled to test the orientation of higher grade copper mineralisation in the Ann Mason deposit. The hole was successful in demonstrating continuity of copper mineralisation from near surface to the end of the hole with a massive intersection of:

- **Ann06001 - 481.6 metres (1580 feet) @ 0.51% copper, 0.01% molybdenum, 1 g/t silver (0.61% copper equivalent).**
  - Within the 1580 feet long intersection higher grade zones include 250 feet (76.2 metres) @ 0.68% copper, 0.02% molybdenum and 1 g/t silver (0.86% copper equivalent).

The hole (Ann06001) was stopped at 2000 feet (609.6 metres) with the last 40 feet of core grading 0.86% copper equivalent.

The second core hole drilled by PacMag (Ann06002), an exploration hole designed to test a large geophysical chargeability anomaly around 400 metres south west of the known Ann Mason deposit intersected abundant sulphides over its entire length dominated by pyrite (iron sulphide) with broad intervals of chalcopyrite (copper sulphide) zones. The hole is anomalous in copper from 160 feet to 1650 feet with a best copper result of 10 feet @ 0.6% copper within 30 feet @ 0.37% copper.

A third major step out hole (Ann06003) has been completed approximately 750 metres south west of known mineralisation testing the western margin of the chargeability anomaly coincident with an aeromagnetic low with a similar character to the Ann Mason deposit. The drill hole intersected moderate pyrite (iron sulphide) over its entire length with no significant copper results. The aeromagnetic low is caused by porphyritic dykes that are similar to those hosting the Ann Mason deposit.

It is now interpreted from these results and geological modelling that the IP geophysical anomaly represents a pyrite dominant alteration zone peripheral to the Ann Mason copper-gold-molybdenum mineralisation. Zoning of sulphide mineralisation at Ann Mason is typical of porphyry systems with a bornite (copper sulphide) rich core, inner chalcopyrite (copper sulphide) and outer pyrite (iron sulphide) halo. The zoning indicates that the best potential for resource extensions at Ann Mason lies to the north and north west where there is currently limited drilling.

Encouraging Re-Assay Results

The original assays conducted by Anaconda at Ann Mason were not of sufficient quality to determine the gold grades, whilst molybdenum was only analysed in broad intervals (up to 200 feet sample length) and only where high-grade copper was present. The core reanalysis program by PacMag was designed to; assess gold grades, define zones of high-grade molybdenum and to confirm copper grades, to enable a JORC compliant resource estimate. In total PacMag has re-analysed 1945 samples representing approximately 15% of the total drill core taken from the deposit.

The reanalysis of drill core to date has confirmed that the Ann Mason deposit is a zoned porphyry copper system with overlapping copper-gold, copper and molybdenum-rich copper zones. The definition of these zones is an important value adding step as higher metal value domains can now be defined within the very large lower grade copper shell of the deposit.

Copper

The reanalysis program has confirmed the existence of broad shallow north-west trending high-grade copper zones such as that in holes D316, D317, D322 and D293. The intercept in D316 represents the full interval reanalysed to date (part of a larger mineralised intercept commencing at 109m down hole);

- D316 - 302 metres (990.5 feet) @ 0.81% copper, 0.08 g/t gold, 1 g/t silver (0.91% copper equivalent), including
    - 110 metres (362 feet) @ 1.3% copper, 0.18 g/t gold and 2 g/t silver (1.43% copper equivalent).
- D317 - 220 metres (723 feet) @ 0.68% copper a portion of a larger mineralised interval.
- D322 - 68.3 metres (224 feet) @ 1.01% copper
- D293 – 29 metres (95 feet) @ 0.70% copper (end of hole)

Note that the interval re-assayed by PacMag in D293 contains 20% more copper than indicated by previous Anaconda copper assays and that D293 was a shallow hole which ended in strong mineralisation. All other core holes re-analysed show that the copper results compare favourably with original analyses from Anaconda.

REVIEW OF OPERATIONS

Gold

Previously unrecognized zones of significant gold assaying up to **4.9 g/t Au** associated with high-grade copper mineralisation have been identified in the program of core reanalysis. Better gold results received to date include:

- **D116 - 2.4 metres grading 4.9 g/t gold associated with 1.04% copper within 18 metres @ 0.55% copper and 0.7 g/t gold (1.04% copper equivalent).**
- **D316 - 34 metres (111.5 feet) @ 0.32 g/t gold associated with 1.77% copper, 2 g/t silver (1.99% copper equivalent) and**

Gold in porphyry copper deposits normally reports with copper during extraction and is a valuable additional metal in such systems; the Company is very encouraged by the identification of these new gold zones as they have the potential to add significant value to the project.

Molybdenum

In addition to the copper and gold, discrete zones of high-grade molybdenum near surface have also been confirmed at Ann Mason by the reanalysis program, such as;

- **D111 - 375 metres (1230 feet) @ 0.025% molybdenum and 0.29% copper** (from 79m down hole;) including
    - **112 metres (367.5 feet) @ 0.041% molybdenum and 0.27% copper (0.67% copper equivalent).**

The superposition of both the copper and molybdenum mineralisation (Figure 1) makes this zone a very attractive resource exploration target as copper equivalent grades when both the copper and molybdenum are taken into account, attain significant widths at grades in excess of 1% copper equivalent.

Rhenium

All high grade molybdenum check assay samples contain appreciable levels of rhenium. For example check analysis of 37 samples containing greater than 0.04% molybdenum in hole D111 returned an average grade of 0.6g/t rhenium. Rhenium is a valuable metal currently selling at $US600 per pound, it is used as a catalyst in petrol production and in aircraft engine manufacture. Rhenium is generally easily extracted in porphyry molybdenum deposits and usually reports with molybdenum during the extraction and concentration process. The presence of high-grade molybdenum mineralisation with potential significant rhenium credits at Ann Mason is significant.

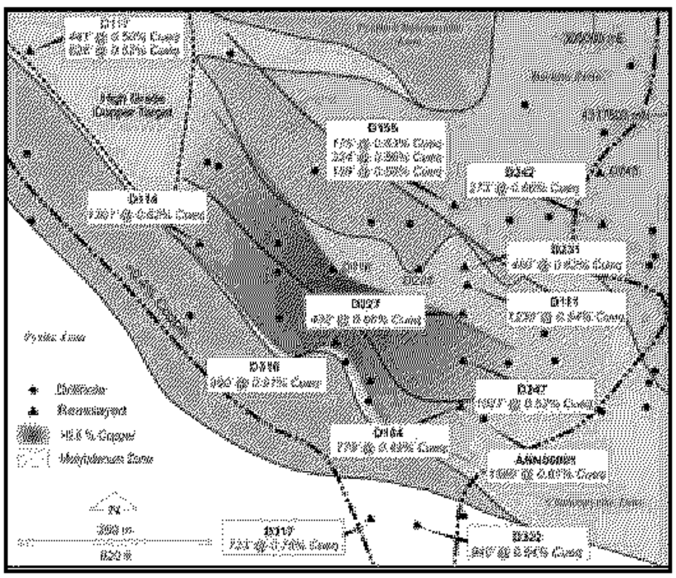

Figure 2: Ann Mason Copper Deposit >0.4% Copper Outline, Sulphide Zones at 4400 feet RL, Significant Reanalysis Intercepts and Location of Hole 1 (Ann06001)

Table 1: Ann Mason Drill Core Significant Copper-Gold-Molybdenum-Silver Results

Hole	Easting (feet)	Northing (feet)	Cut off	From (metres)	To (metres)	Interval (metres)	Interval (feet)	Copper (%)	Gold (g/t)	Molyb (%)	Silver (g/t)	Copper Equiv (%)
D231*	14 702	30 605	0.4% Cueq	97.5	237.7	140.2	460	0.42	-	0.02	1	0.62
D227#	14 698	30 405	0.4% Cueq	112.8	244.4	131.6	431.8	0.46	-	0.02	1	0.66
D242	15 295	30 789	0.4% Cueq	156.7	240	83.3	273.2	0.39	-	0.03	1	0.66
including			0.01% Mo	167.6	218	50.4	165.1	0.41		0.04	1	0.81
D316^	14 149	30 284	0.3% Cu	193	495	302	990.5	0.81	0.08	-	1	0.91
D317^	14 309	29 524	0.3% Cu	274	494	220	723	0.68	-	-	1	0.74
D111**	14 712	30 519	0.01% Mo	106	482	375	1230.5	0.29	-	0.025	0.5	0.54
D114^	13 569	30 708	0.4% Cueq	487.7	884.3	396.6	1301.1	0.45	-	0.02	1	0.62
D155	14 659	30 881	0.4% Cueq	153.6	206.8	53.2	174.7	0.50	-	0.01	1	0.63
and			0.4% Cueq	228.6	327.4	98.8	324	0.43	-	0.01	1	0.56
and			0.4% Cueq	357.2	405.6	48.4	158.8	0.43	-	-	2	0.50
D117	12 840	31 537	0.4% Cueq	253.3	387.9	134.5	441.4	0.46	-	-	1	0.50
and			0.4% Cueq	512.1	703.2	191	626.8	0.37	-	0.01	1	0.52
D247^	14 699	30 199	0.3% Cu	277	591	314	1026.7	0.39	-	0.01	1	0.52
including			0.4% Cueq	277	357	79	260.2	0.53	-	0.01	1	0.64
and			0.4% Cueq	368	411	43	140	0.60	-	0.01	1	0.71
and			0.4% Cueq	494	532	38	126	0.39	-	0.02	1.5	0.62
D164	14 694	30 014	0.4%Cueq	232.8	470.2	237.4	778.8	0.40	-	0.01	1	0.49
including			0.3%Cu	232.8	273.1	40.3	132.1	0.52	-	-	1	0.57
and			0.4%Cueq	344	436.7	92.7	304.1	0.53	0.07	0.01	1	0.64
including			0.3%Cu	397.6	427.1	29.6	97	0.84	0.16	-	2	0.97
including			0.01%Mo	431.9	470.2	38.3	125.8	0.23	-	0.03	1	0.50
Ann06001	14785	29 970	0.5%Cueq	146.3	222.5	76.2	250	0.68	-	0.02	1	0.86
			0.5%Cueq	240.8	280.4	39.6	130	0.53	-	-	1	0.57
			0.5%Cueq	295.7	347.5	51.8	170	0.62	-	0.01	1	0.70
			0.5%Cueq	387.1	515.1	128.0	420	0.63	-	0.01	1	0.72
			0.5%Cueq	597.4	609.6 eoh	12.2	40	0.69	0.1	0.02	1.5	0.86
within			0.3%Cueq	128.0	609.6 eoh	481.6	1580	0.51	-	0.01	1	0.61
D322	14 499	29 495	0.3% Cueq	311.5	598	286.5	940	0.53	-	0.01	1	0.64
			0.5% Cu	311.5	379.8	68.3	224	1.01	0.1	0.01	1	1.14
			0.5% Cu	433.1	511.8	78.7	258	0.56	-	0.01	1	0.69
D293	12 820	31 991	0.5% Cu	259	288.3*	29.3	96	0.70	-	-	-	-
Including Anaconda			0.5% Cu	259	267.9	8.9	29	0.67	-	-	-	-
and PacMag			0.5% Cu	267.9	288.3*	20.4	67	0.71	-	-	-	-

Cu – copper, Au- gold, Mo – molybdenum, Cueq-copper equivalent, Copper Equivalent based on US$440/oz gold, $US6.5/oz silver, US$1.09/lb copper, US$10/lb molybdenum, All assay intervals are in feet and copper equivalents are calculated on individual assays and variations in grade and lengths maybe due to rounding, Interval grades are arithmetic length weighted averages, up to 35 feet of internal dilution included, Grid is Ann Mason local grid in feet, gold analysis by fire assay, all other elements by ICPAES, eoh – designates end of hole.

Metallurgy

Results from the 2006 metallurgical review of the Ann Mason deposit indicates favourable metallurgical characteristics and performance based on test work carried out to date.

The review by Metallurgical Project Consultants Pty Ltd (MPC) examined metallurgical testwork conducted on samples from Ann Mason in the 1970's by Anaconda in order to determine the amenability of the ore to bulk flotation. The testwork is considered by MPC to be appropriate and of a sufficient standard to be able to draw the following conclusions:

- The mineralogy of the ore is simple, with the major copper sulphide species being chalcopyrite and bornite. Sulphide minerals are not interlocked, and the copper minerals were coarse grained and clean;
- Bulk flotation recovered more than 90% of the copper, 65% of the molybdenum and 65% of the silver into a concentrate grading 26% copper. This performance is considered good and compares favourably with that of operating porphyry copper projects.
- No attempt was made to separate molybdenum sulphides from copper sulphides in the testwork program. At the plant scale, this is normally achieved by subjecting the bulk concentrate to treatment in a molybdenum flotation circuit, producing a clean copper concentrate and a clean molybdenum concentrate, hence a higher molybdenum recovery than 65% is likely in an optimised molybdenum circuit.

BLUE ROSE COPPER-GOLD PROJECT JOINT VENTURE – SOUTH AUSTRALIA

The Blue Rose copper-gold project is located 300 kilometres north-east of Adelaide (Figure 3). PacMag can earn an initial 51% interest from Giralia Resources NL in the 1500 square kilometre Blue Rose project through expenditure of $1 million within 2 years, and can increase its interest to 75% by completion of a Bankable Feasibility Study.

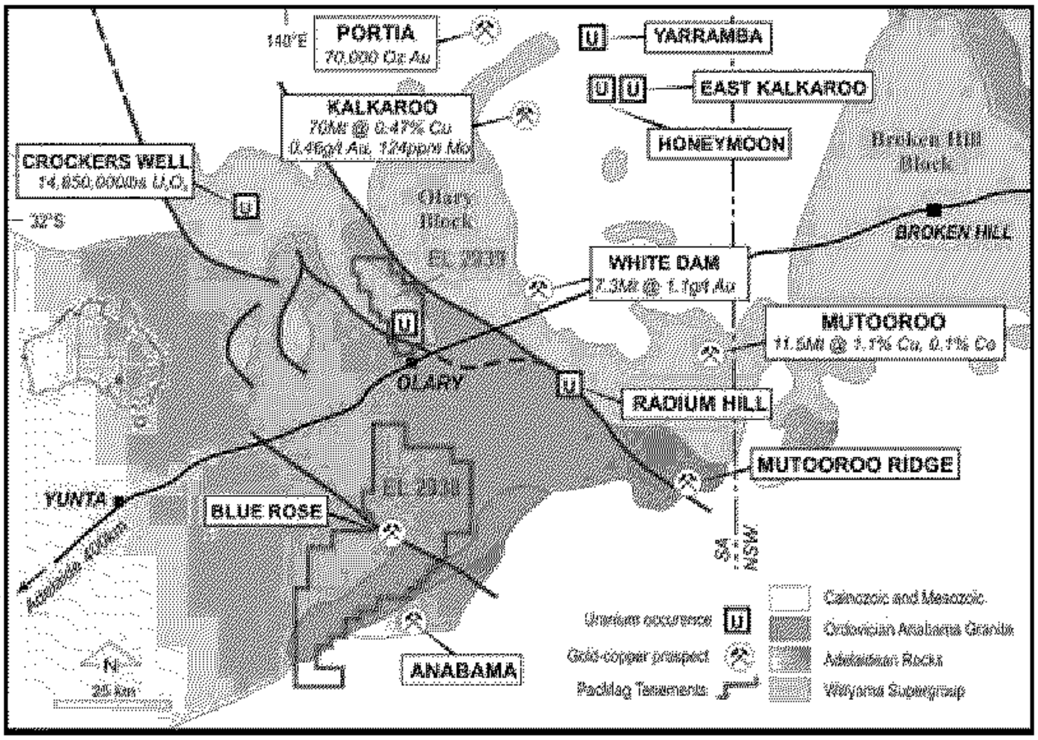

Figure 3: Blue Rose Project Location

REVIEW OF OPERATIONS

The Blue Rose project consists of a shallow sub-horizontal oxide copper mineralisation zone with previous drill intersections defining two zones of mineralisation over a cumulative strike length of 950 metres. Previous drill intersections starting from less than 10 metres below surface such as 41 metres @1.62% copper and 48 metres @ 1.0% copper and 0.21 g/t gold highlight the potential of the project. Copper oxide mineralisation is open along strike and requires further drill testing to define the limits of mineralisation.

Beneath the oxide zones drilling has intersected copper-gold-molybdenum sulphide mineralisation, which is open to extension both along strike and at depth and was subject to a South Australian Government co-funded (PACE) drill program, in early 2006.

Preliminary metallurgical testwork indicates the copper oxide mineralisation is amenable to conventional acid leaching and a desktop study is currently in progress to examine possible development options.

Oxide Copper Mineralisation

Two RAB/aircore ("AC") programs were completed at Blue Rose (in August-September, and November-December 2005) totalling 122 holes for 4553 metres. Drilling was designed to test the extents of the shallow oxide copper mineralisation at the Blue Rose Prospect. Additionally, six nearby regional targets with geophysical signatures similar in character to that of Blue Rose were tested by broadly spaced aircore drilling traverses.

Drilling from both programs has extended copper-gold oxide mineralisation to a total length of 950 metres and confirms mineralisation is open along strike to the west, east and at depth (Figure 4 and Table 2). The drilling returned further broad oxide copper intersections, including:

- **RABR198 - 15 metres @ 1.37% Cu from 18 metres within 24 metres @ 0.98% Cu (western end of prospect),**
- **RABR214 - 10.5 metres @ 1.54% copper, 0.23g/t gold within 22.5 metres @ 0.99% copper and**
- **RABR521 - 6 metres @ 1.36% copper (end of hole) eastern end of prospect.**

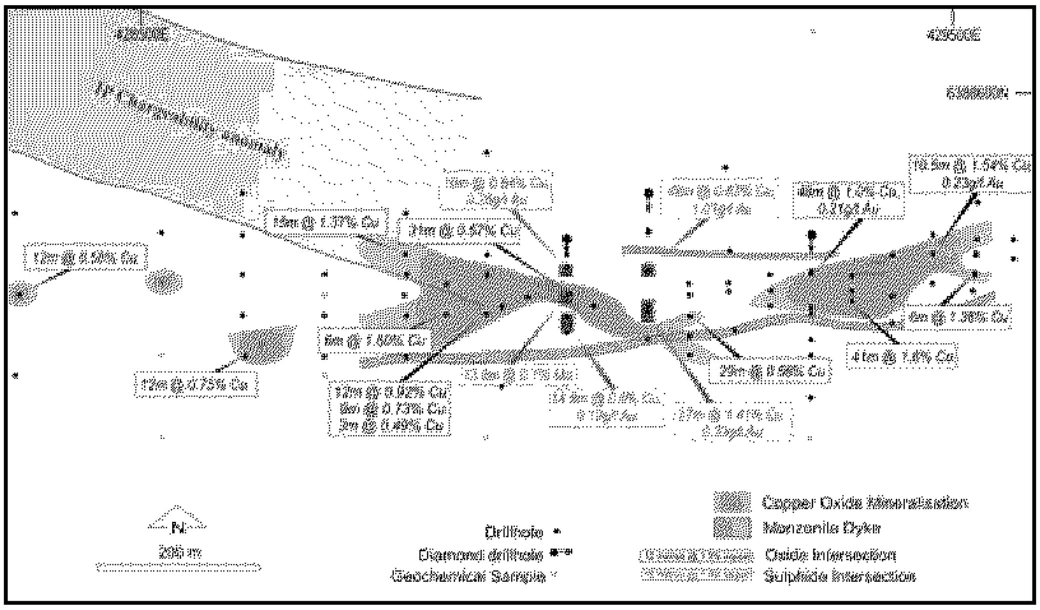

Figure 4: Blue Rose Project Outline of Oxide Mineralisation and Significant Drill Intercepts

Widely spaced holes up to a further 500 metres to the west of Blue Rose have intersected in excess of 0.5% copper, whilst a recent step out hole 400 metres to the east of the current limit of mineralisation returned 39 metres @ 0.21% copper along a magnetic anomaly similar to that associated with the established mineralised zones, suggesting potential for further strike extensions. As part of the December aircore program, broad spaced aircore holes testing two regional targets located 1.2km west and 1.5km north-west returned anomalous copper intersections to 3 metres @ 0.31% copper highlighting the very large extent of the Blue Rose mineralising system.

Table 2: Aug-Sep and Nov-Dec 2005 RAB/AC Significant Drill Results

Hole	Drill Type	Easting	Northing	Depth From (metres)	Depth To (metres)	Interval (metres)	Copper (%)	Gold (g/t)
RABR198	AC	428700	6388225	18	42	24	0.98	-
including				18	33	**15**	**1.37**	-
and				39	42	**3**	0.44	**1.23**
RABR197	AC	428700	6388200	21	24	**3**	**1.43**	
RABR203	AC	428800	6388150	12	45	33	0.66	-
including				12	24	12	0.92	-
RABR205	AC	428900	6388175	24	55 eoh	31	0.57	-
including				12	15	**3**	**1.40**	**0.21**
RABR207	AC	429050	6388100	9	15	6	0.79	-
including				9	12	**3**	**1.03**	**-**
RABR209	AC	429050	6388150	30	59 eoh	29	0.58	-
including				36	42	6	0.71	-
RABR214	AC	429350	6388225	24	46.5 eoh	22.5	0.99	0.15
including				36	46.5 eoh	**10.5**	**1.54**	**0.23**
RABR523	AC	428750	6388150	18	24	**6**	**1.6**	-
including				18	21	**3**	**2.5**	-
RABR356	AC	428500	6388100	39	51 eoh	12	0.75	-
including				39	48	9	0.84	-
including				45	48	**3**	**1.2**	-
RABR521	AC	429400	6388195	48	54 eoh	**6**	**1.36**	-

Interval grades are simple arithmetic length weighted averages using cut-off grades of 0.4% and 0.5% Cu for low and high grade Cu respectively. Reference datum is AGD84 Zone 54. Grab samples were analysed for Au by fire assay and Ag, Cu, Mo, Pb and Zn by ICPOES at Amdel in Adelaide. All holes were drilled vertically. End of hole (eoh).

Oxide Metallurgical Testwork

Sighter metallurgical testwork was conducted at AMMTEC Ltd in Perth under the supervision of Metallurgical Project Consultants Pty Ltd (MPC) on two samples to test the amenability of the oxide ore to acid leaching for copper recovery. The following conclusions were drawn from the oxide metallurgical evaluation program:

- Copper extraction was high from BRMET02 and moderate from BRMET01 ranging from 85% to 58% respectively. In both cases the results indicated amenability of the ore to acid leaching, even though the preliminary mineralogical assessment indicates relatively complex ore mineralogy.
- Copper extraction in a full scale operation would likely be higher than that achieved in the preliminary laboratory tests given that leaching was continuing at test termination.
- The impact of particle size on leach extraction was considered low, suggesting that heap leaching would be a viable process option. Optimisation of crush size will require further evaluation.

Alternative process routes include production of copper plate, copper sulphate or copper cement. The most appropriate oxide copper extraction process will depend on a number of factors, including project scale and development timetable. In the current pricing climate all three options have relative advantages.

Further testwork is required to confirm the metallurgical performance of the ore and optimise the oxide copper extraction process flowsheet. Quantitative mineralogical assessment will assist in directing the testwork towards the most appropriate leaching regime. The next phase of work will aim at identifying the optimum crush size for heap leaching and generate preliminary data required for economic evaluation including acid consumption and amenability to percolation.

The next phase of metallurgical testwork will commence after a JORC compliant resource estimate is completed for the oxide portion of the Blue Rose Deposit, following the completion of a further drill program to extend mineralisation.

Sulphide Copper – Gold Mineralisation

In January PacMag completed the drilling of four diamond drill holes for 1157 metres and 3 RC holes (precollars) for 290 metres with funding support and technical endorsement under the PACE program by the Department of Primary Industry and Resources of South Australia ("PIRSA"). The program tested two copper–gold sulphide targets at the Blue Rose Project. PIRSA refunded to PacMag 50% of the direct drill costs of each of the two exploration programs completed at Blue Rose, with total financial support of $95,000.

Drilling tested two targets:

- Copper-gold sulphide mineralisation beneath and adjacent to the Blue Rose oxide skarn copper-gold mineralisation where previous RC drilling has intersected up to 48 metres @ 0.82% copper, 1.01 g/t gold from 84 metres (tested by three new diamond holes),
- Porphyry copper-gold target analogous to the world class porphyry copper-gold mines in New South Wales such as the Cadia–Ridgeway Deposit (tested by one new diamond hole).

Blue Rose Sulphide Target

Copper, gold and molybdenum mineralisation in new hole BRDD003 drilled beneath the Blue Rose oxide zone is associated with a skarn altered rock sequence over a 127.3 metre interval from 94.4 metres to 221.7 metres downhole depth (Table 3). Better intersections from within this 127.3 metre zone include;

- **10.0 metres @ 0.64% copper, 0.25 g/t gold and**
- **13.8 metres @ 0.1% molybdenum (0.88% copper equivalent) and**
- **14.5 metres @ 0.6% copper and 0.12 g/t gold.**

The hole was abandoned prematurely due to hole collapse in altered copper rich (>0.1% copper) rocks. Sulphide mineralisation remains open and untested to the west and south beneath ore grade copper oxide mineralisation over an open ended strike length of > 600 metres (defined by shallow aircore drilling).

New holes BRDD001 and 002 were drilled as diamond tails to existing RC holes BRRC035 and BRRC029 respectively with the specific aim of obtaining orientated drill core to establish the dip of sulphide mineralisation at Blue Rose and to allow better targeting of future drilling. New orientated drill core from BRDD001 and 002 shows that although the holes were correctly orientated to intersect the monzonite porphyry dykes that are the interpreted source of copper, gold and molybdenum mineralisation, for the most part, these holes intersected a non-prospective quartzite sequence of rocks that dips parallel to the hole due to folding of the rock package. The final portion of hole BDDD001 did reach the prospective skarn sequence with the last 24 metres of hole averaging 0.2% copper. Future drilling will now be able to account for the folding and the orientation of the previously unknown barren rock sequence.

Table 3: Blue Rose Sulphide Zones Significant New Results (2006)

Hole	Easting	Northing	Depth From (metres)	Depth To (metres)	Interval (metres)	Molybdenum (%)	Gold (g/t)	Copper (%)	Copper Equivalent (%)
BRDD003#	429 020	6 388 425	94.4	104.4	10.0	-	0.25	0.64	0.80
including			100.0	104.4	4.4	-	0.32	1.07	1.26
and			148.2	162.0	13.8	0.1	-	-	0.88
and			195.0	196.6	1.6	0.01	0.24	1.03	1.27
and			198.7	200.4	1.7	0.12	-	-	1.11
and			207.2	221.7	14.5	0.01	0.12	0.6	0.79
including			215.8	221.7	5.9	0.03	0.26	1.02	1.37
BRDD002*	429 321	6 388 427	177	186.5	9.5	-	-	0.53	-
BRDD001	429 122	6 388 477	194	232	38	0.02	-	-	-
			278	279.2	1.2	-	0.29	1.12	1.29

 # BRDD003 is a new hole with 60m RC precollars, total depth 227.8m (planned depth 250, hole abandoned due to caving ground)

** BRDD002 is an extension of hole RCBR029 and was drilled from 152.5m to 219m (planned depth 300m, hole abandoned due to caving ground) new core 66.5m*

Copper Equivalent based on US$440/oz gold, $US6.5/oz silver, US$1.09/lb copper, US$10/lb molybdenum, All assay intervals are in metres and copper equivalents are calculated on individual assays and variations in grade and lengths maybe due to rounding, Interval grades are arithmetic length weighted averages, Datum GDA94 Zone 54, All new drilling is NQ2 size diamond core, Holes DD002 and 3 drilled at -60 south, gold analysis by fire assay, all other elements by ICPOES.

Porphyry Copper – Gold Target

In addition to the sulphide target at Blue Rose described above, a second copper–gold target was tested by one deep diamond drill hole where geological and geophysical modelling had identified a porphyry copper-gold target analogous to the world class porphyry copper-gold mines in New South Wales such as the Cadia–Ridgeway Deposit. The hole intersected altered and sulphidic (pyrite) rich sedimentary rocks with minor copper sulphides, however, no significantly magnetic rich rocks capable of explaining the modelled magnetic target were intersected. Remodelling of the target by geophysical consultants is planned prior to further drill testing. The monzonite porphyry dykes intersected in diamond core beneath the Blue Rose copper oxide mineralisation confirm the appropriateness of the porphyry style target in the project area.

Olary Copper-Gold-Uranium Targets

PacMag announced high-grade uranium rock chip results from the Domenic Prospect (2.2% U3O8, 2.7% thorium, 0.25% cerium and 0.09% lanthanum) associated with a feldspar dominant pegmatite at the northern Olary Project tenement EL 2939.

At this project a total of 8 uranium targets have been defined based on uranium occurrences and reprocessed geophysical airborne radiometric data. PacMag is planning to assess these high grade uranium occurrences in the context of large iron oxide-copper-gold-uranium targets and has a program of geophysical work planned prior to drill testing. To date only four of the uranium targets have been visited. The Willyama Complex is host to a number of uranium occurrences including the historic Radium Hill mine and Crockers Well uranium deposit (located 30km to the north west of PacMag's tenements) which contains a reported 14,850,000 lbs of contained U_3O_8.

Aircore drilling at the Blue Rose prospect has also intersected anomalous uranium results (0.01% U_3O_8) associated with shallow palaeochannel sequences above the copper prospective bedrock. More attractive uranium specific palaeochannel targets occur further south of existing drilling close to the Anabama Granite, a potential source rock for uranium shedding into surrounding palaeochannels. PacMag will test one of these targets in conjunction with upcoming drilling to test copper-gold-molybdenum targets.

URANIUM PROJECTS - SOUTH AUSTRALIA AND WESTERN AUSTRALIA

Whilst PacMag will remain firmly focused on its core copper-gold-molybdenum projects at Ann Mason and Blue Rose, the Company has taken steps to enable it to increase exposure to the uranium market.

As discussed in the Blue Rose section of this report, PacMag obtained high-grade uranium rock chip results from the Domenic Prospect (2.2% U_3O_8) associated with a feldspar dominant pegmatite at the Olary Project. At this project a total of 8 uranium targets have been defined based on uranium occurrences and reprocessed geophysical airborne radiometric data and the Company is planning to assess these high grade uranium occurrences in the context of large iron oxide-copper-gold-uranium targets. The company will also test uranium specific targets within the Blue Rose license surrounding the Anabama Granite.

In addition to these uranium targets the Company's portfolio also includes two wholly owned licence applications covering uranium occurrences in South Australia. The targets are hard rock and palaeochannel deposits sourced from the uranium enriched bedrock. The Worlds End licence located south of Burra contains uranium values up to 0.3% U_3O_8 in drilling targeting phosphate mineralisation. No systematic previous exploration for uranium has been carried out in this area.

The second South Australian licence, Mt Anna covers anomalous rock samples (0.04% U_3O_8 and 1.2% copper) taken from Proterozoic pegmatite rocks of the Denison–Peake Range Inlier. The host rocks have similar affinities to the Mt Painter Inlier which is considered the source rocks for uranium currently mined at Beverley by Heathgate Resources Pty Ltd in South Australia. Potential exists at Mount Anna for both hard rock uranium mineralisation and potentially for sandstone hosted deposits at the interface between the Proterozoic bedrock and overlying younger sedimentary sequences of a similar style to the Beverley Uranium Mine.

In addition, the Company holds 100% interest in six exploration licence applications covering uranium endowed channels in the north Yilgarn Craton located in Western Australia. The target is calcrete hosted uranium mineralisation such as that at the Yeelirie Deposit containing published resources of 35Mt @ 0.16% U_3O_8. The licence applications were targeted using satellite imagery, airborne geophysical data, geology and known uranium occurrences. Ground was selected along strike of calcrete uranium deposits in known uraniferous palaeochannels with shallow soil cover capable of masking radiometric anomalies. The Nelson Well project covers an additional 16km of prospective untested calcrete channel to the south and east of the Cogla Downs deposit where previous drilling returned up to 0.44m @ 0.03 % eU_3O_8. Similar targets exist on the other six Western Australia tenements where previous surface sampling has returned results up to 0.08% U_3O_8 (Figure 5).

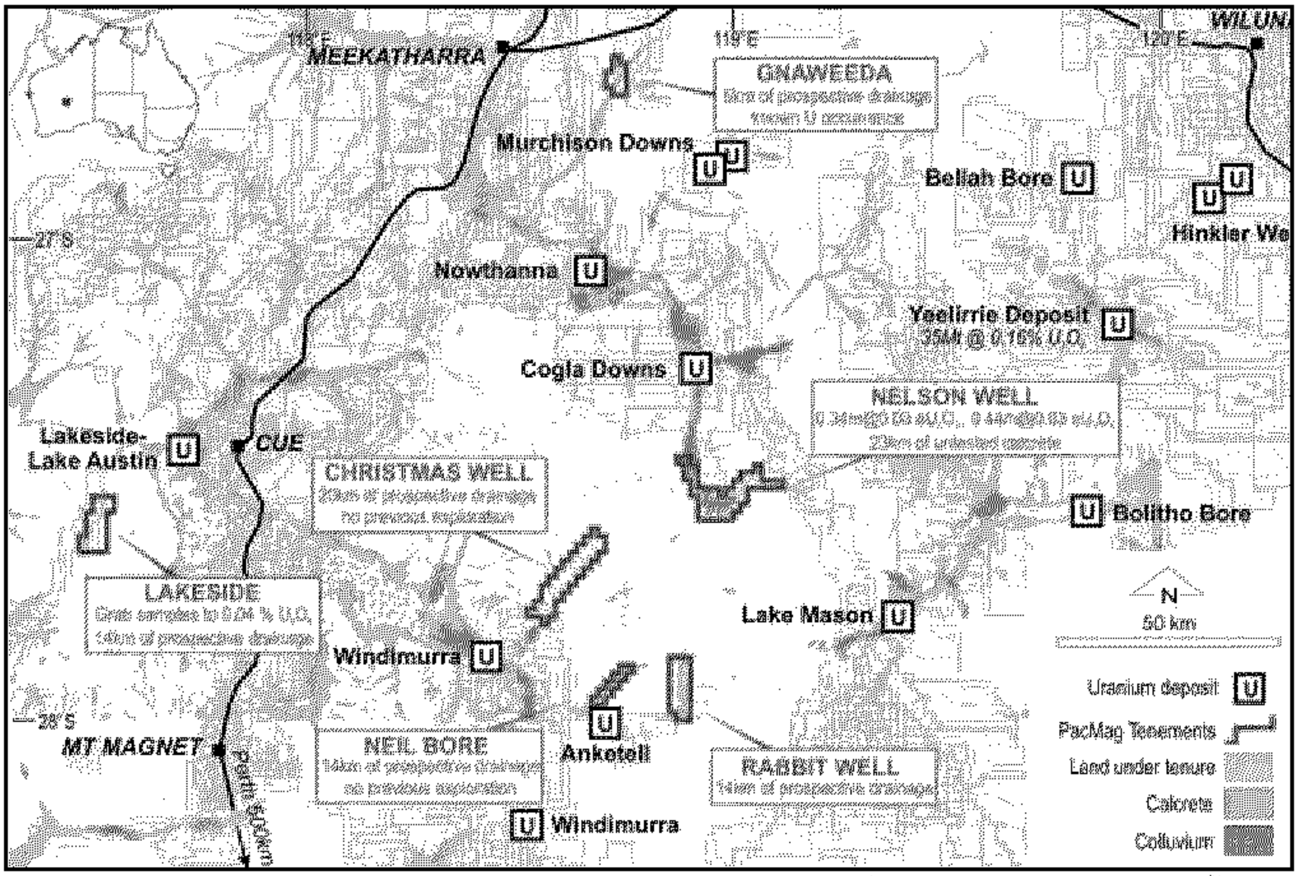

Figure 5: PacMag WA Uranium Projects

PacMag is considering opportunities to extract value from the portfolio whilst remaining focused on its core copper-gold-molybdenum projects. The Company plans to complete a review of geological prospectivity and assess external factors such as; equity market conditions, uranium price and any Federal or State legislative changes that have the potential to "free-up" Australian uranium exports, before making a decision on the future of these assets.

CORKTREE COPPER PROJECT JOINT VENTURE – WESTERN AUSTRALIA

Corktree is a joint venture with Giralia Resources NL whereby PacMag may earn up to a 75% interest (Figure 6).

Corktree is on the western edge of the Earaheedy Basin. A strong gravity gradient marks the boundary between Yelma Formation dolomites and basement Thaduna Formation greywackes. The area has previously been explored by WMC and CRA, whose drilling returned samples including 24 metres @ 0.22% copper, 16 metres @ 0.26% copper, and 3 metres @ 1.6% copper.

The primary source of the widespread secondary copper mineralisation at Corktree has not yet been found, nor has the near-surface anomaly been closed off. The location of the prospect at the edge of a mid-Proterozoic sedimentary basin abutting a basement high, and the presence of metalliferous inclusions in hydrocarbons, suggest potential for sediment hosted base metals mineralisation.

Two immediate targets for follow up have been defined including the Corktree Well Prospect and the Merah Prospect (located 4.5 kilometres east of Corktree). At Corktree previous drilling identified extensive near surface copper mineralisation which remains open. At the newly defined Merah Prospect, recent surface geochemical sampling has returned anomalous copper results in a rock sequence equivalent to that hosting copper mineralisation at Corktree.

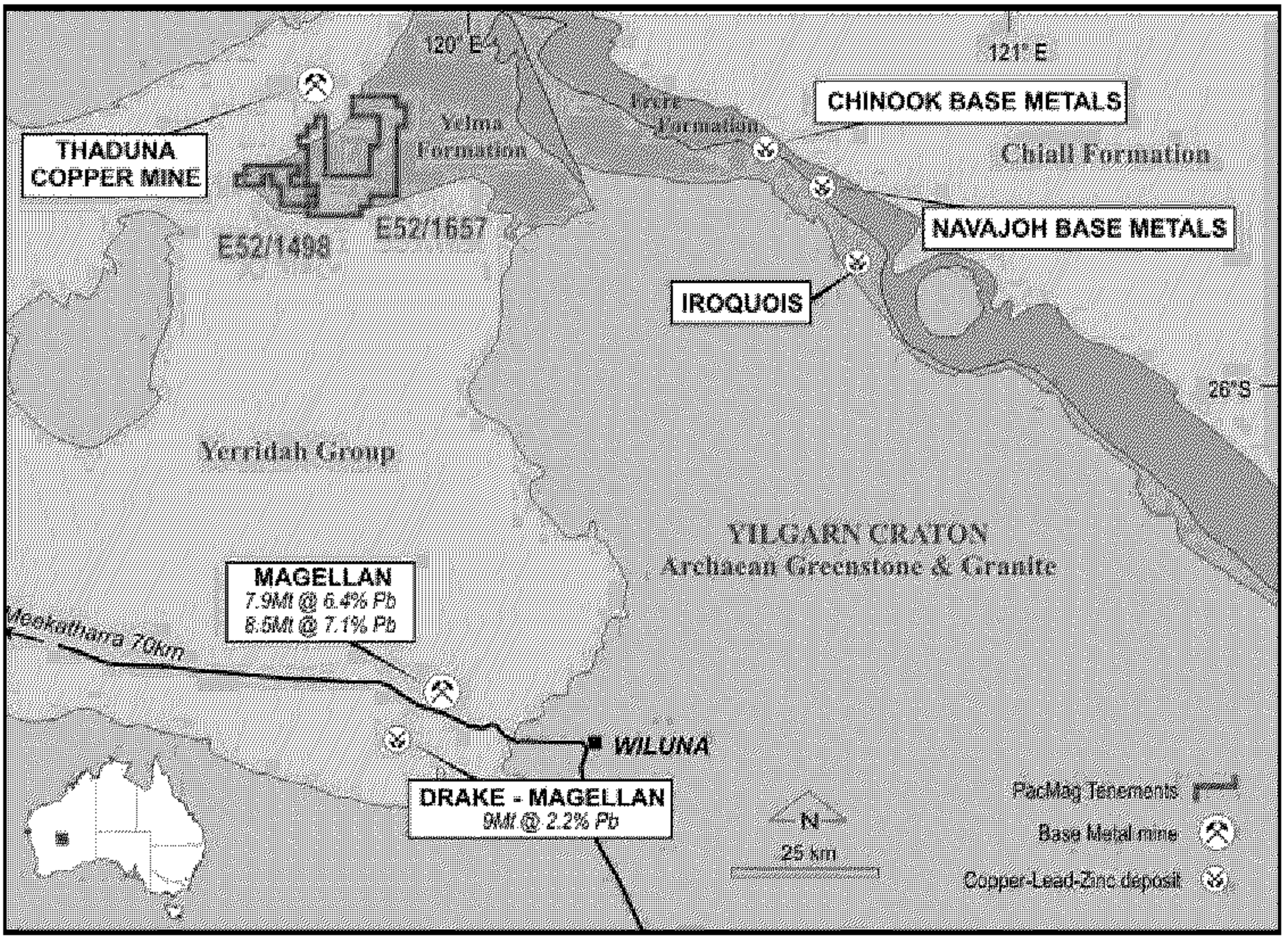

Figure 6: Cork Tree Project Location

Subject to the availability of drill rigs contracted to other companies in the district, PacMag will undertake a drill program to test the strike extensions to Corktree Prospect and to test for the source of anomalous surface copper geochemistry at the Merah Prospect.

COBAR COPPER PROJECT – NEW SOUTH WALES

PacMag owns 100% of the Cobar copper gold project located 40km due east of Cobar New South Wales, Australia. The tenement is situated in the northern end of the Lachlan Fold Belt and is underlain by the Ordovician Girilambone Group and the Late Silurian/Devonian Cobar Supergroup. The Cobar Deposits with historical production of 2.75Moz gold and 200,000 tonnes of copper are located 37km west whilst the Tritton Copper Mine with current resources of 14Mt @ 2.7% copper and 0.3 g/t gold is located 33km east (Figure 7). The Mount Boppy Gold Mine is located 6km south along strike (1Mt @ 12g/t gold) where high grade gold mineralisation occurs in brecciated conglomerates at the base of the Baledmund Formation and above the unconformable/faulted contact with the Girilambone Group.

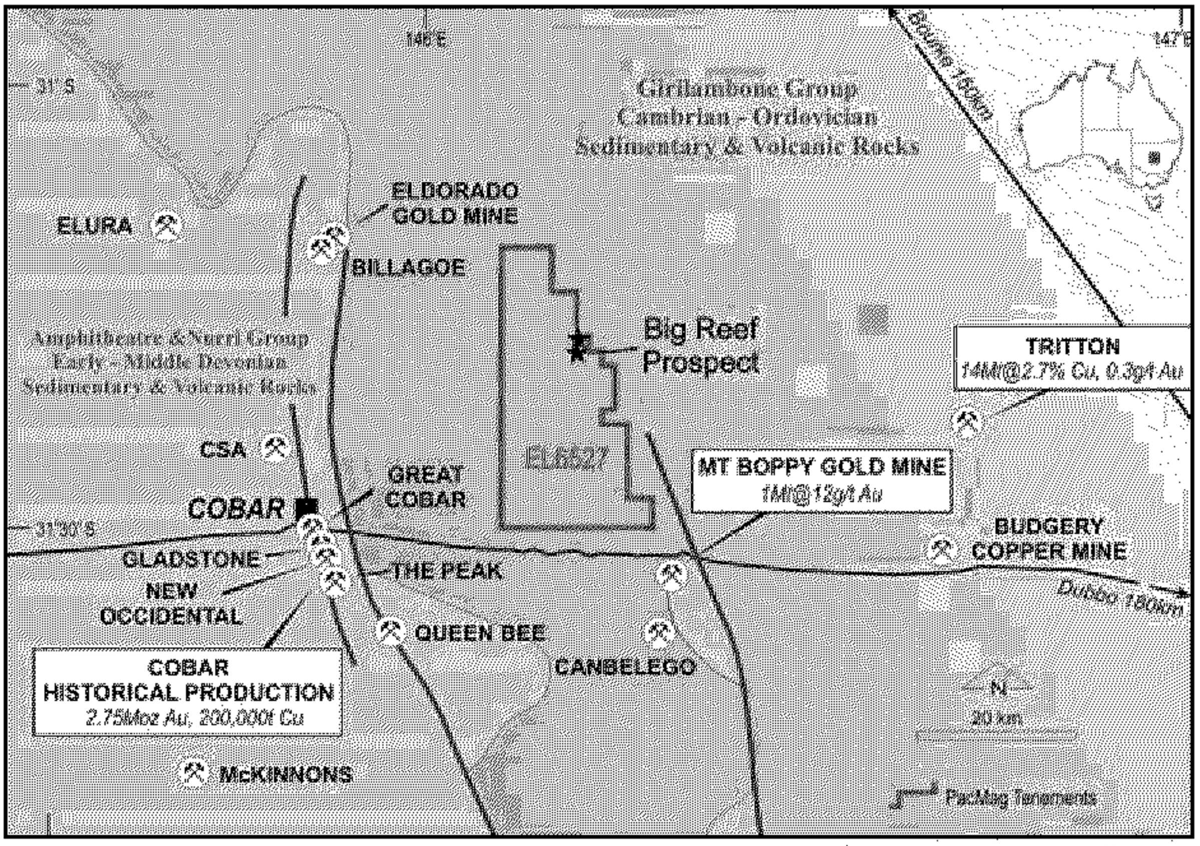

Figure 7: Cobar Project Location and Regional Geology

At PacMag's Big Reef Prospect a west dipping quartz-lode breccia in fine grained Girilambone sandstone and siltstone, has locally returned strong geochemistry up to 11 g/t gold and 3% copper over a north-south strike of 500m. Auger sampling (2m depth) on a 50 x 50m grid over the prospect area defined an open ended gold geochemical anomaly (>1g/t Au) in the north east corner of the Big Reef prospect. This target is yet to be drill tested.

A further 2km along strike to the north, previous surface sampling defined a strong nickel-copper- cobalt anomaly with results to 1% cobalt, 0.1% nickel and 0.27% copper which to date has not been followed up.

HORSE SPRING ZINC PROJECT – WESTERN AUSTRALIA

PacMag Metals Limited owns 100% of the Horse Spring Zinc Project in the Kimberley District Western Australia via a new exploration license application E80/3676 (Figure 8). Previous exploration drilling returned significant zinc and lead sulphide mineralisation from depths generally less than 100 metres, hosted by limestone in and adjacent to the Linder Hill Fault Zone including:

- **HPD1 4m @ 7.65% Zn + 0.42% Pb**
- **HPD2 26m @ 1.5% Zn + Pb**
- **HPD3 10m @ 3.0% Zn + Pb**
- **HD7 4m @ 1.2% Zn + Pb and 4m @ 1.2% Zn + Pb**
- **HD16 4m @ 1.4% Zn and 2% Pb**

Mineralisation at Horse Spring is of the Mississippi-Valley-Type and similar to that currently being mined at the Falconbridge - Teck Cominco Blendevale Deposit (20Mt @ 8.3%Zn and 2.5% Pb) and previously mined at the Cadjebut Deposit (3.2Mt @ 14% Zn and 4.8% Pb) located 35km south- west and 55km south respectively.

Previous exploration by Billiton (Shell Minerals) at Horse Spring was focused on a target of sub-horizontal stratform zinc mineralisation hosted by Upper Devonian platform and marginal-slope carbonate rocks.

All significant drilling results from the project have been returned from holes testing for zinc mineralisation hosted within the steep westerly dipping Linder Hill Fault zone. Holes that effectively test the fault zone cover only 525 metres of strike, yet the fault has been mapped over a further 6 kilometres. IP surveying has identified strong to moderate chargeability anomalies coincident with mineralisation these anomalies extend a further 1km south and 400 metres north of previous drilling as well as identifying new targets in the north of the tenement area.

The project requires additional drilling to test for zinc deposits hosted within carbonate rocks cut by the Linder Hill Fault Zone. The target is well defined and warrants significant further exploration effort. PacMag is currently focused on its Australian and USA based copper projects and is therefore seeking expressions of interest from selected parties to purchase and or joint venture the Horse Spring Zinc project.

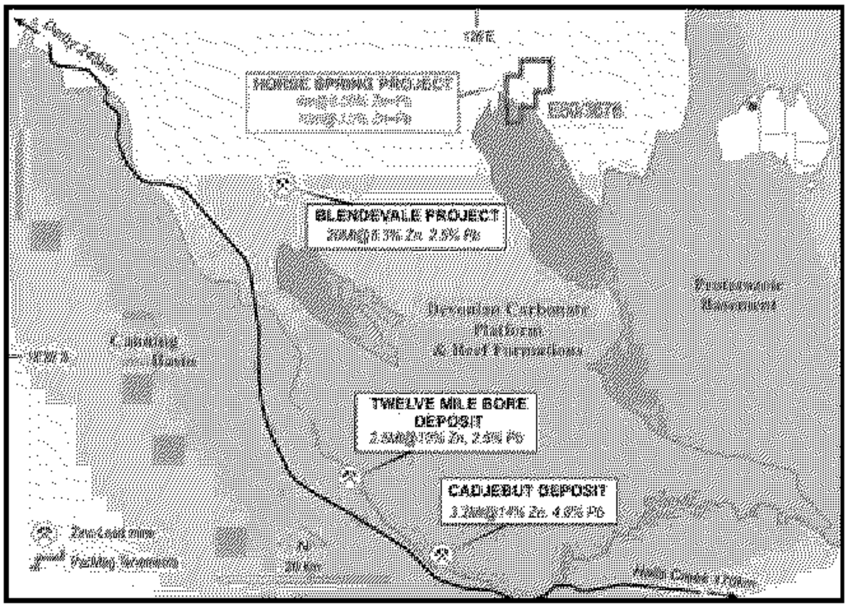

Figure 8: Project Location and Geology

ARRINO COPPER PROJECT – WESTERN AUSTRALIA

The Arrino prospect is located in the Irwin sub-basin, 250 kilometres north of Perth. PacMag owns 100% of the project. Known copper mineralisation at Baxters has previously been subjected to exploration by MIM, BHP and CRA, including geophysics and limited drilling (better intersections include 4.5 metres @ 2.35% copper). A substantial aeromagnetic anomaly and partly coincident gravity feature east of known copper mineralisation remains unexplained and untested. A surface copper in soil anomaly is coincident with the up-dip projection of the western edge of the magnetic feature, and drilling in this area recorded native copper and malachite disseminations.

Data compilation of previous exploration activities has commenced on the Arrino Project in order to refine drill targets.

DIRECTORS' REPORT

The Directors present their report, together with the financial report of PacMag Metals Limited ("the Company") and its controlled entities for the period ended 30 June 2006, and the auditors' report thereon.

1. DIRECTORS

The names of the directors of the Company during or since the end of the financial year are:

Rodney Michael Joyce – Chairman
Appointed to the Board of Directors 18 November 2005

Michael Joseph Clifford – Managing Director (CEO)
Appointed to the Board of Directors 18 November 2005

Emmanuel Althaus – Non Executive Director
Appointed to the Board of Directors 5 October 1994

The above named directors held office during and since the end of the year, except for:

John William Goddard – Non Executive Director
Resigned from the Board of Directors 18 November 2005
(Appointed 5 October 1994)

Myer Herszberg – Non Executive Director
Resigned from the Board of Directors 18 November 2005
(Appointed 29 November 2000)

2. COMPANY SECRETARY (CFO)

Mr Bruce Acutt was appointed to the position of Company Secretary on 18 November 2005. Mr Acutt trained and worked as an accountant with major accounting firms in the audit and resources sector. He has been associated with the mining and exploration sector for over twenty years.

Mr Acutt is currently Company Secretary for Giralia Resources NL, U3O8 Limited and The Gold Company Limited.

3. DIRECTORS' MEETINGS

The number of Directors' meetings (including meeting of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

	MEETINGS		CIRCULAR RESOLUTIONS IN WRITING	
	A	B	A	B
Mr R M Joyce	4	4	11	11
Mr M J Clifford	4	4	11	11
Mr E Althaus	12	12	14	14
Mr J W Goddard	8	8	3	3
Mr M Herszberg	8	8	3	3

A = Number of meeting attended
B = Number of meetings held during the time the Director held office during the year

4. PRINCIPAL ACTIVITIES

The principal activity of the Company and its controlled entities during the course of the financial year was mineral exploration.

The Company has commenced drilling at the Ann Mason and Blue Rose prospects.

There was no significant change in the nature of the activity of the consolidated entity during the year.

5. OPERATING & FINANCIAL REVIEW

Overview

During the year, PacMag Metals Limited continued its mineral exploration activities in Australia and the USA.

Objectives

The Company's objectives are to pursue advanced opportunities in exploration and mining for minerals in Australia and the USA on areas which are highly prospective for minerals.

Strategies for achieving objectives:

Substantial resource definition drilling programs have commenced on, and are planned for, the Ann Mason project in the USA, with a resource estimate underway by Golder & Associates.

Financial Results

The net consolidated loss for the financial period ended 30 June 2006 attributable to members of PacMag Metals Limited after income tax was $3,432,664 (2005: $2,305,135).

Shareholder Returns	**2006** **$**	**2005** **$**
Net loss attributable to members of PacMag Metals Limited	$3,432,664	$ nil
Basic EPS (loss) (cents per share)	(4.72)	$ nil
Dividends Paid	$ nil	$ nil
Dividends per share	$ nil	$ nil
Changes in share price (2005 pre-consolidation of capital)	$0.27	$ nil
Return on Capital Employed	-	-

No dividends were paid during the financial year ended 30 June 2006 and no dividend is recommended for the current year.

Review of financial condition

The Company raised $6,180,718 (before costs) in capital during the year and holds a valuable portfolio of mineral tenements.

The Company is subject to various legislative and other external requirements, such as Native Title, Environmental Laws, Occupational Health and Safety Laws, Stock Exchange Rules, Corporation Laws and Mines Department Laws.

State of affairs

Significant changes in the state of affairs of PacMag Metals Limited during the financial year ended 30 June 2006 were as follows:

(a)

- During the year the Company changed its name from Pacific Magnesium Corporation Ltd to PacMag Metals Limited, to reflect its new direction
- completed the acquisition of a portfolio of copper-molybdenum-gold projects from Giralia Resources NL through the acquisition of a 100% interest of all the issued capital of Coral Gem Pty Ltd and its wholly owned subsidiary, MIM (USA) Inc, by the issue of 10,000,000 post-Consolidation shares and 40,000,000 post-Consolidation B Class shares (deemed fully paid at an issue price of 14.4 cents per share
- acquired an exclusive option to enter into a joint venture agreement to earn up to a 75% interest in relation to the Blue Rose mining project (subject to Giralia Resources NL's right to recommence contributions once the Company has earned a 51% interest) and a minimum of 51% interest in the Corktree mining project

- completed the "separation" under the IPOH Agreements including withdrawal from the Mantuan Downs Bentonite Joint Venture and the buy-back of shares held by the IPOH Parties
- consolidated the issued securities on a 1:12 basis
- raised new capital pursuant to the issue of 20,034,982 fully paid shares on a post-Consolidation basis at an issue price of 12 cents per share for a total consideration of $2,404,198 (before costs)
- issued 3,045,056 fully paid shares on a post-Consolidation basis at an issue price of 14.4 cents per share on satisfaction of $438,488 of monies owing for fees and reimbursed expenses
- received funding support of $95,138 from the Department of Industry & Resources of South Australia for drill testing two copper-gold-molybdenum sulphide targets
- completed a one-for-two rights issue of 44,783,274 listed options at 1 cent each to raise $447,833 (before costs). The options are exercisable at 18 cents each before 31 March 2008 ("PMHOA")
- placed 10,949,490 shares at 29.5 cents each to raise $3,230,100 (before costs)

(b) Net cash received from the increase in share capital was principally invested in deposits and short term bank bills and used for mineral exploration activities in Australia and the USA.

6. EVENTS SUBSEQUENT TO BALANCE DATE

PacMag Metals Limited is in the process of buying back the shares of holders of unmarketable parcels of shares.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and/or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

7. LIKELY DEVELOPMENTS

The Company will continue to pursue its policy of acquiring and testing attractive mineral properties with a view to developing properties capable of economic mineral production.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

8. ENVIRONMENTAL REGULATION

The Company is subject to significant environmental regulation in relation to its exploration activities and aims to ensure that a high standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are not aware if any significant breaches during the period covered by this report.

9. INFORMATION ON DIRECTORS

Michael Joyce – Non-Executive Chairman

Experience and expertise

Mr Joyce is a geologist with over 26 years experience in mineral exploration. He graduated from Melbourne's Monash University in 1979 with a BSc(Hons) degree in geology and holds an MSc in Mineral Exploration from the Royal School of Mines at the University of London.

Before joining Giralia Resources NL as exploration manager in 1998, Mr Joyce led the gold exploration team at Aberfoyle Resources Ltd, which discovered the Carosue Dam and Davyhurst deposits in Western Australia.

Other current directorships
Giralia Resources NL

Special responsibilities
Chairman of the Board.

Interests in shares and options
369,855 ordinary fully paid shares
184,928 listed 18 cent options, expiring 31 March 2008
1,000,000 35 cent options, expiring 16 June 2011

Michael Clifford – Managing Director

Experience and expertise
Mr Clifford holds a BSc(Hons) from James Cook University, as well as an MSc in Mining and Exploration.

Mr Clifford is a geologist with 19 years experience in the exploration industry.

Other current directorships
Nil

Special responsibilities
Managing Director.

Interests in shares and options
600,145 fully paid shares
1,000,000 25 cent options, expiring 17 November 2010
1,000,000 30 cent options, expiring 17 November 2010
300,078 listed 18 cent options, expiring 31 March 2008
1,500,000 35 cent options, expiring 16 June 2011

Emmanuel Althaus – Non-Executive Director

Experience and expertise
Mr Althaus has been active in mining and commercial ventures for over 32 years.

Other current directorships
Nil

Former directorships in last 3 years
Allegiance Mining NL

Special responsibilities
Corporate expertise

Interests in shares and options
4,792,743 fully paid ordinary shares
4,228,812 60 cent options, expiring 30 November 2006
2,396,373 18 cent options, expiring 31 March 2008
500,000 35 cent options, expiring 16 June 2011

DIRECTORS' REPORT

10. REMUNERATION REPORT

A. Principles used to determine the nature and amount of remuneration

Remuneration levels for Directors and Executive of the entity are competitively set to attract and retain appropriately qualified and experienced Directors and Executive.

The objective of the Consolidated Entity's reward framework is to ensure reward for performance is competitive and appropriate. The Board ensures that remuneration satisfies the following criteria for reward:

- competitiveness and reasonableness
- transparency
- attracts and retains high calibre executives
- rewards capability and experience

Remuneration of Directors and Executive are determined by the Board. In this respect consideration is given to normal commercial rates of remuneration for similar levels of responsibility.

Remuneration of Non-Executive Directors and Executive comprise fees, and have regard to industry practice and the need to obtain appropriately qualified, independent persons. Fees may contain non-monetary elements. Non-Executive Directors received options in securities.

The Directors and Executive do not receive any performance related remuneration.

B. Details of remuneration

The following table discloses the remuneration of the Directors of the Company and key management personnel (as defined in AASB 124 Related Party Disclosures) of PacMag Metals Limited.

The key management personnel of PacMag Metals Limited includes the directors, as per points 1-9 above, and the following executive officers, who are also the five highest paid executives of the entity:

	Short-term benefits			Post-employment benefits		Share-based payment	
	Cash salary & fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	TOTAL $
2006							
Directors							
R M Joyce (Chairman)	15,427	-	-	-	-	225,700	241,127
M J Clifford (M.D.)	146,942	-	-	13,228	-	574,850	735,020
E Althaus (Non-Exec)	71,240	-	-	3,084	-	112,850	187,174
J W Goddard	8,333	-	-	-	-	-	8,333
M. Herszberg	8,333	-	-	-	-	-	8,333
Total Directors	250,275	-	-	16,312	-	913,400	1,179,987
Other Key Management Personnel							
B B Acutt	-	-	-	-	-	39,498	39,498
A Halse	8,333	-	-	-	-	-	8,333
TOTAL:	258,648	-	-	16,312	-	952,898	1,227,818

Directors' interests in contracts with the Consolidated Entity are disclosed in Note 23.

C . Service agreements

Remuneration and other terms of employment for other key management personnel are formalised in service agreements. The major provisions of the agreement relating to remuneration are set out below.

D. Share-based compensation

Options were granted and were approved by shareholders resolutions dated 17 November 2005 and 16 June 2006. The Board may offer free options to persons ("Eligible Persons") who are:

(i) full time or part time employees or contractors (including a person engaged by the Company under a consultancy agreement); or

(ii) Directors of the Company or any subsidiary based on a number of criteria including contribution to the Company, period of employment, potential contribution to the Company in the future and other factors the Board considers relevant.

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

No of options	Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
500,000	17/11/2005	17/11/2010	$0.15	$0.0892	Immediate
1,000,000	17/11/2005	17/11/2010	$0.25	$0.0807	Immediate
1,000,000	17/11/2005	17/11/2010	$0.35	$0.0775	Immediate
3,500,000	16/06/2006	16/06/2011	$0.35	$0.02257	Immediate

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share within fourteen days after the receipt of a properly executed notice of exercise and application monies. The Company will issue to the option holder, the number of shares specified in that notice. The Company will apply for official quotation of all shares issued and allotted pursuant to the exercise of the options.

Options may not be transferred other than to an associate of the holder.

Details of options over ordinary shares in the company provided as remuneration to each director of PacMag Metals Limited and each of the key management personnel of the entity are set out below. When exerciseable, each option is convertible into one ordinary share of PacMag Metals Limited. Further information on the options is set out in note 16 to the financial statements.

Name	Number of options granted during the year 2006	Number of options vested during the year 2006
Directors of PacMag Metals Limited		
R M Joyce	1,000,000	1,000,000
M J Clifford	4,000,000	4,000,000
E Althaus	500,000	500,000
Other key management personnel compensation		
Bruce R Acutt	175,000	175,000

No options are vested and unexercisable at the end of the year.

In addition, a company associated with Mr Emmanuel Althaus (National Diversified Industries (Aust) Pty Ltd ("NDI")) was entitled to receive reimbursement of expenses and costs of services provided on behalf of the Company, and payment of a service fee of 15% under a service agreement which was terminated with effect on 31 December 2005. During the year NDI provided the Company with the following services, for a total cost of $358,561:

(i) co-ordinating and arranging all exploration activities, including employment of staff;

(ii) accounting and secretarial services;

(iii) provision of fully furnished and equipped offices; and

(iv) marketing and promotion of the Company.

The assessed fair value at grant date of options granted during the year ended 30 June 2006 was $1,026,250. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the terms of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

(a)	options granted:	500,000	1,000,000	1,000,000	3,500,000
(b)	options are granted for no consideration and have a 5 year life				
(c)	exercise price:	$0.15	$0.25	$0.30	$0.35
(d)	grant date:	27/11/2005	27/11/2005	27/11/2005	16/06/2006
(e)	expiry date:	27/11/2010	27/11/2010	27/11/2010	16/06/2011
(f)	share price at grant date:	$0.12	$0.12	$0.12	$0.30
(g)	expected price volatility of the company's shares:	100%	100%	100%	75%
(h)	expected dividend yield:	Nil	Nil	Nil	Nil
(i)	risk-free interest rate:	5.4%	5.4%	5.4%	5.4%

The expected price volatility is based on the historic volatility, if available, (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information and volatility within the mining industry.

No ordinary shares in the company were issued as a result of the exercise of remuneration options to each director of PacMag Metals Limited and other key management personnel of the group during the financial period ended 30 June 2006, apart from the following:

M J Clifford – 500,000 options exercised at $0.15 each

E. Additional information

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance.

The overall level of executive reward takes into account the performance of the Company over the year, with greater emphasis given to the current year.

Loans to directors and executives

There were no loans to directors or executives.

Share options granted to directors and the most highly remunerated officers
Options over unissued ordinary shares of PacMag Metals Limited granted during or since the end of the financial year to the five most highly remunerated officers of the Company as part of their remuneration were as follows:

Other executives of PacMag Metals Limited	***Options granted***
B R Acutt	175,000

The options were granted by the directors of PacMag Metals Limited on 16 June 2006. Details of options granted to the directors and the five most highly remunerated officers of the entity can be found in section D of the remuneration report. No options have been granted since the end of the year.

Shares under option
Unissued ordinary shares of PacMag Metals Limited under option at the date of this report are as follows:

Expiry date	Issue price of shares	Number under option
31 March 2008	$0.18	44,652,228
30 November 2006	$0.60	13,831,470
29 December 2012	$1.20	1,291,585
17 November 2010	$0.25	1,000,000
17 November 2010	$0.30	1,000,000
16 June 2011	$0.35	3,500,000

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Shares issued on the exercise of options
631,046 ordinary shares of PacMag Metals Limited were issued during the year ended 30 June 2006 on the exercise of options granted by PacMag Metals Limited. Further shares have been issued since that date on the exercise of options. No amounts are unpaid on any of the shares.

Directors' interests
The relevant interest of each director in the shares, interests in registered schemes and rights or options over such instruments issued by the Company, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Fully Paid Ordinary shares		Options	
	Number Directly Held	Number Beneficially Held	Number Directly Held	Number Beneficially Held
R M Joyce	-	369,855		1,184,928
M J Clifford	-	600,145		3,800,078
E Althaus	-	4,792,743		7,125,185

11. INSURANCE OF OFFICERS

Subsequent to 30 June 2006, PacMag Metals Limited insured the directors and secretary of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers of the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

12. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001.*

13. NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

Details of the amounts paid or payable to the auditor (PKF Chartered Accountants Melbourne) non-audit service provided during the year are set out below.

The Board of directors has considered the position and, in accordance with the advice receives from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for non audit services provided by the auditor of the Company:

	2006
1. Non assurance services	
Taxation services	5,675
Total remuneration for non assurance services	**5,675**

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 35.

14. CORPORATE GOVERNANCE STATEMENT

The Board of Directors of PacMag Metals Limited is responsible for the corporate governance of the entity. The Board monitors the business and affairs of the entity on behalf of the shareholders by whom they are elected, and to whom they are accountable.

The relationship between the Board and senior management is critical to the entity's long-term success. The directors are responsible to the shareholders for the performance of the Company in both the short and longer term, and seek to balance sometimes competing objectives in the best interests of the Company. Their focus is to enhance the interests of shareholders and other key stakeholders, and to ensure the Company is properly managed.

Composition and functions of the Board

The Board operates in accordance with the broad principles set out in its charter, which is available from the corporate governance information section of the Company website at www.pacmag.com.au. The charter details the Board's composition and responsibilities.

The composition of the Board is determined in accordance with the following principles and guidelines:

- The Board shall comprise at least three Directors, increasing where additional expertise is considered desirable in certain areas. The Board is to comprise a majority of non-executive directors who are considered by the Board to be independent.
- Directors may bring characteristics which allow a mix of qualifications, skill and experience.

The Board reviews its composition on an annual basis to ensure that it has the appropriate mix of expertise and experience. Where a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience.

The Managing Director is accountable to the Board for management of the Company, with authority levels approved by the Board, and is subject to the supervision of the Board.

The performance of all directors is reviewed by the Chairman each year. Directors whose performance is unsatisfactory are to be asked to retire.

Each director has the right to seek independent advice at the Company's expense, however prior approval by the Chairman is required, which will not be unreasonably withheld.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Company, including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans, including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
  - organisational performance and the achievement of the Company's strategic goals and objectives
  - compliance with the Company's Code of Conduct, as set out at the end of this report
  - progress of major capital expenditures and other significant corporate projects
- monitoring financial performance, including approval of the annual and half-year financial reports and liaison with the Company's auditors;
- appointment, performance assessment and, if necessary, removal of the Managing Director;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the CFO and the Company Secretary;
- ensuring there are effective management processes in place, and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation; and
- overseeing the operation of the Company's system for compliance and risk management reporting to shareholders.

Board members
Details of members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the Directors' Report under the heading "Information on Directors". There are two non-executive directors who are deemed independent under the principles set out below, at the date of signing the Directors' Report.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Company, and directors with an external or fresh perspective; and
- the size of the Board is conducive to effective discussion and efficient decision-making.

Directors' independence
The Board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years, not have been employed in an executive capacity by the Company or been a director after ceasing to hold any such employment;
- within the last three years not have been a principal of a material professional advisor or a material consultant to the Company or an employee materially associated with the service provided;
- not be a material supplier or customer of the Company or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- must have no contractual relationship with the Company other than as a director of the Company;
- not have been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 10% of the current year operating result of the Company or 10% of the pro forma net asset is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material of knowledge of it may impact the shareholders' understanding of the director's performance.

Recent thinking on corporate governance has introduced the view that a director's independence may be perceived to be impacted by lengthy service on the Board.

Term of office
The Company's Constitution specifies that any director other than the Managing Director must retire from office no later than the third annual general meeting (AGM) following their last election.

Chairman and Chief Executive Officer (CEO)
The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives.

The CEO is responsible for implementing the Company's strategies and policies. The role of the Chairman and CEO are separate roles, to be undertaken by separate people.

Commitment

The Board held 12 board meetings and 14 circular resolutions in writing during the year.

Non-executive directors are expected to prepare for and attend Board and committee meetings and associated activities.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2006, and the number of meetings attended by each director, is disclosed in paragraph 3 of the Directors' Report.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior written approval of the Board. No appointments of this nature were accepted during the year ended 30 June 2006.

The commitments of non-executive directors are considered by the nomination committee, prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests

Entities connected with Mr E Althaus had business dealings with the entity during the year, as described in note 17 to the financial statements. In accordance with the Board charter, the director concerned declared his interests in those dealings to the Company and took no part in decisions relating to them or the preceding discussions.

Independent professional advise

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

Performance assessment

The Board reviews the remuneration packages and policies applicable to executive directors, senior executives and non-executive directors on an annual basis. Remuneration levels are competitively set to attract qualified and experienced directors and senior executives. Where necessary, the Board obtains independent advice on the appropriateness of remuneration packages and provides employment contracts to employees. The Chairman undertakes an annual assessment of the performance of the Board, its committees and individual directors. Descriptions of the process for performance assessment for the Board and senior executives are available on the Company website.

Corporate reporting

The Managing Director and CFO have made the following certifications to the board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees
Due to the small size and structure of the Board, there are no separate audit, nomination and remuneration committees. Instead, the Board considers it more appropriate to set aside time at Board meetings to specifically address matters that would ordinarily be considered by audit, nomination or remuneration committees. When considering these matters, the Board functions in accordance with its Audit Committee Charter and Remuneration Committee Charter.

Each written charter sets out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website.

Nomination committee
There is no separate nomination committee. The Board considers those matters and issues arising that would usually fall to a nomination committee.

When considering nomination matters, the Board operates in accordance with its charter which is available on the Company website. The main responsibilities are to:

- conduct an annual review of the membership of the Board having regard to present and future needs of the Company, and to make recommendations on Board composition and appointments;
- conduct an annual review of and conclude on the independence of each director;
- propose candidates for Board vacancies;
- oversee the annual performance assessment program;
- oversee Board succession, including the succession of the Chairman; and
- assess the effectiveness of the induction process.

Candidates for the Board are considered and selected by reference to a number of factors which include, but are not limited to, their relevant experience and skills, compatibility within the Company's scope of activities, and ability to undertake Board duties and responsibilities. The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the Company.

Details of the nomination, selection and appointment processes are available on the Company website.

Notices of meetings for the election of directors comply with the ASX Corporate Governance Council's best practice recommendations.

New directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities and rights, and the terms and conditions of their employment. All new directors participate in a comprehensive, formal induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

Remuneration committee
There is no separate remuneration committee. The Board considers those matters and issues arising that would usually fall to the remuneration committee.

When considering matters of remuneration, the Board functions in accordance with its Remuneration Committee Charter, which is available on the Company website. The remuneration committee charter requires the Board to review matters on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

The Board, acting as the remuneration committee, may receive regular briefings from an external remuneration expert on recent developments on remuneration and comparisons of remuneration within the industry.

Senior executives sign a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration is set out in the directors' report under the heading "Remuneration report".

The remuneration committee's terms of reference include responsibility for reviewing any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the Corporations Act 2001 and are appropriately disclosed.

The committee also assumes responsibility for management succession planning, including the implementation of appropriate executive development program and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Audit committee
There is no separate audit committee. The Board considers those matters and issues arising that would normally fall to the audit committee.

The Board, acting as the audit committee, has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Company operates.

The Board, acting as the audit committee, operates in accordance with a charter which is available on the Company website. The main responsibilities are to:

- review, assess and approve the annual full reports, the half-year financial report and all other financial information published by the company or released to the market
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations
- determine the scope of the internal audit function and ensure that its resources are adequate and used effectively, and assess its performance, including independence
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- report to the Board on matters relevant to the committee's role and responsibilities

In fulfilling its responsibilities, the Board:

- receives regular reports from management and external auditors
- meets with management and external auditors at least twice a year, or more frequently if necessary
    - reviews the processes the CEO and CFO have in place to support their certifications to the Board
    - reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
    - provides management and external auditors with a clear line of direct communication at any time to the Chairman of the Board.

The Board, acting as the audit committee, has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors
The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate. taking into consideration assessment of performance, existing value and tender costs.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 3 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Risk assessment and management
The Board, through the audit committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the company website. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct (see below) is required at all times and the Board actively promotes a culture of quality and integrity.

The Company risk management policy and the operation of the risk management and compliance system is managed by the Board.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. Management carries out regular systematic monitoring of control activities and reports to the audit committee.

The Board ensures that appropriate controls are in place to effectively manage those risks, at least half-yearly.

The environment, health and safety management systems (EHSMS)
The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance.

Code of Conduct
The Company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity.

In summary, the Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies.

Directors, employees and contractors are required to comply with the Company's comprehensive Share Trading Policy when dealing in the Company's securities.

The Company abides by a policy of continuous disclosure, as required by the ASX Listing Rules.

- The Company has developed a Code of Conduct for directors and officers, and to guide compliance with legal and other obligations to legitimate stakeholders, and it is disclosed on the Company's website.

- The Company has in place a Share Trading Policy concerning trading in Company securities, and it is disclosed on the Company's website.

The directors are satisfied that the Company has complied with its policies on ethical standards, including trading in securities.

A copy of the Code and the trading policy are available on the company's website.

Continuous disclosure and shareholder communication
The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings. A summary of these policies and procedures is available on the company's website.

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the AS Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public

All information disclosed to the ASX is posted on the Company's website (www.pacmag.com.au) as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Company's operations, the material used in the presentation is released to the ASX and posted on the company's web site . Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders receive a copy of the company's annual report. In addition, the company seeks to provide opportunities for shareholders to participate through electronic means. Recent initiatives to facilitate this include making all company announcements, media briefings, details of company meetings, press releases for the last three years and financial reports for the last five years available on the company's websiteg.

The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates on company matters.

Non-Compliance Statement
PacMag Metals Limited has not followed all of the best proactive recommendations released by the ASX Corporate Governance Council, and set out in ASX Listing Rule 4.10.3.

The Company has identified those recommendations that have not been followed as follows:

- At the date of this report no separate nomination, remuneration or audit committees of the Board of Directors exist. Instead, the Board sets aside time at Board meetings to specifically address matters that would ordinarily be considered by audit, nomination or remuneration committees.

The reasons the Company has not followed all of the recommendation are as follows:

- The Company is a junior exploration company with limited financial and human resources.
- The Company has confined its management structures to maximise the availability of resources for exploration.
- One of the Company's three directors is active in the management of the Company, thereby effecting substantial savings in the managerial and administration costs of the Company.
- The minimisation of organisational structures allows the Company to respond quickly to any opportunities that may arise.
- All matters to be dealt with by the nomination, remuneration and audit committees are dealt with by the full Board of Directors.

The Company recognises the importance of proper corporate governance and, notwithstanding its size and limited resources, has endeavoured to meet the principles of good corporate governance and best practice recommendations set by the ASX Corporate Governance Council.

This report is made in accordance with a resolution of directors.

R M Joyce
Chairman

Perth
29th September 2006

AUDITOR'S INDEPENDENCE DECLARATION

PKF

Chartered Accountants
& Business Advisers

Auditor's Independence Declaration

To the Directors of PacMag Metals Limited and its controlled entities

As lead engagement partner for the audit of PacMag Metals Limited and its controlled entities for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

(I) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

(II) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

PKF
Chartered Accountants

Ian Olson
Partner

Dated at Perth, Western Australia this 29th day of September 2006

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Revenue					
Revenue from continuing operations	3	203,121	-	221,402	9,779
Expenses					
Consultancy expenses		-	-	-	(100,000)
Administration expenses		(275,223)	-	(465,626)	(436,250)
Impairment of goodwill		(2,280,168)	-	-	-
Employee benefit expenses		(996,303)	-	(1,142,993)	-
Exploration expenditure incurred	4	(83,609)	-	(8,631)	
Other expenses	4	(482)	-	(909,287)	(858,191)
		(3,635,785)	-	(2,526,537)	(1,394,441)
Loss before income tax		(3,432,664)		(2,305,135)	(1,384,662)
Income tax expense	5	-	-	-	-
Net Loss for the period		(3,432,664)	-	(2,305,135)	(1,384,662)

		Cents	Cents
Loss per share:			
Basic (cents per share)	27(a)	(4.72)	-
Diluted (cents per share)	27(b)	(2.53)	-

The Income Statements are to be read in conjunction with the attached notes to and forming part of these financial statements

BALANCE SHEET
AS AT 30 JUNE 2006

		CONSOLIDATED ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
		$	$	$	$
	Note				
Current Assets					
Cash and cash equivalents	6	4,253,636	-	4,248,097	114,207
Trade and other receivables	7	141,133	-	141,133	14,843
Other financial assets	8	270,000	-	270,000	130,000
Total current assets		4,664,769	-	4,659,230	259,050
Non-current assets					
Receivables	9	-	-	-	571,694
Other financial assets	10	-	-	7,346,474	24,201
Property, plant and equipment	11	4,859	-	4,859	-
Exploration and evaluation expenditure	12	1,310,366	80,298	416,909	-
Total non-current assets		1,315,225	80,298	7,768,242	595,895
Total assets		5,979,994	80,298	12,427,472	854,945
Current Liabilities					
Trade and other payables	13	95,640	80,296	95,640	541,134
Provisions	14	12,722	-	12,722	-
Total liabilities		108,362	80,296	108,362	541,134
Net Assets		5,871,632	2	12,319,110	313,811
Equity					
Issued capital	15	4,092,096	2	30,691,266	17,824,853
Option reserve	16(a)	236,300	-	1,590,711	146,690
Accumulated losses	16(b)	(3,432,664)	-	(19,962,867)	(17,657,732)
		895,732	2	12,319,110	313,811
Minority interest	17	4,975,900	-	-	-
Total equity		5,871,632	2	12,319,110	313,811

The Balance Sheet should be read in conjunction with the attached notes to and forming part of these financial statements

STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2006

	Note	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Total equity at the beginning of the financial year		2	2	313,811	1,573,473
Loss for the year	16(b)	(3,432,664)	-	(2,305,135)	(1,384,662)
Transactions with equity holders in their capacity as equity holders:					
Issue of shares:					
Issue of shares by legal parent	15(a)	1,964,707	-	13,096,660	125,000
Issue of shares for debt (legal subsidiary)	21	80,296	-	-	-
Option reserve – Share based payment	16(a)	266,362	-	1,474,083	-
Cost of issue of shares & options	15(a) & 16(a)	(260,309)	-	(260,309)	-
Minority Interest	17	4,975,900	-	-	
Cost of business combination	21	2,277,338	-	-	-
Total equity at the end of financial year		5,871,632	2	12,319,110	313,811

This Statement of Changes in Equity should be read in conjunction with the attached notes to and forming part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Cash flows from operating activities					
Payments to suppliers, exploration and evaluation expenditure		(2,563,555)	-	(806,998)	(357,648)
Interest received		68,513	-	71,612	9,779
Net cash (used in) operating activities	28	(2,495,042)	-	(735,386)	(347,869)
Cash flows from investing activities					
Acquisition of other financial assets at fair value		(130,000)	-	-	-
Acquisition of controlled entities		-	-	(7,346,274)	-
Cash acquired from business combination		2,277,338	-	-	-
Deposits paid to NSW Department of Primary Industries		(20,000)	-	(20,000)	-
Acquisition of plant and equipment		(5,342)	-	(5,342)	-
Net cash provided by investing activities		2,121,996	-	(7,371,616)	-
Cash flows from financing activities					
Exploration costs capitalised		(1,293,714)	(67,745)	(502,282)	-
Payments on behalf of controlled entities		-	-	(887,724)	(9,000)
Proceeds from borrowings		-	67,745	-	-
Proceeds from issues of equity securities		5,732,872	-	13,443,374	125,000
Costs of issuing equity securities		(230,247)	-	(230,247)	-
Proceeds from rights issue		447,833	-	447,833	-
Costs of rights issue		(30,062)	-	(30,062)	-
Net cash provided by financing activities		4,626,682	-	12,240,892	116,000
Net (decrease)/increase in cash and cash equivalents		4,253,636	-	4,133,890	(231,869)
Cash and cash equivalents at the beginning of the financial year		-	-	114,207	346,076
Cash and cash equivalents at the end of the financial year	6	4,253,636	-	4,248,097	114,207

This Statement of Cash Flows should be read in conjunction with the attached notes to and forming part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. SUMMARY 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. The financial report includes separate financial statements for PacMag Metals Limited as an individual entity and the consolidated entity consisting of PacMag Metals Limited and its subsidiaries.

(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 AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure.*

Application of AASB 1 First-time Adoption of Australian Equivalents to *International Financial Reporting Standards*
These financial statements are the first PacMag Metals Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of PacMag Metals Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing PacMag Metals Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 30.

Early adoption of standards
The Group has elected to apply the following standards to the annual reporting period beginning 1 July 2005:

- AASB 119 *Employee* Benefits (issued in December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards [AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038]* (Fair value option - issued June 2005)
- AASB 2005-6 *Amendments to Australian Accounting Standards [AASB3]* (Business combinations involving entities under common control - issued June 2005)

This includes applying the standards to the comparatives in accordance with AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards.*
Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss and certain classes of property, plant and equipment.

(b) Cash and cash equivalents

For cash flow statement presentation purposes, 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(c) Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost less impairment. Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provisions is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(d) Investments and other financial assets

From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under previous AGAAP, interests in listed and unlisted securities, other than subsidiaries and associates, were brought to account at cost.

Adjustments on transition date: 1 July 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of loans and receivables which are measured at amortised cost (refer 1c), fair value is the measurement basis. Changes in the fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts were taken to retained earnings or reserves.

For further information concerning the adjustments in transition date, reference should be made to the following notes:

- Other financial assets at fair value through profit or loss – note 7
- Other financial assets – note 9
- Reserves and accumulated losses – note 16
- Explanation of transition to AIFRSs – note 30.

From 1 July 2005
The Group classifies its investments as financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were acquired.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. The fair value of quoted investments are based on current bid prices.

(e) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair value.

(f) Financial instruments issued by the Company

Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense: or

(ii) for receivables and payables which are recognised inclusive of GST.

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

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

(h) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible 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 consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

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 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 profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Income tax

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable)

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

Tax consolidation
The company and all its wholly-owned Australian resident entities have not elected to form a tax-consolidated group under Australian taxation law.

(j) Deferred Exploration and Evaluation Expenditure

Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred may be accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

(i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or

(ii) exploration and evaluation activities in the area have not, at balance date, reached a stage which permit a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit in the year in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Notwithstanding the fact that a decision not to abandon an area of interest has been made, based on the above, the exploration and evaluation expenditure in relation to an area may still be written off if considered appropriate to do so.

(k) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(l) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of an acquiree are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The financial statements have also been prepared under Accounting Standard AASB 3 "Business Combinations".

During the period the legal subsidiary, identified as the acquirer pursuant to Accounting Standard AASB3, was responsible for the reverse acquisition of the Company (the "acquiree" and "legal parent") and as required by the standard, the business combinations have all been accounted for by applying the purchase method (Note 21). The consolidated financial statements reflect the "continuing financial statements" of the legal subsidiary.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity. In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(m) Provisions

Provisions are recognised when the consolidated entity has a present obligation the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

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.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(n) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

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

(o) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following rates are used in the calculation of depreciation:

- Plant and equipment 10% - 20%

(p) Revenue recognition

Interest Revenue

Revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Other Revenue

Other revenue is recognised when control of the right to receive the revenue has passed.

(q) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a Black & Scholes model. The expected life used in the model has been adjusted, based on managements best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

(r) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(s) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is PacMag Metals Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(t) Earnings per share

(i) *Basic earnings per share*
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) *Diluted earnings per share*
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) UIG 4 *Determining whether an asset contains a lease*
UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The entity has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The entity will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is not expected to change the accounting for any of the entity's current arrangements.

(ii) UIG 5 *Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
The entity does not have interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the entity's financial statements.

(iii) AASB 2005-9 *Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]*
AASB 2005-9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The entity has not elected to adopt the amendments early. It will apply the revised standards in its 30 June 2007 financial statements. Application of the revised rules may result in the recognition of financial liabilities in the financial statements of the parent entity, PacMag Metals Limited, under guarantees given pursuant to the deed of cross guarantee in respect of amounts payable by wholly-owned subsidiaries, and a guarantee given to debenture holders for amount assumed by a third party as a result of a debt defeasance. An assessment of the fair value of these guarantees has not yet been performed. The new rules will be implemented retrospectively with a restatement of the comparatives as required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(iv) AASB 7 *Financial instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*
AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2006. The entity has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the entity's financial instruments.

(v) AASB 2005-6 *Amendments to Australian Accounting Standards [AASB 121]*
AASB 2005-6 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. PacMag Metals Limited does not have any monetary items forming part of a net investment in a foreign operation. The amendment to AASB 121 will therefore have no impact on the entity's financial statements.

2. SEGMENT REPORTING

The consolidated entity operates in Australia and the USA, and is one business segment, mineral, mining and exploration and all of the consolidated entity's resources are employed for this purpose.

	Australia	USA	Total
2006:	**$**	**$**	**$**
Revenue			
Finance income	78,103	18	78,121
Fair value increment Held for trading	125,000	-	125,000
	203,103	18	203,121
Expenses	(3,569,728)	(66,057)	(3,635,785)
Loss for period	(3,366,625)	(66,039)	(3,432,664)
Segment assets	5,147,616	832,378	5,979,994
Liabilities	(108,362)	-	(108,362)
Net assets	5,039,254	832,378	5,871,632
Acquisitions of property, plant and equipment, intangible and other non-asset segment assets	488,374	746,553	1,234,927
Depreciation and amortisation expense	483	-	483
Impairment of goodwill	2,280,168	-	2,280,168

2006:	Australia $	USA $	Total $
Cash flow information:			
Net cash inflow from operating activities	(2,429,003)	(66,039)	(2,495,042)
Net cash (outflow) from investing activities	2,121,996	-	2,121,996
Net cash inflow from financing activities	4,555,116	71,566	4,626,682

2005:	Australia $	USA $	Total $
Revenue	-	-	-
Expenses	-	-	-
Loss for period	-	-	-
Segment assets	-	80,298	80,298
Liabilities	-	(80,296)	(80,296)
Net assets	-	2	2
Acquisitions of property, plant and equipment, intangible and other non-asset segment assets	-	76,566	76,566
Depreciation and amortisation expense	-	-	-
Impairment of goodwill	-	-	-
Cash flow information:			
Net cash inflow from operating activities	-	-	-
Net cash (outflow) from investing activities	-	-	-
Net cash inflow from financing activities	-	-	-

3. REVENUE

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006 $	2005 $	2006 $	2005 $
Revenue from continuing operations:				
Other revenue				
Finance income - banks	78,121	-	81,220	9,779
Fair value gains on other financial assets at fair value	125,000	-	140,000	-
Net gain on disposal of plant & equipment	-	-	182	-
	203,121	-	221,402	9,779

4. EXPENSES

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Profit before income tax includes the following specific expenses:				
Depreciation on plant and equipment	482	-	482	-
Exploration and evaluation expenditure incurred	83,609	-	8,631	100
Provision for impairment of advances to controlled entities	-	-	908,805	763,820
Decrease in provision for diminution of investment	-	-	-	15,000
Other expenditure	-	-	-	79,271
	84,091	-	917,918	858,191

5. INCOME TAX

Major components of income tax expense for the years ended 30 June 2006 and 2005 are:

	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Income statement				
Current income				
Current income tax charge	-	-	-	-
Deferred income tax				
Relating to origination and reversal of temporary differences	-	-	-	-
Income tax expense reported in income statement	-	-	-	-

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expenses at the Group's effective income tax rate for the years ended 30 June 2006 and 2005 is as follows:

	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Accounting profit/(loss) before income tax	(3,432,663)	-	(2,305,135)	(1,384,662)

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
At the statutory income tax rate of 30% (2005: 30%)	(1,029,799)	-	(691,541)	(415,399)
Non deductible impairment of goodwill	684,050	-	-	
Cost of options granted	263,868	-	307,875	
Other non deductible expenses	-	-		20,348
Unrecognised temporary differences and losses	81,881	-	383,666	395,051
At effective income tax rate of 30 (2005: 30%)	-	-	-	-

Deferred income tax

Deferred income tax at 30 June relates to the following:				
Deferred income tax liabilities				
Revaluations of held for trading financial assets to fair value	36,240	-	36,240	-
Exploration expenditure	125,073	-	125,073	-
Gross deferred income tax liabilities	161,313	-	161,313	-
Deferred income tax assets				
Receivables	-	-	1,384,685	1,143,468
Capital raising costs	51,407	14,600	51,407	14,600
Creditors	1,250	135,897	1,250	135,897
Provisions	3,817	-	3,817	-
Revaluations of held for trading financial assets to fair value	-	5,760	-	5,760
Interest in joint venture	-	233,017	-	-
Temporary differences not recognised	-	(389,274)	(1,279,846)	(1,299,725)
Benefit of tax losses	104,839	-	-	-
Gross deferred income tax assets	161,313	-	161,313	-
Deferred income tax charge	-	-	-	-

PacMag Metals Limited and its subsidiaries have not elected to form a tax consolidated group.

	CONSOLIDATED ENTITY		PARENT ENTITY	
6. CURRENT ASSETS – CASH ASSETS & CASH EQUIVALENTS	**2006**	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
Cash at bank and in hand	57,405	-	51,866	114,207
Term deposit	1,000,000	-	1,000,000	-
Money market deposit	2,400,000	-	2,400,000	-
Deposits at call	796,231	-	796,231	-
	4,253,636	-	4,248,097	114,207

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year, as shown in the statement of cash flows, as follows:

Balances as above	4,253,636	-	4,248,097	114,207
Balances per statement of cash flows	4,253,636	-	4,248,097	114,207

(b) Cash at bank and on hand

These are interest bearing.

(c) Term deposit

Term deposit is bearing an interest rate of 5.35%. This deposit has an average maturity of 91 days.

(d) Deposits at call

Deposits at call are bearing a floating interest rate of 5.65%. These deposits have an average maturity of 30 days.

(e) Money market deposit

The money market deposit is bearing an interest rate of 6.08%. This deposit has an average maturity of 120 days.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
7. CURRENT ASSETS – RECEIVABLES				
Other receivables	138,366	-	138,366	14,843
Prepayments	2,767	-	2,767	-
At end of year	141,133	-	141,133	14,843

Net Fair Values

The carrying amounts of current receivables approximate net fair values as determined by reference to present values of future net cash flows. Receivables are non-interest bearing.

	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
8. CURRENT ASSETS – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
At beginning of year	-	-	130,000	149,201
Adjustment on adoption of AASB 132 and AASB 139	-	-	-	
Additions	130,000	-	-	
Revaluation (i)	140,000	-	140,000	(19,201)
Disposals	-	-	-	
At end of year	270,000	-	270,000	130,000
Australian listed equity securities (ii)	270,000	-	270,000	130,000

(i) Changes in fair values of other financial assets at fair value through profit or loss are recorded in other revenue in the income statement (Note 3)

(ii) Name – Allegiance Mining NL; Principal activity – mineral exploration and mine evaluation; Ownership – 0.25%. Net fair values of marketable securities have been determined by reference to quoted market bid prices as at 30 June 2006, adjusted for transaction costs necessary to realise investments.

(iii) Transition to AASC 132 and AASN 139
The Group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards at 1 July 2005, both for the Group and the parent entity:

- equity securities with a carrying value of $130,000 that were classified in the balance sheet under previous AGAAP as other financial assets were designated and re-classified as other financial assets at fair value through profit and loss; and
- an adjustment was not recognised, as the fair value of assets that under previous AGAAP had been measured at the lower of cost which represented market value.

For further information refer to note 1(c) and note 30.

9. NON-CURRENT ASSETS – RECEIVABLES	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Loans to controlled entities	-	-	4,720,364	4,383,253
Less: Provisions for Impairment losses	-	-	(4,720,364)	(3,811,559)
	-	-	-	571,694

Fair Values
Receivables are non-interest bearing.

During 2006, receivables from controlled entities were written down by $908,805 (2005: $763,820)

The carrying value of non-current receivables is based on the recoverable amount in the joint venture pursuant to "separation" under the IPOH Agreements as described below.

Pacific Magnesium Corporation Ltd ("PMH") and its wholly-owned subsidiary, Southern Magnesium Pty Ltd ("SMPL"), (collectively the "PMH Parties"), together with IPOH Pacific Limited ("IPOH"), IPOH Pacific Resources Pty Ltd ("IPRPL") and their associates (collectively the "IPOH Parties"), separated under the terms of the Share and Asset Sale Agreement ("Sale Agreement") and associated agreements ("IOPH Agreements") entered into between the PMH Parties and the IPOH Parties in July 2003, under which:

1. PMH became entitled to one third of the fully paid ordinary shares in IPOH ("IPOH Shares") which were subsequently issued to PMH.
2. SMPL acquired one third interest in the Mantuan Downs bentonite tenement in Queensland ("Tenement"), then held by IPOH, and entered into an agreement with IPRPL under which a joint venture ("Joint Venture") was established to conduct the business of exploration, mining, extraction and commercialisation of bentonite at the Tenement.
3. 31,518,538 fully paid ordinary shares in PMH ("PMH Shares") were issued to the IPOH Parties as part of the consideration for the acquisition by PMH of its interests in the IPOH Shares and the Tenement (refer note 16ii).

Under the terms of "separation" under the IPOH Agreements:

(a) The PMH Parties transferred to the IPOH Parties all of their interests in the IPOH Shares and the Tenement.

(b) $225,000 was paid by the IPOH Parties to PMH.

(c) A buy-back of shares held by the IPOH Parties.

(d) Completion of all "separation" transactions occurred simultaneously up to 90 days from 10 August 2005.

The impact of this "separation" Agreement has been recognised in Receivables from the Controlled Entity (note 9).

10. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006 $	2005 $	2006 $	2005 $
Shares in subsidiaries	-	-	7,346,474	200
Other (i)	-	-	-	10
Acquisition costs	-	-	-	23,991
	-	-	7,346,474	24,201

(i) During 2005, the entity held a 33.3% interest in an unlisted company, IPOH Pacific Ltd, a company in which it does not exert significant influence. Therefore, the investment has not been equity accounted for. During the financial year the investment in IPOH Ltd was disposed of pursuant to the separation agreement as disclosed in note 9.

The financial assets are carried at cost.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

11. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Cost				
Balance at beginning of financial period	-	-	-	-
Other acquisitions	5,342	-	5,342	-
Balance at 30 June 2006	5,342	-	5,342	-
Depreciation and impairment losses				
Balance at beginning of financial period	-	-	-	-
Depreciation charge for the year	483	-	483	-
Balance at 30 June 2006	483	-	483	-
Carrying Amounts				
At beginning of financial period	-	-	-	-
At 30 June 2006	4,859	-	4,859	-

12. NON-CURRENT ASSETS – CAPITALISED, EXPLORATION & EVALUATION EXPENDITURE	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Carrying amounts				
At beginning of financial period	80,298	-	-	-
Other aquisitions	1,230,068	80,298	416,909	-
At 30 June 2006	1,310,366	80,298	416,909	-

12. NON-CURRENT ASSETS – CAPITALISED, EXPLORATION & EVALUATION EXPENDITURE (cont'd)	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Amortisation and impairment losses				
The amortisation and impairment charge is recognised in the following line items in the income statement:				
Impairment loss on exploration and evaluation assets	-	-	-	-
	-	-	-	-

Exploration and evaluation assets

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

	CONSOLIDATED ENTITY		PARENT ENTITY	
13. CURRENT LIABILITY – TRADE AND OTHER PAYABLES	**2006 $**	**2005 $**	**2006 $**	**2005 $**
Other trade payables and accrued expenses	95,640	80,296	95,640	541,134
	95,640	80,296	95,640	541,134
Aggregate amounts payable to related parties:				
Director related entities	10,989	-	10,989	498,494

Net fair values

The carrying amounts of accounts payable approximate net fair values, as determined by reference to the present values of future net cash flows. Accounts payable are non-interest bearing.

	CONSOLIDATED ENTITY		PARENT ENTITY	
14. CURRENT LIABILITIES – PROVISIONS	**2006 $**	**2005 $**	**2006 $**	**2005 $**
Provision for employee entitlements	12,722	-	12,722	-
	12,722	-	12,722	-

	CONSOLIDATED ENTITY		CONSOLIDATED ENTITY	
	2006	**2005**	**2006**	**2005**
15. EQUITY-ISSUED CAPITAL	**Shares**	**Shares**	**$**	**$**
(a) Share capital				
Consolidated entity –				
Fully paid ordinary shares	33,133,039	2	4,092,096	2
	33,133,039	2	4,092,096	2

	PARENT ENTITY 2006 Shares	PARENT ENTITY 2005 Shares	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Parent entity –				
Fully paid ordinary shares	101,095,000	222,727,470	30,666,266	17,799,853
Partly paid shares – paid to 1.2 cents, 46.8 cents unpaid	2,083,336	25,000,000	25,000	25,000
	103,178,336	247,727,470	30,691,266	17,824,853
Movements in issued and paid up capital				
(i) Consolidated entity - movement				
Balance at beginning of financial year (2 shares)			2	2
Legal subsidiary issue of 80,296 ordinary shares for debt			80,296	-
Issue of 15,034,982 shares by legal parent per 16(a)(ii)			1,816,198	-
Cost of business combination (18,017,759 shares)			2,277,338	-
Less transaction costs			(81,738)	-
Balance at 30 June 2006 (33,133,039 shares)			4,092,096	2

	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
(ii) Parent entity - movement		
Balance at beginning of financial year:		
204,870,327 fully paid shares (2005: 204,870,327)	17,674,853	17,674,853
17,857,143 shares at 0.7 cents per share (2005: 17,857,143)	125,000	125,000
25,000,000 partly paid shares issued at 4 cents each and partly paid to one-tenth of one cent share (2005: 25,000,000)	25,000	25,000
Total balance at beginning of financial year	17,824,853	17,824,853
Buyback – 31,518,538 fully paid ordinary shares at 1.1c plus $10 on 8 November 2005	(346,714)	-
	17,478,139	17,824,853
Reconstruction 1:12 on 17 November 2005 resulting in:		
15,934,426 ordinary fully paid shares	17,453,139	17,799,853
2,083,336 partly paid shares	25,000	25,000
Balance after reconstruction	17,478,139	17,824,853
Issues of shares during the year		
Debt/equity issue 3,045,056 shares on 17 November 2005	438,488	-
Issue to Giralia Resources NL 10,000,000 shares and 40,000,000 B Class shares on 17 November 2005	7,200,000	-
Issue to advisors of the Giralia Resources NL and Coral Gem Pty Ltd transaction, 500,000 fully paid ordinary shares on 17 November 2005	72,000	-
Placement 14,534,982 fully paid ordinary shares at 12c on 17 November 2005	1,744,198	-
Placement 5,500,000 shares at 12c on 12 January 2006	660,000	-
Placement 10,949,490 shares at 29.5c on 20 April 2006	3,230,100	-
Exercise of 500,000 options at 15c on 9 March 2006	75,000	-
Exercise of 131,046 options at 18c on 19 May 2006	23,587	-
Less: Transaction costs	(230,247)	
Balance at 30 June 2006 (103,178,336 shares, includes partly paid shares)	30,691,266	17,824,853

Effective 1 July 1998 the Company Law Review Act abolished the concept of par value shares and the concept of Authorised Capital. Accordingly, the Group does not have authorised capital or par value in respect of its issued shares.

(b) Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle the holder to one vote per share, either in person or by proxy, at meetings of the Company.

(c) Partly paid shares

At 30 June 2006 there were 2,083,336 (2005: 25,000,000) post consolidation partly paid shares issued at a price of 48 cents per share (2005: 4 cents) and partly paid to 1.2 cents per share on a post consolidation basis (2005: one tenth (0.1) cent per share) on issue. The partly paid shares are able to be converted to fully paid shares at any time at the election of the holder by payment of the entire unpaid amount ($0.468 per share post consolidation) in respect of each share. Voting rights are in accordance with Clause 42(1)(c)(ii) of the Constitution of the Company for any further payment prior to the expiry of the period of ten (10) years following their issue.

	CONSOLIDATED ENTITY		PARENT ENTITY	
16. EQUITY-RESERVES & ACCUMULATED LOSSES	**2006 $**	**2005 $**	**2006 $**	**2005 $**
(a) Reserves				
Option reserve	236,300	-	1,590,711	146,690
	236,300	-	1,590,711	146,690

	CONSOLIDATED ENTITY	
(i) Consolidated entity – movement	**2006 $**	**2005 $**
Option reserve		
2,500,000 options issued to Directors on 17 November 2005, exercisable at 15 cents, 25 cents and 30 cents on or before 17 November 2010	236,300	-
500,000 options exercised on 9 March 2006	-	-
	236,300	-

	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
(ii) Parent entity – movement		
Option reserve		
Balance at beginning of year:		
165,975,968 share options exercisable at 5 cents on or before 30 November 2006 (2005: 165,975,968)	146,690	146,690
15,499,000 share options exercisable at 10 cents on or before 29 February 2012 (2005: 15,499,000)	-	-
Reconstruction 1:12 on 17 November 2005 resulting in:		
13,831,470 share options exercisable at 60 cents on or before 30 November 2006	146,690	146,690
1,291,585 share options exercisable at $1.20 on or before 29 February 2012	-	-
Balance after reconstruction	146,690	146,690
1:2 rights issue on 31 March 2006 of 44,783,274 options at 1 cent exercisable at 18 cents on or before 31 March 2008	447,833	-
131,026 options exercised on 19 May 2006	-	-
	447,833	-
Option expense		
2,500,000 options issued to directors on 17 November 2005 exercisable at 15 cents, 25 cents and 30 cents on or before 17 November 2010	236,300	-
500,000 options exercised on 9 March 2006	-	-
	236,300	-
3,500,000 options issued to directors and staff on 16 June 2006 exercisable at 35 cents on or before 16 June 2011	789,950	-
Less: Transaction costs on issue of options	(30,062)	-
	1,590,711	146,690

All options vest from date of issue and are exercisable at reporting time.

Information relating to the Company's Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in Note 22.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
(b) Accumulated losses				
Movements in accumulated losses were as follows:				
Balance at beginning of period	-	-	(17,657,732)	(16,273,070)
Net loss for the year	(3,432,664)	-	(2,305,135)	(1,384,662)
	(3,432,664)	-	(19,962,867)	(17,657,732)

(c) Nature and purpose of reserves

Option reserve

The option reserve is used to recognise the fair value of options issued but not exercised with respect to share based payment transactions.

17. MINORITY INTEREST	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Share capital	3,768,179	-	-	-
Reserves	1,207,721	-	-	-
	4,975,900	-	-	-

18. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the entity's business.

(a) Interest rate risk exposure

The group is exposed to interest risk on its cash balances, deposits at call and money market deposits held within financial institutions in Australia.

The entity is not exposed to interest rate risk on any class of financial assets and financial liabilities at 30 June 2006 except for cash balances that earn interest at an average of 5.35% to 6.08% per annum.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the period in which they reprice.

CONSOLIDATED 2006:	Note	Effective interest rate	Non-interest bearing	Fixed Interest Maturing: 6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Floating interest rate	Total $
Financial Assets:										
Cash and cash equivalents	6	5.35%	12	4,196,231	-	-	-	-	57,393	4,253,636
Trade & other receivables	7	-	141,133	-	-	-	-	-	-	141,133
Other financial assets	8	-	270,000	-	-	-	-	-	-	270,000
			411,145	4,196,231	-	-	-	-	57,393	4,664,769
Financial Liabilities:										
Trade & other payables	13	-	95,640	-	-	-	-	-	-	95,640
		-	95,640	-	-	-	-	-	-	95,640
Net Financial Assets/ (Liabilities)			315,505	4,196,231	-	-	-	-	57,393	4,569,129

CONSOLIDATED 2005:	Note	Effective interest rate	Non-interest bearing	Fixed Interest Maturing: 6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Floating interest rate	Total $
Financial Assets:										
Cash and cash equivalents	6	-	-	-	-	-	-	-	-	-
Trade & other receivables	7	-	-	-	-	-	-	-	-	-
Other financial assets	8	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-
Financial Liabilities:										
Trade & other payables	13	-	80,926	-	-	-	-	-	-	80,926
		-	80,926	-	-	-	-	-	-	80,926
Net Financial Assets/ (Liabilities)			(80,926)	-	-	-	-	-	-	(80,926)

PARENT 2006:	Note	Effective interest rate	Non-interest bearing	Fixed Interest Maturing: 6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Floating interest rate	Total $
Financial Assets:										
Cash and cash equivalents	6	5.35%	-	4,196,231	-	-	-	-	51,866	4,248,097
Trade & other receivables	7	-	141,133	-	-	-	-	-	-	141,133
Other financial assets	8 + 10	-	7,616,474	-	-	-	-	-		7,616,474
			7,757,607	4,196,231	-	-	-	-	51,866	12,005,704
Financial Liabilities:										
Trade & other payables	13	-	95,640	-	-	-	-	-	-	95,640
		-	95,640	-	-	-	-	-	-	95,640
Net Financial Assets/ (Liabilities)			7,661,967	4,196,231	-	-	-	-	51,866	11,910,064

PARENT 2005:	Note	Effective interest rate	Non-interest bearing	Fixed Interest Maturing: 6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Floating interest rate	Total $
Financial Assets:										
Cash and cash equivalents	6	4.53%	-	-	-	-	-	-	114,207	114,207
Trade & other receivables	7	-	14,843	-	-	-	-	-	-	14,843
Other financial assets	8 + 10	-	154,201	-	-	-	-	-	-	154,201
Loans to controlled entities	9	-	571,694	-	-	-	-	-	-	571,694
			740,738	-	-	-	-	-	114,207	854,945
Financial Liabilities:										
Trade & other payables	13	-	541,134	-	-	-	-	-	-	541,134
		-	541,134	-	-	-	-	-	-	541,134
Net Financial Assets/ (Liabilities)			199,604	-	-	-	-	-	114,207	313,811

(b) Credit risk exposure

Credit risk represents the loss that would be recognised if counter-parties failed to perform as contracted.

The credit risk on financial assets, excluding investments, of the group which have been recognised on the balance sheet, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity's transactions occur in Australia and the USA. It is not, however, materially exposed to an individual customer.

The entity has minimal credit risk relating to trade debtors and term debtors due to the nature of its business.

(c) Foreign exchange risk

The group has limited foreign exchange risk.

(d) Net fair values of financial assets and liabilities

Net fair values of financial assets and liabilities are determined by the group on the following basis:

The net fair value of monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the value of contractual or expected future cash flows on amounts from customers or other corporations (reduced for expected credit losses) or due to suppliers. The carrying amount of bank deposits at call, trade debtors, money market deposits and accounts payable approximate net fair value.

The net fair value of other monetary financial assets and financial liabilities is based upon market price.

19. EQUITY-DIVIDENDS

During the year, no dividends were paid or provided for. The franking account disclosures have been calculated using the franking rate applicable at 30 June 2006.

	2006 $
Dividend franking account	
Franking account balance at end of financial year at 30%	-

20. TENEMENT COMMITMENTS & CONTINGENT LIABILITIES

The consolidated entity has to perform minimum exploration work and expend minimum amounts of money on its tenements. These are varied from time to time, subject to approval, and are expected to be fulfilled in the normal course of operations of the consolidated entity.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006 $	2005 $	2006 $	2005 $
Operating lease commitments				
Future operating lease rentals not provided for in the financial statements and payable:				
Not later than one year	609,500	-	280,000	-
Later than one year but not later than five years	-	-	-	-
	609,500		280,000	-

21. BUSINESS COMBINATION

Change in composition of entity

Effective 18 November 2005 PacMag Metals Limited acquired 100% of the issued share capital of Coral Gem Pty Ltd, a 100% owned subsidiary of Giralia Resources NL. Pursuant to Australian Standard AASB 3 "Business Combinations", the acquirer in this business combination was identified as Coral Gem Pty Ltd, being responsible for the reverse acquisition of PacMag Metals Limited.

From 18 November 2005 the acquired business has contributed revenues of $203,121 and a net loss of $(1,083,174).

Details of the fair value of the assets and liabilities acquired, and goodwill, are as follows:

	Recognised on Acquisition $	Carrying Value $
Cash and cash equivalents	247,685	247,685
Receivables	97,586	97,586
Financial assets	145,000	145,000
	490,271	490,271
Creditors and accruals	(346,639)	(346,639)
Fair value of net assets acquired	143,632	143,632
Cost of combination:		
- cost of equity	2,277,338	
- legal and other costs	146,462	
Goodwill arising on acquisition	2,280,168	

Goodwill has been impairment tested at 30 June 2006 and was determined to be impaired and has been written down to zero.

22. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were directors of the consolidated entity during the financial year:

Rodney M Joyce – Chairman (appointed 18 November 2005)
Michael J Clifford – Managing Director (appointed 18 November 2005)

The following persons were directors of the parent entity during the financial year:

Rodney M Joyce – Chairman (appointed 18 November 2005)
Michael J Clifford – Managing Director (appointed 18 November 2005)
Emmanuel Althaus – Non-Executive Director (appointed 5 October 1994)
John William Goddard Non-Executive Director (appointed 5 October 1994, resigned 18 November 2005)
Myer Herszberg Non-Executive Director (appointed 28 November 2000, resigned 18 November 2005)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, during the financial year:

Name	*Position*	*Employer*
Bruce R Acutt	Company Secretary	Giralia Resources NL

	CONSOLIDATED ENTITY		PARENT ENTITY	
(c) Key management personnel	**2006**	**2005**	**2006**	**2005**
compensation	**$**	**$**	**$**	**$**
Short-term employee benefits	241,942	-	241,942	195,000
Post-employment benefits	16,312	-	16,312	6,300
Share-based payments	952,898	-	952,898	-
	1,211,152	-	1,211,152	201,300

Information regarding individual directors and executives compensation is provided in the Remuneration Report at section 10 of the directors report.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section 10 of the Remuneration Report in the Directors Report.

(ii) Option holdings

The number of options over ordinary shares in the consolidated entity held during the financial year by each director and other key management personnel, including their personally related parties, are set out below:

22. KEY MANAGEMENT PERSONNEL DISCLOSURES

2006 – Consolidated Entity Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
Rodney M Joyce	-	1,000,000	-	184,928	1,184,928	1,184,928
Michael J Clifford	-	4,000,000	(500,000)	300,078	3,800,078	3,800,078
Other key management personnel compensation						
Bruce R Acutt	-	175,000	-	133,379	308,379	308,379

2005 – Consolidated Entity Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
Rodney M Joyce	-	-	-	-	-	-
Michael J Clifford	-	-	-	-	-	-
Other key management personnel compensation						
Bruce R Acutt	-	-	-	-	-	-

2006: Parent Entity Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at end of the year
Directors						
Emmanuel Althaus	53,262,246	500,000	-	(46,637,061)	7,125,185	7,125,185
Rodney M Joyce	-	1,000,000	-	184,928	1,184,928	1,184,928
Michael J Clifford	-	4,000,000	(500,000)	300,078	3,800,078	3,800,078
Myer Herszberg	7,400,000	-	-	(6,783,333)	616,667	616,667
John W Goddard	463,130	-	-	(424,536)	38,594	38,594
Other key management personnel compensation						
Alan D Halse	500,000	-	-	(458,333)	41,667	41,667
Bruce R Acutt	-	175,000	-	133,379	308,379	308,379
Total:	61,625,376	5,675,000	(500,000)	(53,684,878)	13,115,498	13,115,498

2005: Parent Entity Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at end of the year
Directors						
Emmanuel Althaus	53,262,246	-	-	-	53,262,246	53,262,246
John W Goddard	463,130	-	-	-	463,130	463,130
Myer Herszberg	7,400,000	-	-	-	7,400,000	7,400,000
P J Byrne	8,404,943	-	-	(4,202,471)	4,202,472	4,202,472
C P Dredge	4,202,471	-	-	(4,202,471)	-	-
Other key management personnel compensation						
Alan David Halse	500,000	-	-	-	500,000	500,000
Bruce Acutt	-	-	-	-	-	-
Total:	74,732,790	-	-	(8,404,942)	65,827,848	65,827,848

All options were vested and exercisable at the end of the year.

(iii) Share holdings

The number of shares in the consolidated entity held during the financial year by each director and other key management personnel, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2006 – Consolidated Entity Name	Balance at the start of the year	Purchases	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors					
Rodney M Joyce	-	369,855	-	-	369,855
Michael J Clifford	-	100,145	500,000	-	600,145
Other key management personnel					
Bruce R Acutt	-	266,765	-	-	266,765

2005 – Consolidated Entity Name	Balance at the start of the year	Purchases	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors					
Rodney M Joyce	-	-	-	-	-
Michael J Clifford	-	-	-	-	-
Other key management personnel					
Bruce R Acutt	-	-	-	-	-

2006 – Parent Entity Name	Balance at the start of the year	Purchases	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors					
Emmanuel Althaus	25,706,005	-	-	(20,913,262)	4,792,743
Rodney M Joyce	-	369,855	-	-	369,855
Michael J Clifford	-	100,145	500,000	-	600,145
Myer Herszberg	10,000,000	-	-	(8,333,333)	1,666,667
John William Goddard	5,108,300	-	-	(4,682,608)	425,692
Other key management personnel					
Bruce R Acutt	-	266,765	-	-	266,765
Alan D Halse	1,000,000	-	-	(916,666)	83,334

2005 – Parent Entity Name	Balance at the start of the year	Purchases	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors					
Emmanuel Althaus	25,380,005	326,000	-	-	25,706,005
John William Goddard	5,108,300	-	-	-	5,108,300
Myer Herszberg	10,000,000	-	-	-	10,000,000
P J Burne	21,012,359	-	-	-	21,012,359
C P Dredge	10,506,179	-	-	-	10,506,179
Other key management personnel					
Alan D Halse	1,000,000	-	-	-	1,000,000

(e) Loans to key management personnel

There were no loans made during the financial year to directors of the consolidated entity and other key management personnel of the group, including their personally related parties, that exceeded $100,000 at any time.

(f) Other transactions with key management personnel

1) Directors fees totalling $36,975 were paid to National Diversified Industries (Aust) Pty Ltd ("NDI"), in which Mr E Althaus is a director, during the financial year ended 30 June 2006. Other transactions with NDI are disclosed in Related Party Note 23(d).

2) Directors fees paid by PacMag Metals Limited to Gelam Nominees Pty Ltd and Rentamobile Pty Ltd, companies in which Mr J W Goddard and Mr M Herszberg are directors, for the year ended 30 June 2006 are $8,333 (2005: $25,000) and $8,333 (2005: $25,000) respectively.

23. RELATED PARTY TRANSACTIONS

(a) Parent entity

The legal parent entity within the group is PacMag Metals Limited. However, as discussed in note 21 – Business Combinations – Coral Gem Pty Ltd is identified as the acquirer in a reverse acquisition of PacMag Metals Limited, effective 18 November 2005. Coral Gem Pty Ltd owns 100% (2005: 100%) of the issued ordinary shares of MIM (USA) Inc.

The ultimate Australian parent entity and ultimate controlling party is PacMag Metals Limited which, at 30 June 2006, owns 100% (2005: Nil) of the issued ordinary shares of Coral Gem Pty Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in note 24.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 22.

(d) Transactions with related parties

The following transactions occurred with related parties of the parent entity during the financial year:

1. PacMag Metals Limited had a service agreement with National Diversified Industries (Aust) Pty Ltd ("NDI"), a company associated with Non-Executive Director Mr E Althaus. NDI provides the Company with the following services:

   - co-ordinating and arranging all exploration activities, including employment of staff;
   - accounting and secretarial services;
   - provision of fully furnished and equipped offices; and
   - marketing and promotion of the Company.

   NDI was remunerated by the parent entity monthly on the basis of actual cost reimbursement of services provided, plus a service fee of 15%.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
NDI was remunerated as follows during the year:				
Reimbursed expenses incurred	333,555	-	328,336	399,136
The provision of assets (being either leasing cost or the depreciation charge)	898	-	898	1,073
Service fee	24,108	-	23,325	60,032
	358,561	-	352,559	460,241
Balance due to NDI included in Payables (note 13)	8,344	-	8,344	398,494

The service agreement with NDI was terminated on 31 December 2005.

2. Effective 1 April 2006, PacMag Metals Limited commenced a service agreement with Giralia Resources NL, a director related entity with Mr Rodney Michael Joyce. The following services are provided by Giralia Resources NL:

   a) accounting and secretarial services;

   b) provision of fully furnished and equipped offices; and

   Giralia Resources NL is remunerated by PacMag Metals Limited on the basis of a service fee of $8,000 per month to cover the above costs.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Management service fee	24,000	-	24,000	-
Reimbursement of expenses incurred	10,731	-	10,731	-
	34,731	-	34,731	-

(e) Loans to/from related parties

Loans to wholly owned subsidiaries				
Amounts receivable – wholly owned subsidiaries	-	-	4,720,364	4,383,253
Less provision for non-recoverability	-	-	(4,720,364)	(3,811,559)
	-	-	-	571,694
Loans from director related party				
Amount payable – director related party	-	-	2,645	-

Loans between entities in the wholly owned group are repayable on reasonable notice having regard to the financial stability of the Company. No interest is payable on the loans.

24. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and result of the following subsidiaries, in accordance with the accounting policy described in Note 1(l):

Name of entity	Country of incorporation	Class of shares	Equity holding * 2006 %	Equity holding * 2005 %
Legal parent entity				
PacMag Metals Limited	Australia	Ordinary	-	-
Subsidiaries				
Pacific Magnesium Pty Ltd	Australia	Ordinary	100%	100%
Southern Magnesium Pty Ltd	Australia	Ordinary	100%	100%
Coral Gem Pty Ltd	Australia	Ordinary	100%	-
MIM USA Inc	USA	Ordinary	100%	-
PM Prospecting Pty Ltd	Australia	Ordinary	100%	-
PM Energy Pty Ltd	Australia	Ordinary	100%	-

* The proportion of ownership interest is equal to the proportion of voting power held.

25. SHARE BASED PAYMENTS

(a) Employee Options

The Board may offer free options to persons ("Eligible Persons") who are:

(i) full time or part time employees (including a person engaged by the Company under a consultancy agreement); or

(ii) Directors of the company or any subsidiary based on a number of criteria including contribution to the Company, period of employment, potential contribution to the Company in the future and other factors the Board considers relevant, subject to shareholder approval.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share within fourteen days after the receipt of a properly executed notice of exercise and application monies. The Company will issue to the option holder, the number of shares specified in that notice. The Company will apply for official quotation of all shares issued and allotted pursuant to the exercise of the options.

Options may not be transferred other than to an associate of the holder.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Set out below is the summary of options granted under the plan:

Grant Date	Expiry Date	Exercise Price	Balance at start of the year Number	Granted during the year Number	Exercise during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
(a)								
17 Nov 06	17 Nov 10	$0.15	-	500,000	500,000	-	-	-
17 Nov 05	17 Nov 10	$0.30	-	1,000,000	-	-	1,000,000	1,000,000
17 Nov 05	17 Nov 10	$0.25	-	1,000,000	-	-	1,000,000	1,000,000
(b)								
16 Jun 06	16 Jun 11	$0.35	-	3,500,000	-	-	3,500,000	3,500,000
				6,000,000	500,000		5,500,000	5,500,000
Weighted average exercise price			-	$0.325	-	-	$0.323	-

No options were forfeited during the periods covered by the above table.

The weighted average remaining contractual life of share options outstanding at the end of the period was 5 years.

Fair Value of options Granted

(a) Options granted 17 November 2005

The assessed fair value at grant date of options granted during the year ended 30 June 2006 was $0.09 per option.

	Tranche 1	Tranche 2	Tranche 3
	500,000	1,000,000	1,000,000
Fair value (cents per option)	$0.0892	$0.0807	$0.0775

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the terms of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted 17 November 2005 included:

(a)	options granted:	500,000	1,000,000	1,000,000
(b)	options are granted for no consideration and have a 5 year life			
(c)	exercise price:	$0.15	$0.24	$0.30
(d)	grant date:	17/11/2005	17/11/2005	17/11/2005
(e)	expiry date:	17/11/2010	17/11/2010	17/11/2010
(f)	share price at grant date:	$0.12	$0.12	$0.12
(g)	expected price volatility of the company's shares:	75%	75%	75%
(h)	expected dividend yield:	Nil	Nil	Nil
(i)	risk-free interest rate:	5.4%	5.4%	5.4%

The expected price volatility is based on the historic volatility, if available, (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information and volatility within the mining industry.

(b) Options granted 16 June 2006

The assessed fair value at grant date of options granted during the year ended 30 June 2006 was $0.02257 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 terms of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted 17 November 2005 included:

(i) options are granted for no consideration, have a 5 year life expiring 30 June 2011

(ii) exercise price: $0.35

(iii) grant date: 16 June 2006

(iv) expiry date: 16 June 2011

(v) share price at grant date: $0.30

(vi) expected price volatility of the company's shares: 75%

(vii) expected dividend yield: Nil

(viii) risk-free interest rate: 5.4%

The expected price volatility is based on the historic volatility, if available, (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information and volatility within the mining industry.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2006 $
Options issued under employee option plan	1,026,250

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
26. AUDITOR'S REMUNERATION	$	$	$	$
Audit services				
PKF Australian firm				
Assurance services				
Audit services				
- audit and review of financial reports and other audit work under the Corporations Act 2001	27,950	18,515	27,950	18,515
Taxation services				
- tax compliance service, including review of company income tax returns	5,675	24,745	5,675	24,745
	33,625	43,260	33,625	43,260

27. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of $3,432,664 and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 72,711,863, calculated as follows:

	Consolidated	
	2006	2005
	$	$
Profit/(loss) attributable to ordinary shareholders		
Loss for the period	(3,432,664)	-
Loss attributable to ordinary shareholders	(3,432,664)	-

	2006	2005
Weighted average number of ordinary shares	**Ordinary Shares**	
Weighted average number of ordinary shares at 30 June	72,711,863	-

(b) Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2006 was based on loss attributable to ordinary shareholders of $3,432,664 and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 135,869,348, calculated as follows:

	Consolidated 2006 $	Consolidated 2005 $
Profit/(loss) attributable to ordinary shareholders (diluted)		
Loss attributable to ordinary shareholders	(3,432,664)	-
Loss attributable to ordinary shareholders (diluted)	(3,432,664)	-

	2006 Ordinary Shares	2005 Ordinary Shares
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares (diluted) at 30 June	135,869,348	-

28. RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO OPERATING LOSS AFTER INCOME TAX

	CONSOLIDATED ENTITY 2006 $	CONSOLIDATED ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Reconciliation of operating loss after income tax to net cash used in operating activities:				
Operating loss after income tax	(3,432,664)	-	(2,305,134)	(1,384,662)
Net cash employee benefits expense	1,026,250	-	1,026,250	-
Net (gain)/loss from share trading activities	(140,000)	-	(140,000)	15,000
Depreciation	482	-	482	-
Provision for non-recoverability in receivables	-	-	908,805	763,820
Changes in assets and liabilities:				
(Decrease)/increase in provisions	12,722	-	-	-
(Decrease)/increase in accounts payable	50,543	-	(479,858)	264,803
Decrease/(increase) in investments	-	-	24,001	-
Decrease/(increase) in receivables	(12,375)	-	230,067	(6,830)
	2,495,042	-	(735,386)	(347,869)

29. SUBSEQUENT EVENTS

Since 30 June 2006 there have been no material events which may significantly effect the operations of the consolidated entity, except:

- PacMag Metals Limited is in the process of buying back the shares of holders of unmarketable parcels of shares.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and/or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

30. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

(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

	Note	Consolidated Entity	Parent Entity
Equity as at 1 July 2004 reported under previous AGAAP		2	1,573,473
Effect of transition to AIFRS		-	-
Equity as at 1 July 2004 reported under IFRS		2	1,573,472

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

	Note	Consolidated Entity	Parent Entity
Equity as at 1 July 2005 reported under previous AGAAP		2	313,811
Effect of transition to AIFRS		-	-
Equity as at 1 July 2005 reported under IFRS		2	313,811

(2) Reconciliation of Loss for the year ended 30 June 2005

	Note	Consolidated Entity	Parent Entity
Loss at 30 June 2005 reported under previous AGAAP		-	1,384,662
Effect of transition to AIFRS		-	-
Equity as at 1 July 2005 reported under IFRS		-	1,384,662

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

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the suspended policies.

(4) Notes to the reconciliations

The consolidated entity changed its accounting policies on 1 January 2005 to comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS"). The transition to A-IFRS is accounted for in accordance with the Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with 1 July 2004 as the date of transition.

a) Business combinations

The only impact of adopting A-IFRS was from the adoption of Accounting Standard AASB 3 *Business Combinations*.

During the period the legal subsidiary, Coral Gem Pty Ltd, was identified as the acquirer pursuant to Accounting Standard AASB 3 and was responsible for the reverse acquisition of Pacific Magnesium Corporation Ltd (the "acquiree" and "legal parent") and as required by the standard, the business combinations have all been accounted for by applying the purchase methods (note 21). The consolidated financial statements reflect the "continuing financial statements" of Coral Gem Pty Ltd, the legal subsidiary.

There has been no impact on equity as at 1 July 2004, 31 December 2004 or 30 June 2005 as a result of the change in accounting policies on implementing AIFRS on the continuing financial statements of the legal subsidiary.

b) Income tax

Adoption of the AASB 112 *Income taxes* will require the balance sheet liability method of accounting for income tax. This supersedes the previous profit and loss method of tax effect accounting. Under this new method, temporary differences will be identified for each asset and liability rather than accounting for the effects of timing and permanent differences between the taxable income and accounting profit. In addition, the test for the recognition of tax losses will change from virtually certain under the current guidance to a test for probability.

PacMag Metals Limited does not foresee any future taxable profit against which any Deferred Tax Assets may be applied. Thus there is no impact on the 2005 and 2004 accounts. However, in the 2006 accounts is a disclosure, via a note to the Financial Statements, of the Deferred Tax Asset and the deductible temporary differences.

c) Financial instruments

AASB 139 *Financial Instruments: Recognition and Measurement* requires all assets, financial liabilities and derivatives to be recorded at initial cost on the balance sheet. Subsequent to initial recognition, all derivatives and certain categories of financial assets are remeasured to fair value. Financial instruments will be required to be classified into four categories which will, in turn, determine the accounting treatment of the item. The classifications are loans, receivables and payables – measured at amortised cost; held to maturity – measured at amortised cost; held for trading – measured at fair value; and available for sale – measured at fair value.

The Company's accounting policy, which has previously been measured at cost, has been amended to comply with IFRS requirements.

PacMag Metals Limited has investments in corporations listed on the Stock Exchange which were valued at the lower of cost of net recoverable amount. The requirement of AASB 139 is that the financial instruments should be valued at market value. The impact of AASB 139 on the 2005 accounts is nil because the market value of investments is currently less than cost.

Advances in respect to the Mantuan Downs Joint Venture expenditure commenced in December 2003 and are repayable at call. Pursuant to the "separation" agreement between the parties to the joint venture the amount advanced is to be repaid in full by November 2005. These advances were unsecured, interest free and repayable at call. In terms of AASB 139 the loan would constitute a financial instrument. Management has determined the impact of valuing such financial instrument, as provided in AASB 139, as being immaterial.

DIRECTORS' DECLARATION

1. In the opinion of the directors of PacMag Metals Limited ("the Company"):

   (a) the financial statements and notes (including the remuneration disclosures that are contained in the Remuneration Report in page 22 of the Directors' Report) set out on pages 36 to 77, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Company and the Consolidated Entity as at 30 June 2006, and of its performance as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) the remuneration disclosures that are contained in the Remuneration Report on page 22 of the Directors Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures and the ASIC Class Order 06/105 Calculation of director and executive remuneration/Corporations Act Regulation 2M.6.04.

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations by the Chief Executive Officer and Company Secretary (who performs the Chief Financial Officer function) for the financial year ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Perth this 29th day of September 2006

Signed in accordance with a resolution of the directors:

....

R M Joyce
Chairman

PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF PACMAG METALS LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity and statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for PacMag Metals Limited, and its controlled entities, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations, changes in equity and cash flows.

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

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

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

Independence

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

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INDEPENDENT AUDIT REPORT

PKF

Chartered Accountants
& Business Advisers

Audit Opinion

In our opinion, the financial report of PacMag Metals Limited is in accordance with:

(a) The Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

PKF

PKF
Chartered Accountants

Ian Olson
Partner

Dated at Perth this 29th day of September 2006

ADDITIONAL SHAREHOLDER INFORMATION
in Compliance with ASX Requirements

The shareholder information set out below was applicable as at 29 September 2006.

1. DISTRIBUTION OF EQUITY SECURITIES

a) Analysis of numbers of shareholders by size of holding – **ordinary fully paid shares (PMH)**:

	Number of shareholders	Number of shares	% of issued capital
1 - 1,000	596	306,921	.30%
1,001 - 5,000	782	1,933,174	1.91%
5,001 - 10,000	296	2,144,972	2.12%
10,001 - 100,000	548	19,700,816	19.49%
100,001 and over	119	77,013,321	76.18%
	2,341	101,099,204	100.00%

b) Number of shareholders holding less than a marketable parcel – 1,039

2. VOTING RIGHTS

At general meetings of the Company, each member entitled to vote may vote in person or by proxy or attorney or representative. On a show of hands every person present who is a member or a representative of a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each share held.

3. SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders in the Company are:

Ordinary Shares	Number held	% Interest
Giralia Resources NL	10,005,627	9.90%
ANZ Nominees Limited	5,253,350	5.20%
Yandal Investments Pty Ltd	5,175,711	5.12%

4. UNQUOTED EQUITY SECURITIES

(a) The following unquoted ordinary shares are on issue:

	Number on Issue	Number of Holders
Ordinary partly paid to 1.2 cents, 0.468 cents remain unpaid (PMHAI)	2,083,336	

(b) The following unquoted options are on issue:

Options expiring 29 December 2012 exercisable at $1.20 each (PMHAM)	1,291,585
Options expiring 17 November 2010 exercisable at $0.25 each (PMHAP)	1,000,000
Options expiring 17 November 2010 exercisable at $0.30 each (PMHAQ)	1,000,000
Options expiring 16 June 2011 exercisable at $0.35 each (PMHAS)	3,500,000

ADDITIONAL SHAREHOLDER INFORMATION

in Compliance with ASX Requirements

5. PARTICULARS OF TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of quoted equity securities are listed below:

	Shareholder	No of Shares	% Held
1.	Giralia Resources NL	10,005,627	9.90%
2.	ANZ Nominees Limited	5,258,857	5.18%
3.	Yandal Investments Pty Ltd	5,175,711	5.12%
4.	Breamlea Pty Ltd	3,503,623	3.47%
5.	Satinbrook Pty Ltd	3,078,410	3.04%
6.	Crescent Nominees Ltd	2,633,842	2.60%
7.	National Diversified Industries (Aust) Pty Ltd	2,376,077	2.35%
8.	Westpac Custodian Nominees Ltd	2,320,872	2.30%
9.	Cooper Mr Harry	2,304,557	2.28%
10.	National Nominees Ltd	2,160,500	2.14%
11.	Colbern Fiduciary Nominees Pty Ltd	1,860,145	1.84%
12.	Macdonald Stanley Allan	1,785,368	1.77%
13.	Der La Noble Corporation	1,592,033	1.57%
13.	Advance Publicity Pty Ltd	1,290,477	1.28%
14.	Vesna Nominees Pty Ltd	1,250,000	1.24%
15.	Tivmoss Investments Pty Ltd	1,166,668	1.15%
16.	J P Morgan Nominees Aust Ltd	1,118,490	1.11%
17.	Equity Trustees Ltd	1,080,000	1.07%
18.	Maxigold Holdings Pty Ltd	941,350	.93%
19.	Cockerels Investments Pty Ltd	905,090	.90%
20.	Strong Investments Pty Ltd	833,327	.82%
		52,641,024	52.06%

6. DISTRIBUTION OF EQUITY SECURITIES

a) Analysis of numbers of shareholders by size of holding – **18 cent listed options expiring 31/03/2008 (PMHOA)**:

	Number of optionholders	Number of options	% of issued capital
1 - 1,000	151	78,672	.18%
1,001 - 5,000	280	716,685	1.61%
5,001 - 10,000	103	762,584	1.71%
10,001 - 100,000	253	9,503,777	21.29%
100,001 and over	72	33,586,306	75.22%
	859	44,648,024	100.00%

b) Number of shareholders holding less than a marketable parcel – 441

c) Particulars of twenty largest optionholders (**PMHOA**)

ADDITIONAL SHAREHOLDER INFORMATION

in Compliance with ASX Requirements

The names of the twenty largest holders of quoted equity securities are listed below:

	Optionholder	No of Options	% Held
1.	Giralia Resources NL	5,002,814	11.21%
2.	Yandal Investments Pty Ltd	2,587,856	5.80%
3.	Satinbrook Pty Ltd	1,927,538	4.32%
4.	Breamlea Pty Ltd	1,751,812	3.92%
5.	ANZ Nominees Limited	1,405,033	3.15%
6.	Crescent Nominees Ltd	1,214,459	2.72%
7.	National Diversified Industries (Aust) Pty Ltd	1,188,039	2.66%
8.	Cooper Mr Harry	1,152,279	2.58%
9.	Der La Noble Corporation	956,833	2.14%
10.	Macdonald Stanley Allan	892,684	2.00%
11.	Westpac Custodian Nominees Ltd	794,309	1.78%
12.	Colbern Fiduciary Nominees P/L	739,855	1.66%
13.	Advance Publicity Pty Ltd	695,239	1.56%
14.	Vesna Nominees Pty Ltd	625,000	1.40%
15.	Tivmoss Investments Pty Ltd	583,334	1.31%
16.	J P Morgan Nominees Aust Ltd	557,578	1.25%
17.	Tilbrook John Bevan	503,970	1.13%
18.	Karema Capital Pty Ltd	500,000	1.12%
19.	Rentamobile Pty Ltd	460,879	1.03%
10.	Sked Pty Ltd	413,283	.93%
		23,952,794	53.67%

7. DISTRIBUTION OF EQUITY SECURITIES

a) Analysis of numbers of shareholders by size of holding – 60 cent listed options expiring 30 November 2006 (**PMHO**):

	Number of optionholders	Number of options	% of issued capital
1 - 1,000	131	68,023	.49%
1,001 - 5,000	89	214,308	1.55%
5,001 - 10,000	35	261,366	1.89%
10,001 - 100,000	65	2,403,137	17.38%
100,001 and over	21	10,884,636	78.69%
	341	13,831,470	100.00%

b) Particulars of the twenty largest holders of quoted equity securities are listed below:

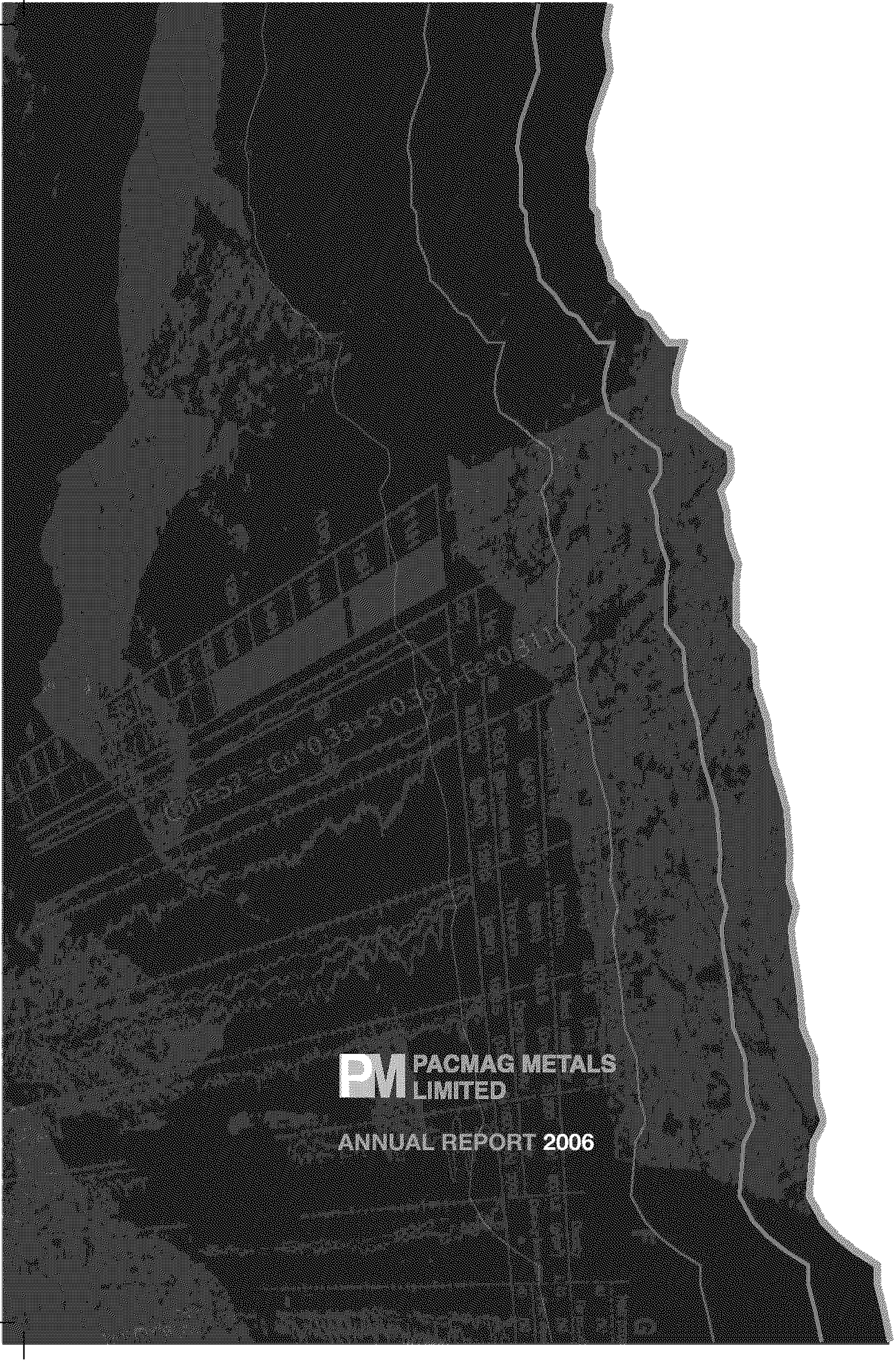
	Optionholder	No of Options	% Held
1.	Vesna Nominees Pty Ltd	2,778,812	20.09%
2.	Tivmoss Investments Pty Ltd	1,283,334	9.28%
3.	Cooper Mr Harry	1,190,477	8.61%
4.	Henderson L N & K M	1,100,000	7.95%
5.	Aliko Pty Ltd	775,688	5.61%
6.	Rentamobile Pty Ltd	616,667	4.46%
7	Trojan One Pty Ltd	600,000	4.34%
8.	Boussal Pty Ltd	500,000	3.61%
9.	Tigershark Investments Pty Ltd	250,000	1.81%
10.	Hidvegi M L & C I	224,294	1.62%
11.	Althaus Mr Alex	181,667	1.31%
12.	Moonwalk Pty Ltd	166,667	1.20%
13.	National Diversified Industries (Aust) Pty Ltd	166,667	1.20%
14.	Compton Crest Pty Ltd	160,573	1.16%
15.	Zyclear Pty Ltd	156,455	1.13%
16.	Hopsick R J & W L	135,000	.98%
17.	Ryan Josephine Linda	133,334	.96%
18.	Celtic Trust Co Ltd	125,000	.90%
19.	Rae Mr Ian George	116,667	.84%
20.	Benedikt Mr Isaac	113,334	.82%
		10,774,636	77.88%

INTERESTS IN MINING TENEMENTS

at 30 June 2006

PROJECT PARTICULARS	TENEMENT NUMBERS	PACMAG'S INTEREST	
WESTERN AUSTRALIA			
Arrino	E 70/3053	100%	
Christmas Well	E 58/304	100%	
Copperdie Hills	E 59/1243	100%	
Corktree Bore	E 52/1498		earning initial 51% interest
Europium	E 09/1301	100%	
Gnaweeda	E 51/1121	100%	
Horse Spring Range	E 80/3676	100%	
Lakeside	E 21/124	100%	
Neds Creek	E 52/1657		earning initial 51% interest
Neil Bore	E 58/303	100%	
Nelson Well	E 20/605	100%	
Rabbit Well	E 58/302	100%	
NEW SOUTH WALES			
Cobar	EL 6527	100%	
SOUTH AUSTRALIA			
Blue Rose	EL 2938		earning initial 51% interest
	EL 2939		earning initial 51% interest
Mount Anna	EL 3558	100%	
Worlds End	EL 3559	100%	
USA (NEVADA)			
Ann Mason claims		100%	

NOTES



PACMAG METALS LIMITED

ANNUAL REPORT 2006