



**SYLVANIA RESOURCES  
LIMITED**

**ABN 80 091 415 968**

**ANNUAL REPORT**  
For the year ended  
30 June 2006

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**SYLVANIA RESOURCES LIMITED**  
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**CORPORATE INFORMATION**

<b>Directors</b>	Terence M McConnachie – <i>Chief Executive Officer</i> Edward F G Nealon – <i>Non-executive Chairman</i> Grant M Button – <i>Executive Director</i> Dr Evan Kirby – <i>Chief Operating Officer</i> Melissa J Sturgess Smith – <i>Non-executive Director</i> Kevin S Huntly – <i>Non-executive Director</i>
<b>Company Secretary</b>	Michael James Langoulant
<b>Registered Office and Principal Place of Business</b>	98 Colin Street West Perth, Western Australia 6005 Australia  Telephone: (08) 9481 8711 Facsimile: (08) 9324 2977 Website: <a href="http://www.sylvaniaresources.com">www.sylvaniaresources.com</a>
<b>Share Register</b>	Computershare Investor Services Pty Limited Reserve Bank Building Level 2 45 St George's Terrace Perth, Western Australia 6000 Australia
<b>Auditors</b>	HLB Mann Judd Chartered Accountants 15 Rheola Street West Perth, Western Australia 6005 Australia
<b>Solicitors</b>	Clayton Utz QV1 250 St Georges Terrace Perth, Western Australia 6000 Australia
<b>Stock Exchange Listings</b>	Sylvania Resources Limited is listed on the Australian Stock Exchange (Shares: SLV) and on the Alternative Investment Market of the London Stock Exchange (Shares: SLV)

**SYLVANIA RESOURCES LIMITED**  
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**OPERATIONS AND FINANCIAL REVIEW**

**AIM LISTING**

**Admission to the Alternative Investment Market of the London Stock Exchange Plc (“AIM”)**

Subsequent to the year end, the shares of Sylvania Resources Limited (“the company”) commenced trading on AIM after a placing of new shares which raised £12 million (A\$29.6 million) (before expenses). The company issued 40,000,000 placing shares, representing 27.5 per cent of the enlarged issued share capital of the company, at 30 pence (A\$0.74) per ordinary share. Williams de Broë acted as the company’s Nominated Adviser and Broker. The placement was approved at a general meeting of shareholders of the company, which was held on 26 June 2006.

**SOUTH AFRICAN OPERATIONS**

**Chromite Tailings Retreatment Project (Sylvania 25%)**

The company has a 25% interest in a consortium which owns the Chrome Tailings Retreatment Project (“CTRP”) which is managed by Aquarius Platinum Limited.

The CTRP operation had a positive year with Platinum Group Metal (“PGM”) production for the year increasing nearly three fold to 6,234 PGM ounces (1,558 PGM ounces attributable to the company).

CTRP: Metal in concentrate produced (PGM ounces)

Year Ended	Pt	Pd	Rh	Au	PGM (4E)	PGM (4E) Attributable to the company
2006	3,799	1,378	1,044	13	6,234	1,558
2005	1,321	439	353	4	2,117	529

Over the year recoveries and production have improved markedly as the technical enhancements to the Plant began to take effect. This led to consistent and stable operation being achieved with recoveries rising to 68% against 51% in the previous quarter. The average PGM basket price received for the year increased by an average 45% to US\$1,207 per PGM ounce. As a result of the increased production levels and basket prices, revenue increased to R43 million (R10.7 million attributable to the company). The cash operating margin for the year increased to 63% from 37.5% in the previous year.

During the year, the management team at CTRP commissioned test work at Mintek to better understand the metallurgical characteristics of the feed sources. This work primarily identified the material being treated from Bayer as the source of the production and recovery problems and consequently CTRP stopped treating this material during the March quarter. During the fourth quarter, only current arisings from the Kroondal Chrome Mine were fed to CTRP. This led to monthly tonnages being treated falling to roughly half design capacity at 10,000 tonnes per month. However despite the lower monthly throughput, PGM production levels actually increased as recoveries and grade improved.

CTRP is currently completing a project to add dump material from the Kroondal Chrome Mine to the CTRP feed, which is scheduled for completion at a cost of approximately R2 million. This is planned to increase feed tonnages back to current design capacity of 20,000 tonnes per month and consequently it is anticipated that PGM production will continue to increase throughout the 2007 financial year.

Additional staged expansions, including the pipeline to feed Bayer current arisings, plus additional flotation cells at CTRP to increase the capacity beyond 20,000 tonnes per month, are under consideration by the consortium. Test work is in progress, which is aimed at gaining a better understanding of the processing requirements of the Bayer current arisings and dump material.

**Samancor Dumps**

During the year the company signed a range of agreements with Samancor in relation to the retreatment of chromite mine tailings for the extraction of chrome and PGM’s. The Samancor Agreement (“Agreement”) expires on the later of 30 April 2011 or the date on which all of the chrome in the relevant tailings dumps has been processed. The Agreement provides that following the expiry of its initial term (as referred to above) it can be renewed by agreement between the parties. The company estimates that it should take just under 5 years to complete the washing of the historical chrome dumps covered by the Agreement, however, the rewashing of current arisings should last considerably longer.

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**OPERATIONS AND FINANCIAL REVIEW (CONTINUED)**

Under the terms of the Agreement, the company will be able to process five Samancor tailings dumps at its Western Chrome Mines (Buffelsfontein, Waterkloof, Mooinooi, Elandsdrift and Millsell), and eight at its Eastern Chrome Mines (Tweefontein, Lannex, Steelpoort, Doornbosch, Montrose, Groothoek, Onverwacht and Mooihoek). The company will recover for Samancor the chrome washed from the tailings at a price agreed by reference to a sliding price scale that is dependent upon the volume of chrome recovered and will receive in exchange the resultant tailings to be processed for PGM recovery. Full details of the Agreements are disclosed in the AIM Listing document dated 17 July 2006.

The company plans to construct a total of six chrome washing plants ("CWP's") and four PGM recovery plants ("PRP's") to treat both current tailings arisings and stockpiled dump tailings from the Samancor mines.

The company has constructed a CWP which is located at the Samancor Millsell Mine near Kroondal. This plant is producing chrome concentrates from Millsell dump and current arisings tailings. Additional facilities which will allow increased throughput as well as PGM concentrate production are currently being constructed at Millsell. The operation of the processing facilities has been contracted out to Tailings Technology Pty Ltd, a South African company with extensive experience in PGM recovery by flotation.

A project to construct CWP's and PRP's at Samancor's Steelpoort mine has commenced and Matomo Projects (Pty) Ltd (Matomo) has been awarded the contracts for this work. Matomo has extensive experience with small minerals processing plants and their core team of engineers were involved with the design and construction of CTRP. The company anticipates working with Matomo on the remaining CWP's and PRP's.

The company has scheduled the construction of the six CWP's by July 2007. The company's current intention is for each CWP (except Mooinooi which is planned for a capacity of 57,000 tonnes per month) to be designed to treat a minimum of 30,000 tonnes of input tailings per month to recover approximately 7,500 to 10,000 tonnes of saleable chrome product per plant per month.

Once the chrome tailings have been washed and the extracted chrome has been returned to Samancor, the company will pipe the resultant tailings to one of the four PRP's for recovery of PGMs.

The company plans to construct and commission four PRP's by October 2008, which will be located at Waterkloof, Buffelsfontein, Tweefontein and Steelpoort. Each of the plants has planned capacity to treat 20,000 tonnes per month of final tailings, with the exception of Buffelsfontein where the design capacity will be for 40,000 tonnes per month.

The company has announced that it intends to finalise an agreement with a self funding, broad based BEE partner, to ensure compliance with South Africa's Broad Based Economic Empowerment Act No. 53 of 2003 and the codes of good practice published in terms of the South African Mining Charter. It is anticipated that the company will hold a 74% interest in each of the CWP's and PRP's, with the remaining 26% held and funded by the BEE partner.

#### **Everest North PGM Project**

The Everest North project lies on the Farm Vygenkoek JT 10 in the eastern Bushveld of South Africa, and is prospective for PGMs. Previous work has outlined an inferred resource of 4.2 million tonnes grading 5.87 g/t PGM, for an inferred resource of 796,000 ounces of PGMs.

A full feasibility study commenced in April 2006, with a diamond drilling programme commencing in the fourth quarter and Metago Environmental Engineers being awarded the Environmental Impact Assessment study work.

To date, five boreholes and deflections have been drilled on the Vygenhoek Farm at the Everest North Project site. Drilling commenced in June 2006 and currently two rigs are deployed on site. A third rig will commence operation in October. To date 546.56 metres have been drilled. The average reef thickness obtained in 11 UG2 intersections is 1.42 metres, with the narrowest measuring 1.21 metres and thickest reef seam measuring 2.00 metres. The entire reef intersected so far has been composite UG2 reef comprising the full UG2 package with no interstitial pyroxenite waste. It would appear at this stage that the composite reef is present on the bulk of the of the Vygenhoek portion of the reserve.

It is pleasing to note that the reef intersected appears solid and the top and bottom waste intersections are characterized by competent rock implying that the underground extraction thereof is a viable and feasible proposition.

Results of the feasibility study are anticipated by the end of the 2006 calendar year.

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**OPERATIONS AND FINANCIAL REVIEW (CONTINUED)**

**AUSTRALIAN OPERATIONS**

Exploration by the company within Australia has been focused on the Archean Sylvania Inlier, situated in Western Australia. Within this area the company still retains mineral exploration projects known as Copper Knob and Jimblebar. The projects lie east and south of Newman and are located within the Peak Hill Mineral Field. Exploration on these tenements has targeted gold, copper-zinc, nickel and platinum group element mineralisation.

The company had previously entered into an Option agreement with Warwick John Flint (Flint) over all of its Australian tenements at Jimblebar and Copper Knob. Under the terms of the Option Agreement, Flint had the right to exercise the Option at any time up until 16 August 2005, to acquire the company's interests in its Australian tenements for the consideration of A\$55,000, and the issuance to the company of fully paid ordinary shares in a listed entity to the value of A\$200,000. Flint has the obligation to maintain the tenements in good standing during the life of the Option Agreement.

During the year Flint exercised his right to extend the Option Agreement for a further 12 month period until 16 August 2006 through the payment of \$10,000. Under the terms of the Option extension, the share consideration component of the exercise price of the Option has increased to \$300,000.

Subsequent to year end, Flint and the company extended the Option Agreement until 16 February 2007 for an Option fee of \$7,500. Under the terms of the Option Agreement extension, the share consideration component of the exercise price of the Option remains at \$300,000.

Entering into this Option Agreement is consistent with the Board's intention of focusing its attention on its platinum related activities in Southern Africa.

**SYLVANIA RESOURCES LIMITED**  
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**DIRECTORS' REPORT**

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Sylvania Resources Limited and the entities it controlled at the end of, or during, the financial year ended 30 June 2006.

**Directors**

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Name	Qualifications	Particulars
Terrence M McConnachie <i>Chief Executive Officer</i>		Appointed as a Director in June 2005 and subsequently Chief Executive Officer of the company in March 2006. Aged 50, Mr McConnachie has over 25 years of experience in mining, beneficiation of ferroalloys and precious metals. He was the founder of Merefe Resources Limited (formerly South African Chrome & Alloys Ltd), a successful chrome mining company; black empowered and listed on the Johannesburg Stock Exchange with assets worth in excess of a billion rand (\$350 million). He is well known for identifying mining opportunities and has started many new green-field operations in gold, manganese, aluminium, graphite and tantalite. He has been CEO of a number of mining, mining services and smelting companies in South Africa. He has held no other listed public company directorships in the past 3 years.
Edward F G Nealon <i>Non-executive Chairman</i>	BSc Geol (Hons), MSc Geol, MAusIMM	Appointed in December 2004. Aged 55, Mr Nealon is a qualified geologist with over 25 years experience in the mining and exploration industry. He has worked around the world with major companies such as Anglo-America Corporation, Rio Tinto and Aquarius Platinum. He founded his own consulting company in 1983. He is a non-executive director of Dwyka Diamonds Limited (since 2001) and Tanzanite One Limited (since 2004). From 1997 to 2002 he acted as both executive and non-executive director of Aquarius Platinum Limited.
Grant M Button <i>Executive Director</i>	B.Bus.(Acc), CPA	Appointed in December 2002. Aged 44, Mr Button has 15 years experience at a senior management level in the resources industry. He has acted as an Executive Director, Finance Director, CFO and Company Secretary of a range of publicly listed companies. Mr Button is also a Director of Washington Resources Limited (appointed 2005) and Magnum Gold NL (appointed 2006)
Dr Evan Kirby <i>Chief Operating Officer</i>	BSc(Hons) Metallurgy, PhD Metallurgy, MAusIMM, MSthAfrIMM	Appointed in November 2003. Aged 55 Dr Kirby has worked for major companies such as Impala Platinum, Rand Mines, Rustenburg Platinum Mines, Minproc Engineers and Bechtel before starting his own consulting business in 2002. He has broad experience with the development of a wide range of mining and minerals processing projects particularly in Africa and Australia. He is also Chief Operations Officer of Dwyka Diamonds Limited (since 2002) and a non-executive director of Wedgetail Exploration NL (since 2004). He has held no other public company directorships in the past 3 years.
Melissa J Sturgess Smith <i>Non-executive Director</i>	BSc, MBA	Appointed in December 2004. Aged 40, Ms Sturgess has over 10 years experience in corporate development and promotion with an emphasis on attracting institutional shareholders for a range of public companies, including Aquarius Platinum Limited and Dwyka Diamonds Limited. She is Executive Chairman of Dwyka Diamonds Limited (since 2001) and a non-executive director of Churchill Mining plc (since 2005). She has held no other listed public company directorships in the past 3 years.
Kevin S Huntly <i>Non-executive Director</i>	GDE (Eng)      MSc	Appointed in December 2002. Aged 44, Mr Huntly has 25 years experience in the South African mining industry. He operates his own consultancy business advising a number of international mining companies. Mr Huntly is also a Director of Washington Resources Limited (appointed 2005).

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**DIRECTORS' REPORT (CONTINUED)**

**Company Secretary**

The company secretary is Michael Langoulant, B.Com, CA. Mr Langoulant was appointed to the position of company secretary in February 2005. Mr Langoulant operates a corporate consulting business that specialises in public company corporate secretarial/administration and fundraising. After 10 years with large international accounting firms he has acted as CFO, company secretary and non-executive director with a number of publicly listed companies.

**Interests in the shares and options of the company and related bodies corporate**

During and since the end of the financial year a total of 3,000,000 shares and 750,000 share options were granted to the directors and executives of the company. As at 30 June 2006, share and option holdings are as follows:

	<i>Number of options granted during year</i>	<i>Number of options over ordinary shares</i>	<i>Number of fully paid ordinary shares</i>
Terry M McConnachie	500,000	500,000	-
Edward F G Nealon	-	-	750,000
Grant M Button	-	-	1,250,000
Melissa J Sturgess Smith	-	-	815,000
Kevin S Huntly	250,000	250,000	-
Dr Evan Kirby	-	-	764,300

**Dividends**

No dividend has been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

**Principal activities**

The principal activity of the Group during the financial year was investment in mineral exploration and mineral treatment projects.

**Review of operations**

A review of the operations of the Group is contained within the Operations and Financial Review.

**Operating result for the year**

The consolidated loss of the Group for the year after income tax expense was \$8,981,807 (2005: \$1,011,374).

**Significant changes in the state of affairs**

There have been no significant changes in the state of affairs of the Group to the date of this report.

**Significant events after balance date**

On the 21 July 2006, the company commenced trading its shares on AIM in London after a placing raised £12 million (AUS \$29.6 million) (before expenses). The company has issued 40,000,000 placing shares, representing 27.5 per cent of the enlarged issued share capital of the company at 30 pence (AUS \$0.74) per ordinary share.

On the 25 July 2006, the company announced that further to its contract with Samancor Limited, the company has been granted prospecting rights over dumps at several of Samancor's Western and Eastern Chrome Mines located in the Bushveld Complex of South Africa.

In accordance with its facilitation agreement with Portpatrick Ltd a further 5.275 million ordinary fully paid shares have been issued to Portpatrick Ltd for securing the prospecting rights to these highly prospective tailings dumps. The company intends to retreat these tailings for the extraction of chrome and platinum group metals. Under the terms of the agreement between the company and Portpatrick dated 7 December 2005, a further 4,725,000 Ordinary Shares remain to be issued to Portpatrick as further consideration should extraction rights to these prospective tailings dumps be obtained.

Other than the above, there has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

**Likely developments and expected results**

Additional comments on expected results of certain operations of the Group are included in the Operations and Financial Review.



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**DIRECTORS' REPORT (CONTINUED)**

**Environmental legislation**

The Group is subject to significant environmental legal regulations in respect to its exploration and evaluation activities in Australia and South Africa. There have been no known breaches of these regulations and principles.

**Indemnification and insurance of Directors and Officers**

During the year the company paid premiums in respect of a contract insuring all directors and officers of the company against liabilities incurred as directors or officers to the extent permitted by the Corporations Act 2001. Due to a confidentiality clause in the contract the amount of the premium has not been disclosed. The company has no insurance policy in place that indemnifies the company's auditors.

**Meetings of directors**

During the financial year there were 6 formal directors' meetings and 3 meetings of a sub-committee established to issue new shares following the exercise of options. All other matters that required formal Board resolutions were dealt with via circulating written resolutions. In addition the directors met on an informal basis at regular intervals during the year to discuss the Group's affairs.

The number of meetings of the company's board of directors attended by each director were:

	<i>Directors' meetings held whilst in office</i>	<i>Directors' meetings attended</i>
Terry M McConnachie	6	6
Edward F G Nealon	6	6
Grant M Button	6	6
Melissa J Sturgess Smith	6	6
Kevin S Huntly	6	5
Dr Evan Kirby	6	6

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**DIRECTORS' REPORT (CONTINUED)**

**Remuneration report**

Details of directors' and executives' remuneration are set out under the following main headings:

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

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

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aims to align executive reward with the creation of value for shareholders. The key criteria for good reward governance practices adopted by the Board are:

- competitiveness and reasonableness
- acceptability to shareholders
- performance incentives
- transparency
- capital management

The framework provides a mix of fixed fee, consultancy agreement based remuneration, and share based incentives.

The broad remuneration policy for determining the nature and amount of emoluments of Board members and senior executives of the company is governed by a Board Remuneration Committee. At present the full Board acts as the remuneration committee in accordance with a written Remuneration Committee Charter. The Remuneration Committee's aim is to ensure the remuneration packages properly reflect directors and executives duties and responsibilities. The Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention and motivation of a high quality Board and executive team.

The current remuneration policy adopted is that no element of any director/executive package be directly related to the company's financial performance. Indeed there are no elements of any director or executive remuneration that is dependent upon the satisfaction of any specific condition. The overall remuneration policy framework however is structured in an endeavour to advance/create shareholder wealth. This policy has not changed over the past five (5) financial years.

*Non-executive directors*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board and are intended to be in line with the market. Directors are not present at any discussions relating to determination of their own remuneration.

*Directors' fees*

All of the directors perform at least some executive or consultancy services. However, each of the directors receives a separate fixed fee for their services as directors, as the Board considers it important to distinguish between the executive and non-executive roles held by those individuals.

The maximum aggregate remuneration for the directors was last determined at the Annual General Meeting held on the 30 November 2005, when shareholders approved an aggregate remuneration of \$300,000 per year. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

*Retirement allowances for directors*

Apart from superannuation payments paid on base director fees there are no retirement allowances for directors.

*Executive pay*

The executive pay and reward framework has four components:

- base pay and benefits such as superannuation
- short-term performance incentives
- long-term incentives through participation in the Employee Share/Option Plan

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**DIRECTORS' REPORT (CONTINUED)**

**Remuneration report (continued)**

*Base pay*

All executives currently receive a fixed monthly retainer as agreed with the company. The provision of Consultancy Services has been formalised in individual Consultancy Agreements, dated 14 June 2006.

*Benefits*

Apart from superannuation paid on directors' fees there are no additional benefits paid to executives.

*Short-term incentives*

There are no current short term incentive remuneration arrangements.

*Employee share/option plan*

To ensure that the company has appropriate mechanisms in place to continue to attract and retain the services of suitable directors and employees, the company has established the Share Plan and the Option Plan, which were approved by the Shareholders on the 30 November 2005 at the company's Annual General Meeting.

The number of Ordinary Shares or Options that may be offered to a Participant is entirely within the discretion of the Board. The company does not intend to offer more than 6,000,000 securities (being a combination of Ordinary Shares under the Share Plan and Options under the Option Plan) under the Share Plan and the Option Plan, which represented approximately 4.1% of the Ordinary Shares in issue at the time of approval.

*Amounts of remuneration*

Details of the remuneration of the directors and executives of the company and the Group for the year ended 30 June 2005 and 2006 are set out in the following tables. There are no elements of remuneration that are directly related to performance. The remuneration shown for E Nealon and M Sturgess for the year ended 30 June 2005 includes fees paid to them as consultants prior to their appointment as directors of the company.

**Table 1: Directors' remuneration for the year ended 30 June 2006**

<b>Directors</b>	<i>Primary benefits</i>		<i>Post employment</i>	<i>Equity Shares/</i>	<i>Total</i>
	<i>Salary and Consulting fees</i>	<i>Director's fees</i>	<i>Superannuation</i>	<i>Options</i>	
	\$	\$	\$	\$	\$
Terry M McConnachie	103,167	35,000	-	41,101	179,268
Edward F G Nealon	169,600	35,000	3,150	51,388	259,138
Grant M Button	120,000	25,000	13,150	51,388	209,538
Dr Evan Kirby	54,167	35,000	3,150	51,388	143,705
Melissa J Sturgess Smith	99,600	35,000	3,150	51,388	189,138
Kevin S Huntly	27,830	35,230	-	20,551	83,611
<b>Other key management personnel</b>					
Michael James Langoulant	36,000	-	-	17,129	53,129

A cash bonus of \$71,962 was paid to the CEO during the year. This is included within Salary and Consultancy fees. No other cash bonuses were issued to directors or executives during the year.

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**DIRECTORS' REPORT (CONTINUED)**

**Remuneration report (continued)**

**Table 2: Directors' remuneration for the year ended 30 June 2005**

Directors	Primary benefits		Post employment	Equity Shares/ Options	Total
	Salary and Consulting fees \$	Director's fees \$	Superannuation \$	\$	
Terry M McConnachie	-	493	-	-	493
Edward F G Nealon	99,600	11,370	1,023	-	111,993
Grant M Button	110,000	20,000	1,800	-	131,800
Dr Evan Kirby	40,000	20,000	1,800	-	61,800
Melissa J Sturgess Smith	99,600	11,370	1,023	-	111,993
Kevin S Huntly	17,020	20,000	-	-	37,020
Adrian S Paul	-	19,506	1,756	-	21,262
<b>Other key management personnel</b>					
Michael James Langoulant	18,160	-	-	-	18,160

**Table 3: Options granted as part of the Directors and Employees Incentive Option Plan for the year ended 30 June 2006**

Directors	Vested No.	Granted No.	Grant Date	Fair Value per option at grant date \$	Exercise price per option \$	Expiry Date	Total value of options granted \$	Value of options included in remuneration for the year \$
T M McConnachie	-	500,000	20 April 2006	0.56	0.50	30 June 2009	281,853	41,101
K S Huntly	-	250,000	20 April 2006	0.56	0.50	30 June 2009	140,927	20,551

No compensation options were granted or vested during the year ended 30 June 2005.

For details on the valuation of the options, including models and the assumptions used, please refer to note 15.

**Table 4: Shares granted as part of the Directors and Employees Incentive Share Plan for the year ended 30 June 2006**

Directors	Vested No.	Granted No.	Grant Date	Fair Value of option implicit in share at grant date \$	Exercise price per share \$	Expiry Date	Total value of shares granted \$	Value of shares included in remuneration for the year \$
Edward F G Nealon	-	750,000	21 December 2005	0.165	0.50	30 June 2009	123,812	51,388
Grant M Button	-	750,000	21 December 2005	0.165	0.50	30 June 2009	123,812	51,388
Dr Evan Kirby	-	750,000	21 December 2005	0.165	0.50	30 June 2009	123,812	51,388
Melissa J Sturgess Smith	-	750,000	21 December 2005	0.165	0.50	30 June 2009	123,812	51,388
Michael James Langoulant	-	250,000	21 December 2005	0.165	0.50	30 June 2009	41,271	17,129

No compensation shares were granted or vested during the year ended 30 June 2005.

For details on the valuation of the options, including models and the assumptions used, please refer to note 15.

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**DIRECTORS' REPORT (CONTINUED)**

**Remuneration report (continued)**

**C Consultancy agreements**

Formal Consultancy Agreements were made with the company and all directors on the 14 June 2006.

The details of the Chief Executive Officer's Consultancy Agreement are summarised below:

- **Engagement**  
The company engages the Consultant to provide the company with the Consultancy Services during the Term, on and subject to the terms of the Agreement, and the Consultant accepts the Engagement.
  
- **Term**  
The initial term of the engagement commences on the 14 June 2006 and continues for a two years, unless that period is extended or terminated in accordance with the following summarised terms:  
*Extension of Term*  
Following the completion of the term indicated above, if the parties agree, the engagement will be extended for rolling periods of one year thereafter.  
*Termination by Company*  
The company may immediately terminate this agreement by giving written notice to the Consultant.  
*Entitlements on termination*  
Upon termination of the Agreement the Consultant (pursuant to additional clauses) is entitled to the Consultancy Fee up to and including the date of termination.  
*Termination by notice by Company or Consultant*  
The Agreement may be terminated without cause by either the company or the Consultant upon giving the other party notice in writing for a period of 6 months or the company paying 6 months Consultancy Fee in lieu of notice.
  
- **Remuneration**  
In consideration for the Consultancy Services, the company will pay the Consultancy Fee to the Consultant in monthly instalments in arrears at the end of each month. In addition, the company may, if the Board (following a recommendation by the Remuneration Committee) so resolves, offer to the Consultant or the Nominated Executive, securities in accordance with the company's share or option incentive plan.

**D Share-based compensation**

As detailed above, shareholders approved an employee share and option plan at the Annual General Meeting on the 30 November 2005. The aim of the employee share and option plan is to provide long term incentives to directors and executives to create and enhance shareholder wealth and to provide a mechanism to assist the company in its endeavours to retain key executives.

**Options**

At the date of this report, the only options on issue by the company were those issued under the Employee Option Plan. Details of these options over un-issued ordinary shares of the company are as follows:

Grant Date	Date of expiry	Exercise price		Number of options
20 April 2006	30 June 2009	0.50		750,000

Option holders have no rights by virtue of the option to participate in any share issue of any other body corporate. During or since the year ended 30 June 2006, no ordinary shares of the company were issued on the exercise of any options granted by the company.

Additionally the company has issued 3,850,000 shares under the Employee Share Plan. Full details of the issue are disclosed in Note 15.

**Auditor Independence and Non-Audit Services**

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 14 and forms part of this directors' report for the year ended 30 June 2006.

**SYLVANIA RESOURCES LIMITED**  
**ABN 80 091 415 968**

**DIRECTORS' REPORT (CONTINUED)**

**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 and/or the consolidated entity are important.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity or its related practices:

	<b>Consolidated 2006 \$</b>
<b>Assurance services</b>	
HLB Mann Judd Australian firm:	
Audit and review of financial statements	21,640
Related practices of HLB Mann Judd (HLB Barnett Chown Inc.)	28,032
<b>Total remuneration for audit services</b>	<u>49,672</u>
<b>Taxation services</b>	
HLB Mann Judd Australian firm:	
Tax compliance services, including review of company income tax returns	3,958
Related practices of HLB Mann Judd (HLB Barnett Chown Inc.)	1,626
<b>Total remuneration for taxation services</b>	<u>5,584</u>
<b>Advisory services</b>	
HLB Mann Judd Australian firm:	
Services in respect to AIM Listing	16,600
Advice regarding Share and Options valuations	2,400
<b>Total remuneration for advisory services</b>	<u>19,000</u>
<b>Total auditors' remuneration</b>	<u><u>74,256</u></u>

The full board of directors (as the audit committee) has considered the position and 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 nature and scope of the non-audit service provided means that auditor independence was not compromised.

**Proceedings on behalf of 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*.

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



**Edward Nealon**  
**Non-executive Chairman**  
Perth, Western Australia  
28 September, 2006

### Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Sylvania Resources Ltd for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sylvania Resources Ltd.



Perth, Western Australia  
28 September 2006

W M Clark  
Partner, HLB Mann Judd

**SYLVANIA RESOURCES LIMITED**  
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**CORPORATE GOVERNANCE STATEMENT**

**Introduction**

Since the introduction of the ASX Principles of Good Corporate Governance and Best Practice Recommendations ("**ASX Guidelines**"), Sylvania Resources Limited ("**the company**") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this report. Commensurate with the spirit of the ASX Guidelines, the company has followed each Recommendation where the Board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the company and the Board, resources available and activities of the company. Where, after due consideration, the company's corporate governance practices depart from the Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

Further information about the company's corporate governance practices is set out on the company's website at [www.sylvaniaresources.com](http://www.sylvaniaresources.com). In accordance with the ASX Principles and Recommendations, information published on the Company's website includes charters (for the Board and its sub-committees), codes of conduct and other policies and procedures relating to the Board and its responsibilities.

**Explanations for departures from best practice recommendations**

**Principle:** 2  
**Recommendation:** 2.1 – A majority of the Board should be independent directors  
**Notification of departure:** Two of the six directors are considered to be independent.  
**Explanation for departure:** The Board considers that its structure has been, and continues to be, appropriate in the context of the company's recent history and that each of the non-independent directors possess skills and experience suitable for building the company.

**Principle:** 2  
**Recommendation:** 2.2 – The Chairperson should be an independent director  
**Notification of departure:** The chairperson does not satisfy the test of independence as set out in Box 2.1 of the ASX Principles of Good Corporate Governance and Best Practice Recommendations Independence Test ("Independence Test").

**Explanation for departure:** While the Board recognises the importance of independence in decision making, it does not comply with best practice recommendation 2.2 as Edward Nealon, the current chairperson, does not satisfy paragraph 3 of the Independence Test. The Board believes that Mr Nealon is the most appropriate person for the position because of his ability to pursue strategic opportunities and relationships for the company and his experience in the corporate development of a range of public companies.

**Principle:** 2  
**Recommendation:** 2.4 – The Board should establish a Nomination Committee  
**Notification of departure:** A separate nomination committee has not been formed.  
**Explanation for departure:** The full Board considers those matters that would usually be the responsibility of a nomination committee. The composition of the Board does not make the establishment of a separate nomination committee practicable. The Board has adopted a Nomination Committee Charter, which it applies when convening as the nomination committee.

**Principle:** 4  
**Recommendation:** 4.2 – The Board should establish an Audit Committee.  
**Notification of departure:** For a portion of the reporting period, a separate Audit Committee was not formed.  
**Explanation for departure:** At the time, the formation of an Audit Committee was not considered appropriate or necessary. The Board had adopted, and applied, an Audit Committee Charter when considering all matters relating to the financial affairs of the Company. In addition, the Board liaised with the external auditors in both Australia and South Africa in connection with the audit of the financial accounts. However, due to changes in the Group's activities a separate Audit Committee has now been formed.



**SYLVANIA RESOURCES LIMITED**  
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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

<b>Principle:</b>	4
<b>Recommendation:</b>	4.3 – Structure the Audit Committee so that it consists of only non-executive directors; a majority of independent directors; an independent chairperson, who is not chairperson to the Board; and at least 3 members.
<b>Notification of departure:</b>	The composition of the Audit Committee is not as recommended.
<b>Explanation for departure:</b>	As there are only 2 independent directors on the Board the structure of the audit committee is not as recommended in that it consists of 2 independent directors and one non-independent director.
<b>Principle:</b>	9
<b>Recommendation:</b>	9.2 – The Board should establish a Remuneration Committee.
<b>Notification of departure:</b>	For a portion of the reporting period, a separate remuneration committee has not been formed.
<b>Explanation for departure:</b>	At the time, the formation of a Remuneration Committee was not considered appropriate or necessary. The Board had adopted, and applied, a Remuneration Committee Charter when considering remuneration matters. However, due to changes in the Group’s activities a separate Remuneration Committee has now been formed.

**Nomination committee**

During the year there were no meetings of the full Board, in its capacity as the Nomination Committee.

**Audit committee**

During the reporting period, a separate Audit Committee was formed. The members are Melissa Sturgess (Chair), Scott Huntly, Evan Kirby and Michael Langoulant (Company Secretary). There has yet to be a meeting of this committee. For the portion of the year where the full Board met in its capacity as the Audit Committee one meeting was held which was attended by all members.

**Remuneration committee**

*Company's remuneration policies*

The Company’s remuneration policies are discussed in the “Remuneration Report” section of the Directors’ Report.

The Remuneration Committee did not meet during the reporting period.

**Other**

**Skills, experience, expertise and term of office of each Director**

A profile of each director containing the applicable information is set out in the Directors’ Report.

**Identification of independent directors**

In considering independence of directors, the Board refers to the criteria for independence as recommended by the ASX. To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Statement of Board and Management Functions, which is disclosed in full on the company’s website.

Applying the independence criteria, the Board considers that Melissa Sturgess and Scott Huntly are independent.

**SYLVANIA RESOURCES LIMITED**  
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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

In the interests of disclosure, through their respective consultancy companies, Ms Sturgess and Mr Huntly provide expertise and know-how in relation to the Company's business, which services are provided at normal commercial rates. Notwithstanding the relationships between each of Ms Sturgess and Mr Huntly and the Company, the Company considers that in neither case relevant materiality thresholds are exceeded, and neither Ms Sturgess nor Mr Huntly are impeded from exercising independent judgment in their roles as directors.

**Statement concerning availability of independent professional advice**

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director, then, provided the director first obtains approval for incurring such expense from the chairperson, the Company will pay the reasonable expenses associated with obtaining such advice.

**Confirmation whether performance evaluation of the Board and its members have taken place and how conducted**

During the Reporting Period a formal evaluation of the non-executive members of the Board was not carried out, as it was not considered to be a beneficial procedure given the size and composition of the Board and the nature of the Company's operations. However, the composition of the Board and its suitability to carry out the Company's objectives is discussed on an as-required basis during regular meetings of the Board and any adjustments made accordingly.

**SYLVANIA RESOURCES LIMITED**  
**ABN 80 091 415 968**

**INCOME STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	Consolidated		Parent entity	
		2006 \$	2005 \$	2006 \$	2005 \$
Other income	2	<b>439,220</b>	114,720	<b>429,220</b>	114,720
Share of net profit of joint venture entity accounted for on an equity basis		<b>1,148,649</b>	143,079	-	-
Depreciation		<b>(5,633)</b>	-	<b>(2,673)</b>	-
Exploration expenditure written off		<b>(251,855)</b>	(10,705)	-	(19,926)
Foreign exchange gain / (loss)		<b>135,209</b>	(59,995)	<b>135,209</b>	(59,995)
Project generation costs	14 (a)	<b>(7,294,461)</b>	(106,661)	<b>(7,200,000)</b>	-
Impairment of loans to subsidiaries		-	-	<b>(706,693)</b>	9,221
Write down of non-current assets		-	(1,783)	-	(1,783)
Other expenses		<b>(3,311,065)</b>	(1,090,029)	<b>(2,510,945)</b>	(1,184,285)
<b>Loss before income tax expense</b>	2	<b>(9,139,936)</b>	(1,011,374)	<b>(9,855,882)</b>	(1,142,048)
Income tax benefit	3	<b>158,129</b>	-	-	-
<b>Loss after income tax expense from continuing operations</b>		<b>(8,981,807)</b>	(1,011,374)	<b>(9,855,882)</b>	(1,142,048)
<b>Net loss for the period</b>		<b>(8,981,807)</b>	(1,011,374)	<b>(9,855,882)</b>	(1,142,048)
<b>Net loss attributable to members of parent</b>		<b>(8,981,807)</b>	(1,011,374)	<b>(9,855,882)</b>	(1,142,048)
<b>Basic earnings per share (cents)</b>	5	<b>(9.40)</b>	(1.92)		
<b>Diluted earnings per share (cents)</b>	5	<b>(9.40)</b>	(1.92)		

The accompanying notes form part of these financial statements.

**SYLVANIA RESOURCES LIMITED**  
**ABN 80 091 415 968**

**BALANCE SHEETS**

**AS AT 30 JUNE 2006**

	Notes	Consolidated		Parent entity	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	6	<b>5,945,746</b>	10,133,474	<b>5,850,676</b>	10,131,243
Trade and other receivables	7	<b>208,942</b>	319,491	<b>36,108</b>	569,491
<b>Total current assets</b>		<b>6,154,688</b>	10,452,965	<b>5,886,784</b>	10,700,734
<b>Non-current assets</b>					
Available-for-sale investments	8	<b>322,779</b>	19,736	<b>322,779</b>	19,736
Investments accounted for using the equity method	9	<b>4,761,496</b>	4,042,475	-	-
Other financial assets	10	<b>114,731</b>	-	<b>7,016,919</b>	4,819,190
Plant and equipment	11	<b>1,404,044</b>	4,003	<b>15,811</b>	4,003
Deferred exploration expenditure	12	<b>490,693</b>	644,400	-	-
Deferred tax asset	3	<b>158,129</b>	-	-	-
<b>Total non-current assets</b>		<b>7,251,872</b>	4,710,614	<b>7,355,509</b>	4,842,929
<b>Total assets</b>		<b>13,406,560</b>	15,163,579	<b>13,242,293</b>	15,543,663
<b>Current liabilities</b>					
Payables	13	<b>569,221</b>	244,875	<b>385,156</b>	242,903
<b>Total current liabilities</b>		<b>569,221</b>	244,875	<b>385,156</b>	242,903
<b>Total liabilities</b>		<b>569,221</b>	244,875	<b>385,156</b>	242,903
<b>Net assets</b>		<b>12,837,339</b>	14,918,704	<b>12,857,137</b>	15,300,760
<b>Equity</b>					
Issued capital	14	<b>29,242,204</b>	22,042,204	<b>29,242,204</b>	22,042,204
Reserves	14	<b>(812,288)</b>	(512,730)	<b>212,259</b>	-
Accumulated losses	14	<b>(15,592,577)</b>	(6,610,770)	<b>(16,597,326)</b>	(6,741,444)
<b>Total equity</b>		<b>12,837,339</b>	14,918,704	<b>12,857,137</b>	15,300,760

The accompanying notes form part of these financial statements.

**SYLVANIA RESOURCES LIMITED**  
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**STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 30 JUNE 2006**

<b>Consolidated</b>	<b>Issued capital</b>	<b>Accumulated losses</b>	<b>Reserves</b>	<b>Total equity</b>
	\$	\$	\$	\$
Balance at 1 July 2004	11,957,781	(5,599,396)	285,375	6,643,760
Loss for the period	-	(1,011,374)	-	(1,011,374)
Option reserve transferred to contributed equity	285,375	-	(285,375)	-
Shares issued during the year:				
Options exercised	6,403,078	-	-	6,403,078
Placement	3,501,000	-	-	3,501,000
Less: Capital raising costs	(105,030)	-	-	(105,030)
Currency translation differences	-	-	(512,730)	(512,730)
<b>Balance at 30 June 2005</b>	<b>22,042,204</b>	<b>(6,610,770)</b>	<b>(512,730)</b>	<b>14,918,704</b>
Shares issued during the year	7,200,000	-	-	7,200,000
Loss for the period	-	(8,981,807)	-	(8,981,807)
Share based compensation reserve	-	-	325,441	325,441
Net gains revaluation reserve	-	-	(113,182)	(113,182)
Currency translation differences	-	-	(511,817)	(511,817)
<b>Balance at 30 June 2006</b>	<b>29,242,204</b>	<b>(15,592,577)</b>	<b>(812,288)</b>	<b>12,837,339</b>

<b>Parent entity</b>	<b>Issued capital</b>	<b>Accumulated losses</b>	<b>Reserves</b>	<b>Total equity</b>
	\$	\$	\$	\$
Balance at 1 July 2004	11,957,781	(5,599,396)	285,375	6,643,760
Loss for the period	-	(1,142,048)	-	(1,142,048)
Option reserve transferred to contributed equity	285,375	-	(285,375)	-
Shares issued during the year:				
Options exercised	6,403,078	-	-	6,403,078
Placement	3,501,000	-	-	3,501,000
Less: Capital raising costs	(105,030)	-	-	(105,030)
<b>Balance at 30 June 2005</b>	<b>22,042,204</b>	<b>(6,741,444)</b>	<b>-</b>	<b>15,300,760</b>
Shares issued during the year	7,200,000	-	-	7,200,000
Loss for the period	-	(9,855,882)	-	(9,855,882)
Share based compensation reserve	-	-	325,441	325,441
Net gains revaluation reserve	-	-	(113,182)	(113,182)
<b>Balance at 30 June 2006</b>	<b>29,242,204</b>	<b>(16,597,326)</b>	<b>212,259</b>	<b>12,857,137</b>

The accompanying notes form part of these financial statements.

**SYLVANIA RESOURCES LIMITED**  
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**CASH FLOW STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	Consolidated		Parent entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Receipts from customers		262,531	111,391	97,141	44,840
Payments to suppliers and employees		(3,040,050)	(1,270,047)	(2,332,403)	(1,249,694)
Interest received		429,763	114,720	429,763	114,720
<b>Net cash inflow/(outflow) from operating activities</b>	24	<b>(2,347,756)</b>	<b>(1,043,936)</b>	<b>(1,805,499)</b>	<b>(1,090,134)</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of investments		19,193	-	19,193	--
Loans from/(to) subsidiaries		-	-	(2,427,547)	(2,279,141)
Loans to other parties		(114,731)	(297,721)	(57,347)	(297,721)
Repayment of loan from other party		297,721	-	305,866	--
Exploration & evaluation expenditure		(113,903)	(10,705)	-	(19,926)
Purchase of investments		(435,961)	-	(435,961)	--
Purchase of plant & equipment		(1,405,674)	(4,003)	(14,481)	(4,003)
Purchase of exploration projects		-	(388,576)	-	--
Purchase of equity accounted investments		-	(1,943,753)	-	--
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(1,753,355)</b>	<b>(2,644,758)</b>	<b>(2,610,277)</b>	<b>(2,600,791)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		-	9,904,078	-	9,904,078
Capital raising costs		-	(105,030)	-	(105,030)
<b>Net cash inflow from financing activities</b>		<b>-</b>	<b>9,799,048</b>	<b>-</b>	<b>9,799,048</b>
<b>Net increase/(decrease) in cash held</b>		<b>(4,101,111)</b>	<b>6,110,354</b>	<b>(4,415,776)</b>	<b>6,108,123</b>
<b>Foreign exchange movement</b>		<b>(86,617)</b>	<b>-</b>	<b>135,209</b>	<b>--</b>
Cash at the beginning of the financial year		10,133,474	4,023,120	10,131,243	4,023,120
<b>Cash at the end of the financial year</b>	6	<b>5,945,746</b>	<b>10,133,474</b>	<b>5,850,676</b>	<b>10,131,243</b>

The accompanying notes form part of these financial statements.

**SYLVANIA RESOURCES LIMITED**  
**ABN 80 091 415 968**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale investments, which have been measured at fair value. The company is registered and domiciled in Australia.

**(b) Statement of compliance**

The financial report was authorised for issue on 28 September 2006.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Company has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 25.

**New Accounting Standards and Interpretations**

As at 30 June 2006, a number of accounting standards have been issued or amended with applicable commencement dates subsequent to the year end. The company has not elected to early adopt these accounting standards. The expected impact of these accounting standards should not materially alter the accounting policies of the company at the date of the report.

The company is currently assessing the impact of the adoption of the above, which will be effective from the 1 July 2006.

**(c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Sylvania Resources Limited and its subsidiaries as at 30 June each year (the Group).

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

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

**(d) Significant accounting judgements estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**SYLVANIA RESOURCES LIMITED**  
**ABN 80 091 415 968**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d) Significant accounting judgements estimates and assumptions (continued)**

*Share-based payment transactions:*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black and Scholes model, using the assumptions detailed in Note 15.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formulas, taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 15.

**(e) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*(i) Sale of goods*

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

*(ii) Interest income*

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

**(f) Cash and cash equivalents**

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

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

**(g) Foreign currency translation**

Both the functional and presentation currency of Sylvania Resources Limited and its Australian subsidiaries is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The functional currency of the foreign operations is South African Rand (ZAR).

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Sylvania Resources Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.



**SYLVANIA RESOURCES LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Foreign currency translation (continued)**

The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

**(h) Interest in jointly controlled entities**

The Group's interests in jointly controlled entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in jointly controlled entities are brought to account using the cost method. Where the Group acquires an interest in a jointly controlled entity, the acquisition cost is amortised on a basis consistent with the method of amortisation used by the jointly controlled entity in respect to assets to which the acquisition costs relate.

**(i) Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Income tax (continued)**

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**(j) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

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

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

**(k) Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – 10%

Fixtures and fittings – 7.5%

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

**(i) Impairment**

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

Impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item.

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**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Plant and equipment (continued)**

(ii) Revaluations

Where applicable, fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the re-valued carrying amounts of the assets and depreciation based on the assets' original costs.

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the re-valued amounts of the assets.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Independent valuations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair values at the balance sheet date.

(iii) De-recognition and disposal

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

**(l) Investments and other financial assets**

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ended 30 June 2006 and 30 June 2005.

**Accounting policies applicable for the year ended 30 June 2006**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(l) Investments and other financial assets (continued)**

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*(ii) Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

**Accounting policies applicable for the year ended 30 June 2005**

Listed shares held for trading were carried at net market value. Changes in net market value were recognised as a revenue or expense in determining the net profit for the period.

All other non-current investments were carried at the lower of cost and recoverable amount. Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount.

**(m) Impairment of assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at re-valued amount (in which case the impairment loss is treated as a revaluation decrease).

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Impairment of assets (continued)**

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

**(n) Trade and other payables**

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ending 30 June 2006 and 30 June 2005.

**Accounting policies applicable for the year ended 30 June 2006**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

**Accounting policies applicable for the year ended 30 June 2005**

Trade payables and other payables are carried at costs which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

**(o) Provisions**

Where applicable, provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

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

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(p) Employee leave benefits**

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

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating 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. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

**(q) Share-based payment transactions**

*Equity settled transactions:*

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the black and scholes model.

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

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

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

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

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

The dilutive effect of outstanding shares and options issued is reflected as additional share dilution in the computation of earnings per share (see Note 5).

**(r) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(s) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

**(t) Exploration and evaluation expenditure**

The Group's policy with respect to exploration and evaluation expenditure is to use the "area of interest" method. Under this method, exploration and evaluation costs are carried forward on the following basis:

- (i) Each area of interest is considered separately when deciding whether and to what extent to carry forward or write off exploration and evaluation costs.
- (ii) Exploration and evaluation costs related to an area of interest are carried forward provided that rights to tenure of the area of interest are current and provided further that one of the following conditions are met:
  - such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or
  - exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.
  - such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or
  - exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

Exploration and evaluation costs accumulated in respect to each particular area of interest includes only net direct expenditure.

- (iii) The carrying values of exploration and evaluation costs are reviewed by directors where results of exploration and/or evaluation of an area of interest are sufficiently advanced to permit a reasonable estimate of the costs expected to be recouped through successful development and exploitation of the area of interest or by its sale. Expenditure in excess of this estimate is written off to the income statement in the year in which the review occurs.

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 2: REVENUE AND EXPENSES**

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>(a) Revenue</b>				
Tenement option funds	10,000	-	-	-
Interest received	429,763	114,720	429,763	114,720
Net capital gain / (loss) on sale of investments	(543)	-	(543)	-
	<b>439,220</b>	<b>114,720</b>	<b>429,220</b>	<b>114,720</b>

**(b) Expenses**

Loss from ordinary activities before income tax expense includes the following specific net gains and expenses:

Impairment of loans to subsidiaries	-	-	706,693	(9,221)
Impairment of equity investment	-	1,783	-	1,783
Tenement exploration expenses written off	251,855	10,705	-	19,926
Foreign exchange (gain) / loss	(135,209)	3,365	(135,209)	59,995
	<b>116,646</b>	<b>15,853</b>	<b>571,484</b>	<b>72,483</b>

**(c) Other expenses from ordinary activities includes the following:**

Consulting	982,521	483,559	955,973	474,147
Depreciation of non-current assets	5,633	-	2,673	-
Share based payments expense	325,441	-	325,441	-
	<b>1,313,595</b>	<b>483,559</b>	<b>1,284,087</b>	<b>474,147</b>



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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 3: INCOME TAX**

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

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Income Statement</b>				
<i>Current income tax</i>				
Current income tax benefit	(187,698)	(208,467)	(62,046)	(204,746)
Adjustments in respect of current income tax of previous years	(10,428)	-	(10,428)	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(132,907)	9,563	(132,907)	9,563
Tax losses not previously recognised now brought to account	(158,129)	-	-	-
Current year tax losses not recognized in the current period	331,033	198,904	205,381	195,183
Income tax expense reported in income statement	<u>(158,129)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Unrecognised Deferred Tax Balances</b>				
Unrecognised deferred tax assets - Losses	792,126	510,871	577,174	507,143
Unrecognised deferred tax assets - Capital Losses	13,898	-	13,898	-
Unrecognised deferred tax assets - Temporary differences	801,287	567,954	184,921	26,587
Unrecognised deferred tax liabilities	(49,222)	-	(49,222)	-
Net unrecognised deferred tax assets	<u>1,558,089</u>	<u>1,078,825</u>	<u>726,771</u>	<u>533,730</u>
<b>Reconciliation to income tax benefit on accounting loss</b>				
Accounting loss	(9,139,936)	(1,011,374)	(9,855,882)	(1,142,048)
Tax expense (benefit) at the statutory income tax rate of 30%	(2,741,981)	(303,412)	(2,956,765)	(342,614)
Sundry non-deductible(deductible) expenses				
- non deductible expenses	2,448,142	85,382	2,788,577	128,305
Share issue costs taken to equity	(26,766)	-	(26,766)	-
Over-provision of tax in prior year	(10,428)	19,126	(10,428)	19,127
Tax losses not previously recognised now brought to account	(158,129)	-	-	-
Benefit of tax losses and timing differences not brought to account	331,033	198,904	205,382	195,182
Income Tax expense	<u>(158,129)</u>	<u>-</u>	<u>-</u>	<u>-</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 3: INCOME TAX (CONTINUED)**

At 30 June 2006, there is no recognised or unrecognised deferred income tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associate or joint venture, as the Group has no liability for additional taxation should such amounts be remitted.

**Tax Consolidation**

Sylvania Resources Limited and its 100% owned Australian resident subsidiary have formed a tax consolidated group with effect from 1 July 2003. Sylvania Resources Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 4: SEGMENT REPORTING**

**Segment Information**

The Group's primary segment reporting format is geographical segments.

**Geographical segments**

The following table presents revenue, results and certain asset and liability information regarding geographical segments for the years ended 30 June 2006 and 30 June 2005.

<b>30 June 2006</b>	Continuing operations		Total operations
	Australia	South Africa	
	\$	\$	\$
Segment revenue			
Other revenue	439,220	-	439,220
Share of net profit from jointly controlled entity accounted for on an equity basis	-	1,148,649	1,148,649
<b>Total segment revenue</b>	<b>439,220</b>	<b>1,148,649</b>	<b>1,587,869</b>
Segment results	(8,877,137)	(104,670)	(8,981,807)
Segment Assets	6,282,722	7,123,838	13,406,560
Segment Liabilities	385,156	184,065	569,221
<b>30 June 2005</b>			
	Continuing operations		Total operations
	Australia	South Africa	
	\$	\$	\$
Segment revenue			
Other revenue	114,720	-	114,720
Share of net profit from jointly controlled entity accounted for on an equity basis	-	143,079	143,079
<b>Total segment revenue</b>	<b>114,720</b>	<b>143,079</b>	<b>257,799</b>
Segment results	(803,480)	(207,894)	(1,011,374)
Segment Assets	10,426,753	4,736,826	15,163,579
Segment Liabilities	129,078	115,797	244,875

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 5: EARNINGS PER SHARE**

	Consolidated	
	2006	2005
	<u>Cents per share</u>	<u>Cents per share</u>
Total Basic Loss per share	<u>(9.40)</u>	<u>(1.92)</u>
The loss used in the calculation is as follows:		
Total Basic Loss per share	<u>(8,981,807)</u>	<u>(1,011,374)</u>
The weighted average number of ordinary shares used in the calculation is as follows:		
Total Basic Loss per share	<u>95,564,205</u>	<u>52,738,939</u>

The Diluted Loss per Share is not reflected as the result is anti-dilutive.

**NOTE 6: CASH AND CASH EQUIVALENTS**

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash at bank and on hand	250,382	10,133,474	155,312	10,131,243
Short term deposits	<u>5,695,364</u>	-	<u>5,695,364</u>	-
	<u>5,945,746</u>	10,133,474	<u>5,850,676</u>	10,131,243

**(a) Reconciliation to Cash Flow Statement**

The above figures agree to cash at the end of the financial year as shown in the cash flows statement.

**(b) Cash at bank and on hand**

These are bearing interest rates of between 3.75% and 5.25% (2005: 4% and 4.10%)

**(c) Deposits at call**

The deposits are bearing floating interest rates between 4.45% and 5.73% (2005: n/a). These deposits have a maturity of between 30 and 31 days.

**(d) Cash balances not available for use**

An amount of R600,000 (A\$113,340) is currently held on trust with Phillip Silver Sweidan Inc (Attorneys, Notaries and Conveyancers) based in Johannesburg. The amount has been lodged as a security deposit against a claim that has been made against the company by an external creditor. The company is currently defending the claim in full.

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 7: CURRENT TRADE AND OTHER RECEIVABLES**

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Trade receivables	172,834	-	-	-
Sundry loan to unrelated party	-	297,721	-	297,721
GST recoverable	36,108	21,770	36,108	21,770
Loan receivable from subsidiary	-	-	549,769	557,914
Impairment of loan to subsidiary	-	-	(549,769)	(307,914)
	<b>208,942</b>	319,491	<b>36,108</b>	569,491

**NOTE 8: AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS**

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
<i>At fair value</i>				
Listed shares	272,476	19,736	272,476	19,736
Listed options	50,303	-	50,303	-
	<b>322,779</b>	19,736	<b>322,779</b>	19,736

Available-for-sale investments consist of investments in ordinary shares and options, and therefore have no fixed maturity date or coupon rate.

**NOTE 9: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Interest in jointly controlled entity (Refer Note 19)	<b>4,761,496</b>	4,042,475	-	-

**NOTE 10: OTHER FINANCIAL ASSETS (NON-CURRENT)**

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Non interest-bearing loans	114,731	-	57,347	-
Loan receivable from subsidiary	-	-	7,424,410	4,819,190
Impairment of loan to subsidiary	-	-	(464,838)	-
Investment in subsidiary	-	-	1,500,004	1,500,004
Impairment of investment in subsidiary	-	-	(1,500,004)	(1,500,004)
	<b>114,731</b>	-	<b>7,016,919</b>	4,819,190

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**NOTE 11: PLANT AND EQUIPMENT**

	Consolidated		Parent entity	
	Plant and equipment \$	<b>Total \$</b>	Plant and equipment \$	<b>Total \$</b>
<b>Year ended 30 June 2006</b>				
At 1 July 2005, net of accumulated depreciation and impairment	4,003	<b>4,003</b>	4,003	<b>4,003</b>
Additions	1,405,395	<b>1,405,395</b>	14,481	<b>14,481</b>
Disposals	-	-	-	-
Depreciation charge for the year	(5,354)	<b>(5,354)</b>	(2,673)	<b>(2,673)</b>
At 30 June 2006, net of accumulated depreciation and impairment	<u>1,404,044</u>	<u><b>1,404,044</b></u>	<u>15,811</u>	<u><b>15,811</b></u>
<b>At 1 July 2005</b>				
Cost	4,003	<b>4,003</b>	4,003	<b>4,003</b>
Accumulated depreciation and impairment	-	-	-	-
Net carrying amount	<u>4,003</u>	<u><b>4,003</b></u>	<u>4,003</u>	<u><b>4,003</b></u>

Included in plant and equipment at 30 June 2006 is an amount of \$1,271,554 (2005: Nil) relating to expenditure for plant in the course of construction.

**NOTE 12: DEFERRED EXPLORATION EXPENDITURE**

	Consolidated		Parent entity	
	<b>2006 \$</b>	2005 \$	<b>2006 \$</b>	2005 \$
Acquisition, exploration and evaluation expenditure at cost in respect of areas of interest in the exploration phase	<u>626,790</u>	<u>644,400</u>	-	-
Costs carried forward in respect of:				
<b>Exploration and evaluation phase – at cost</b>				
Balance at beginning of financial year	<b>644,400</b>	250,000	-	-
Direct expenditure for the year	<b>113,903</b>	10,705	-	-
Cost of tenements acquired	-	388,576	-	-
Foreign currency movements	<b>(15,755)</b>	5,824	-	-
Expenditure written off	<b>(251,855)</b>	(10,705)	-	-
Balance at end of financial year	<u><b>490,693</b></u>	<u>644,400</u>	<u>-</u>	<u>-</u>

Ultimate recovery of exploration and evaluation expenditure carried forward is dependent upon the recoupment of costs through successful development and commercial exploitation, or alternatively by sale of the respective areas.

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**NOTE 13: TRADE AND OTHER PAYABLES**

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Trade payables	491,437	214,144	307,372	212,172
GST payable	1,641	-	1,641	-
Group tax payable	66,143	20,731	66,143	20,731
Accrued expenses	10,000	10,000	10,000	10,000
	<b>569,221</b>	<b>244,875</b>	<b>385,156</b>	<b>242,903</b>

Of the payables \$314,065 (2005: \$101,972) is denominated and payable in South African Rand.

**NOTE 14: CONTRIBUTED EQUITY AND RESERVES**

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>(a) Ordinary shares issued</b>				
105,529,273 ordinary shares (2005: 91,679,273)	<b>29,242,204</b>	22,042,204	<b>29,242,204</b>	22,042,204

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

	<i>Notes</i>	Number	\$	Number	\$
<i>Movement in ordinary shares on issue</i>					
At 1 July 2004				51,883,883	11,957,781
Issued during the year				39,795,390	9,904,078
Share issue costs				-	(105,030)
Transfer from option issue reserve				-	285,375
At 1 July 2005		91,679,273	22,042,204		
Share issue on 9 December 2005	<i>(i)</i>	6,000,000	3,600,000		
Share issue on 21 December 2005	<i>(ii)</i>	3,850,000	-		
Share issue on 11 May 2006	<i>(iii)</i>	4,000,000	3,600,000		
At 30 June 2006		<b>105,529,273</b>	<b>29,242,204</b>	<b>91,679,273</b>	<b>22,042,204</b>

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

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**NOTE 14: CONTRIBUTED EQUITY AND RESERVES (CONTINUED)**

*Notes*

- (i) 6,000,000 shares in the company were issued at a deemed issue price of \$0.60 per share in consideration for assistance in identifying the tender opportunity and in the preparing the tender to retreat chrome tailings at Millsell and Waterloof.
- (ii) 3,850,000 shares in the company were issued at a deemed issue price of \$0.50 in accordance with the company's Employee Share Plan funded by way of a limited recourse loan repayable in 2 years from the date of issue. The equity contribution from these shares will be recognised upon receipt of funds by the company at the later of the loan being repaid by the employee or from funds recovered at the termination of the loan in accordance with the Share Plan terms and conditions. Refer Note 15.
- (iii) 4,000,000 shares in the company were issued at a deemed issue price of \$0.90 for services rendered in securing opportunities to participate in eligible projects involving the re-treatment of Samancor's tailings for the extraction of chrome at Samancor's tailing dumps at its Western and Eastern Chrome mines.

**(b) Options**

The company has established an Employee Option Plan ("Option Plan"), which was approved by Shareholders at the company's Annual General Meeting on the 30 November 2005.

On the 20 April 2006 the company issued 750,000 options exercisable at \$0.50 on or before the 30 June 2009 in accordance with the terms and conditions of the Option Plan. Refer Note 15.

During the year ended 30 June 2005 there were 32,015,390 June 2005 options exercised to acquire ordinary fully paid shares at \$0.20. A further 272,133 June 2005 options lapsed as they were not exercised by 30 June 2005.

**(c) Accumulated Losses**

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Balance as at 1 July 2005	<b>6,610,770</b>	5,599,396	<b>6,741,444</b>	5,599,396
Net loss for the year	<b>8,981,807</b>	1,011,374	<b>9,855,882</b>	1,142,048
Balance as at 30 June 2006	<b>15,592,577</b>	6,610,770	<b>16,597,326</b>	6,741,444

**(d) Reserves**

**Nature and purpose of reserves**

*Net unrealised gains reserve*

This reserve records fair value changes on available-for-sale investments.

*Employee equity benefits reserve*

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer Note 15.

*Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the foreign exchange effect of net investments in foreign operations.



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**NOTE 14: CONTRIBUTED EQUITY AND RESERVES (CONTINUED)**

**Reserves**

	Consolidated				Parent			
	Net Unrealised Gains Reserve \$	Equity Benefits Reserve \$	Currency Translation Reserve \$	<b>Total</b> \$	Net Unrealised Gains Reserve \$	Equity Benefits Reserve \$	Currency Translation Reserve \$	<b>Total</b> \$
At 1 July 2004	-	-	-	-	-	-	-	-
Currency translation differences	-	-	(512,730)	<b>(512,730)</b>	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-
At 30 June 2005	-	-	(512,730)	<b>(512,730)</b>	-	-	-	-
Unrealised gains / (losses) on available-for-sale investments reclassified to the income statement	(113,182)	-	-	<b>(113,182)</b>	(113,182)	-	-	<b>(113,182)</b>
Currency translation differences	-	-	(511,817)	<b>(511,817)</b>	-	-	-	-
Share and option-based payments	-	325,441	-	<b>325,441</b>	-	325,441	-	<b>325,441</b>
At 30 June 2006	<b>(113,182)</b>	<b>325,441</b>	<b>(1,024,547)</b>	<b>(812,288)</b>	<b>(113,182)</b>	<b>325,441</b>	<b>-</b>	<b>212,259</b>

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**NOTE 15: SHARE BASED PAYMENT PLANS**

**Directors and Employees Share and Option Plans**

To ensure that the company has appropriate mechanisms in place to continue to attract and retain the services of suitable directors and employees, the company has established the Directors and Employees Incentive Option Plan (“Option Plan”) and the Directors and Employees Incentive Share Plan (“Share Plan”), which were approved by the Shareholders at the company’s Annual General Meeting on the 30 November 2005.

The number of Options or Ordinary Shares that may be offered to a Participant is entirely within the discretion of the Board. The company does not intend to offer more than 6,000,000 securities (being a combination of Options under the Option Plan or Ordinary Shares under the Share Plan) under the Option Plan and the Share Plan, which represents approximately 5.7% of the Ordinary Shares in issue.

A participant who is invited to subscribe for Ordinary Shares under the Share Plan may also be invited to apply for an interest free loan (“Loan”) up to the amount payable in respect of the Ordinary Shares accepted by the Participant. Any Loan made available to a participant shall be applied by the company directly toward payment of the issue price of the Ordinary Shares to be acquired under the Share Plan. The term of the Loan, the time in which repayment of the Loan must be made by the Participant and the manner for making such payments shall be determined by the Board and set out in the invitation.

**Option Plan**

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued under the Option Plan during the year:

	2006 No.	2006 Weighted average exercise price	2005 No.	2005 Weighted average exercise price
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	750,000	\$0.50	-	-
Outstanding at the end of the year	750,000	\$0.50	-	-

The weighted average fair value of options granted during the year was \$0.56 per option (2005: Nil).

The fair value of the options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and the expense in relation to those services is recognised in profit and loss over the expected vesting period.

The following table lists the inputs to the model used for the years ended 30 June 2005 and 30 June 2006:

	2006	2005
Volatility (%)	0.4256	-
Risk-free interest rate (%)	5.5000	-
Expiry date	30 June 2009	-
Exercise price (cents)	0.5000	-
Weighted average share price at grant date (cents)	0.9500	-

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

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**NOTE 15: SHARE BASED PAYMENT PLANS (CONTINUED)**

**Share Plan**

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share issued under the Share Plan during the year:

	2006 No.	2006 Weighted average exercise price	2005 No.	2005 Weighted average exercise price
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	3,850,000	See below	-	-
Outstanding at the end of the year	3,850,000	See below	-	-

The shares issued under the Share Plan will not be quoted on the ASX and may not be sold or otherwise dealt with until the latter of the following occurs:

- a) any loan in respect of the share is repaid; and
- b) in respect of:
  - i. one half of the shares (*1,950,000 being Tranche 1*) issued under this offer, 12 months after the date of issue of the shares (21 December 2006); and
  - ii. the remaining one half of the shares (*1,950,000 being Tranche 2*) issued under this offer, 24 months after the date of issue of the shares (21 December 2007).

The weighted average fair value of the shares issued under the Share Plan during the year was \$0.165 per share (2005: Nil)

The fair value of the shares issued is measured as the value of the option inherent within the shares issued as at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and the expense in relation to those services is recognised in the profit or loss over the expected vesting period.

The following table lists the inputs to the model used for the year ended 30 June 2006 for the two (2) tranches noted above:

	<i>Tranche 1</i>	<i>Tranche 2</i>
Volatility (%)	0.4876	0.4876
Risk-free interest rate (%)	5.5900	5.5900
Expiry date	21 December 2006	21 December 2007
Exercise price (cents)	0.5000	0.5000
Weighted average share price at grant date (cents)	0.6400	0.6400

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

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**NOTE 16: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise of cash and short-term deposits.

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

***Interest rate risk***

All cash balances attract a floating rate of interest. The unsecured loan to another party does not attract interest. The Group's exposure to interest rate risk and the effective interest rate by maturity periods is set out below.

***Credit risk***

Credit risk relates to the risk that counterparties will default on their contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from any defaults.

The exposure of the Group to credit risk in relation to each class of recognised financial asset is the carrying amount as indicated in the balance sheet.

**NOTE 17: FINANCIAL INSTRUMENTS**

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

Market values have been used to determine the fair value of listed available-for-sale investments.

The fair values of all financial assets and liabilities approximate their carrying values as indicated in the balance sheet.

2006	Weighted Average Interest Rate	Non- Interest Bearing	Floating interest rate	1 year Or less	Over 1 to 5 years	Total
<b>Financial assets</b>						
Cash and deposits	5.05%	140	5,945,606	-	-	5,945,746
Receivables		208,942	-	-	-	208,942
Investments		322,779	-	-	-	322,779
Loans		114,731	-	-	-	114,731
		646,592	5,945,606	-	-	6,592,198
<b>Financial liabilities</b>						
Payables		(569,221)	-	-	-	(569,221)
Net financial assets/(liabilities)		77,371	5,945,606	-	-	6,022,977

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**NOTE 17: FINANCIAL INSTRUMENTS (CONTINUED)**

2005	Weighted Average Interest Rate	Non- Interest Bearing	Floating interest rate	1 year Or less	Over 1 to 5 years	Total
<b>Financial assets</b>						
Cash and deposits	4.9%	140	10,133,334	-	-	10,133,474
Receivables		319,491	-	-	-	319,491
Investments		19,736	-	-	-	19,736
		339,367	10,133,334	-	-	10,472,701
<b>Financial liabilities</b>						
Payables		(244,875)	-	-	-	(244,875)
Net financial assets/(liabilities)		94,492	10,133,334	-	-	10,227,826

**NOTE 18: COMMITMENTS AND CONTINGENCIES**

**Operating lease commitments**

**Office Premises**

The Group entered into commercial lease arrangements during the period to lease its current office premises, both in Perth and Johannesburg.

Future minimum lease payments (net of GST) as at 30 June are as follows:

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Within one year	111,749	-	71,892	-
After one year but not more than five years	120,997	-	110,834	-
More than five years	-	-	-	-
	232,746	-	182,726	-

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**NOTE 18: COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Office equipment**

Sylvania South Africa (Propriety) Limited entered into a number of lease agreements during the period in respect to office equipment.

Future minimum lease payments (net of GST) as at 30 June are as follows:

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Within one year	9,020	-	-	-
After one year but not more than five years	30,067	-	-	-
More than five years	-	-	-	-
	<b>39,087</b>	-	-	-
	<b>39,087</b>	-	-	-

**Exploration expenditure commitments**

**Everest North**

Aquarius Platinum SA holds a prospecting right in respect of the Everest North property, a Platinum Group Metal ("PGM") project on Farm Vygenhoek JT 10 in the Mpumalanga province of South Africa. On 26 May 2005, Sylvania announced that it had entered into the Everest North Agreement with Aquarius Platinum SA whereby Sylvania, through Sylvania SA, will take control of the exploration of the Everest North project. The initial consideration paid by Sylvania under the Everest North Agreement was R2 million, with a further R6 million payable once a right to mine has been obtained by Aquarius Platinum from the DME and transferred to Sylvania SA.

Commitments contracted for at the reporting date, which relate to a full feasibility study that commenced in April 2006, but are not recognised as a liability are as follows:

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Within one year	640,526	-	-	-
After one year but not more than five years	-	-	-	-
More than five years	-	-	-	-
	<b>640,526</b>	-	-	-
	<b>640,526</b>	-	-	-

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**NOTE 19: INTEREST IN JOINT VENTURE ENTITY**

The Group has a 25% interest in an un-incorporated joint venture, CTRP, which operates a chrome tailings re-treatment plant at Kroondal in South Africa for the purpose of extracting platinum group metals. The Group has accounted for this interest on an equity accounting basis.

	Consolidated <b>2006</b>	2005
<b>(a) Retained earnings attributable to interest in jointly controlled entity</b>		
Balance at beginning of financial period	143,079	-
Distribution received from jointly controlled entity	(155,390)	-
Share of jointly controlled entity's profit from ordinary activities after income tax	1,148,649	143,079
	<u>1,136,338</u>	<u>143,079</u>
Balance at end of financial period	<u>1,136,338</u>	<u>143,079</u>
<b>(b) Reserves attributable to interest in jointly controlled entity</b>		
	<u>-</u>	<u>-</u>
<b>(c) Carrying amount of investment in jointly controlled entity</b>		
Balance at beginning of the financial period	4,617,660	2,530,828
Additional investment made during period	-	1,943,753
Distribution received from jointly controlled entity	(155,390)	-
Share of jointly controlled entity's profit from ordinary activities, after income tax	1,148,649	143,079
Balance at end of financial period	<u>5,610,919</u>	<u>4,617,660</u>
<i>Foreign currency translation movements</i>		
Balance at beginning of the financial period	(575,185)	-
Movement during the financial period	(274,238)	(575,185)
Balance at end of financial period	<u>(849,423)</u>	<u>(575,185)</u>
	<u>4,761,496</u>	<u>4,042,475</u>
<b>(d) Share of jointly controlled entity's results and financial position</b>		
Current assets	929,472	434,565
Non-current assets	2,460,045	1,768,815
Total assets	<u>3,389,517</u>	<u>2,203,380</u>
Current liabilities	2,085,687	177,034
Non-current liabilities	177,918	143,086
Total liabilities	<u>2,263,605</u>	<u>320,120</u>
Revenue	2,257,982	456,954
Expenses	(1,109,333)	(313,875)
Profit from ordinary activities before income tax	1,148,649	143,079
Income tax expense	-	-
Profit from ordinary activities after income tax	<u>1,148,649</u>	<u>143,079</u>

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**NOTE 20: EVENTS AFTER THE BALANCE SHEET DATE**

On the 21 July 2006, the company commenced trading its shares on AIM in London after a placing raised £12 million (AUS \$29.6 million) (before expenses). The company has issued 40,000,000 placing shares, representing 27.5 per cent of the enlarged issued share capital of the company at 30 pence (AUS \$0.74) per ordinary share.

On the 25 July 2006, the company announced that further to its contract with Samancor Limited, the company has been granted prospecting rights over dumps at several of Samancor's Western and Eastern Chrome Mines located in the Bushveld Complex of South Africa.

Also on the 25 July 2006 and in accordance with its facilitation agreement with Portpatrick Ltd a further 5,275,000 million ordinary fully paid shares have been issued to Portpatrick Ltd for securing the prospecting rights to these highly prospective tailings dumps. The company intends retreat these tailings for the extraction of chrome and platinum group metals. Under the terms of the agreement between the company and Portpatrick dated 7 December 2005, a further 4,725,000 Ordinary Shares remain to be issued to Portpatrick as further consideration in respect of prospective tailings dumps.

**NOTE 21: AUDITORS' REMUNERATION**

The auditors of the parent entity are HLB Mann Judd.

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Assurance services</b>				
HLB Mann Judd Australian firm:				
Audit and review of financial statements	21,640	13,300	21,640	13,300
Related practices of HLB Mann Judd (HLB Barnett Chown Inc.)	28,032	2,153	-	-
<b>Total remuneration for audit services</b>	<b>49,672</b>	<b>15,453</b>	<b>21,640</b>	<b>13,300</b>
<b>Taxation services</b>				
HLB Mann Judd Australian firm:				
Tax compliance services, including review of company income tax returns	3,958	1,281	3,958	1,281
Related practices of HLB Mann Judd (HLB Barnett Chown Inc.)	1,626	2,331	-	-
<b>Total remuneration for taxation services</b>	<b>5,584</b>	<b>3,612</b>	<b>3,958</b>	<b>1,281</b>
<b>Advisory services</b>				
HLB Mann Judd Australian firm:				
Services in respect to AIM Listing	16,600	-	16,600	-
Advice regarding Share and Options valuations	2,400	-	2,400	-
<b>Total remuneration for advisory services</b>	<b>19,000</b>	<b>-</b>	<b>19,000</b>	<b>-</b>
<b>Total auditors' remuneration</b>				
Total auditors remuneration	<b>74,256</b>	19,065	<b>44,598</b>	14,581



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**NOTE 22: KEY MANAGEMENT PERSONNEL DISCLOSURES**

The company has applied the exemption available under Schedule 5B of the Corporations Regulations 2001 which exempts listed companies from providing certain remuneration disclosures in relation to key management personnel if these are contained within the Directors' Report. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report and are designated as audited.

**(a) Details of Key Management Personnel**

*(i) Directors*

Terrence M McConnachie	Chief Executive Officer
Edward F G Nealon	Chairman (non-executive)
Grant M Button	Director (Executive)
Dr Evan Kirby	Chief Operating Officer
Melissa J Sturgess Smith	Director (non-executive)
Kevin S Huntly	Director (non-executive)

*(ii) Executives*

Michael James Langoulant	Company Secretary
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On the 8 March 2006, the company announced a re-organisation of its executive team in response to expanding activities in South Africa.

Mr Terrence M McConnachie was appointed as Chief Executive Officer (formerly Chief Operations Officer), Dr Evan Kirby was appointed as Chief Operating Officer (formerly Non-executive Director) and Mr Edward F G Nealon was appointed as Non-executive Chairman (formerly Executive Chairman).

Other than the above re-organisation, there were no other changes of the key management personnel after the reporting date and the date the financial report was authorised for issue.

**(b) Compensation of Key Management Personnel**

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short-Term	<b>810,594</b>	487,119	<b>679,597</b>	470,099
Post Employment	<b>22,600</b>	7,402	<b>22,600</b>	7,402
Share-based Payments	<b>284,333</b>	-	<b>222,681</b>	-
	<b>1,117,527</b>	494,521	<b>924,878</b>	477,501

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 22: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**

**(c) Compensation options: Granted and vested during the year (Consolidated)**

During the financial year options were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel as disclosed above. No share options have been granted to the non-executive members of the Board of Directors under this scheme.

30 June 2006	Vested		Granted	Terms and Conditions for each Grant				
	No.	No.		Grant Date	Fair Value per option at grant date	Exercise price per option	Expiry Date	First Exercise Date
Directors				\$	\$			
T M McConnachie	-	500,000	20 April 2006	\$0.56	\$0.50	30 June 2009	See below note	30 June 2009
K S Huntly	-	250,000	20 April 2006	\$0.56	\$0.50	30 June 2009	See below note	30 June 2009
Total		<u>750,000</u>						

The shares issued pursuant to the exercise of Options can only be delivered and paid for after the expiry of the following periods and in the following proportions:

- after 12 months have lapsed from the acceptance date, in respect of not more than one half of the total number of shares; and
- after 24 months have lapsed from the acceptance date, in respect of the balance of those shares.

No compensation options were granted or vested during the year ended 30 June 2005.

**(d) Shares issued under the Directors and Employees Incentive Share Plan during the year (Consolidated)**

Directors	Vested		Grant Date	Fair Value per share at grant date	Exercise price per share	Expiry Date	Total value of shares granted	Value of options included in remuneration for the year
	No.	Granted No.						
Edward F G Nealon	-	750,000	21 December 2005	0.64	0.50	30 June 2009	123,812	51,388
Grant M Button	-	750,000	21 December 2005	0.64	0.50	30 June 2009	123,812	51,388
Dr Evan Kirby	-	750,000	21 December 2005	0.64	0.50	30 June 2009	123,812	51,388
Melissa J Sturgess Smith	-	750,000	21 December 2005	0.64	0.50	30 June 2009	123,812	51,388
Michael J Langoulant	-	250,000	21 December 2005	0.64	0.50	30 June 2009	123,812	17,129
		<u>3,250,000</u>						

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 22: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**

**(e) Shares issued on Exercise of Compensation Options**

No shares were issued on exercise of Compensation Options during the year.

**(f) Option holdings of Key Management Personnel (Consolidated)**

The only Option holdings of Key Management Personnel are as detailed in note (c) above.

**(g) Shareholdings of Key Management Personnel (Consolidated)**

30 June 2006	Balance 1 July 2005 Ordinary	Issued under Incentive Share Plan (Note 22(d))	On Exercise of Options Ordinary	Balance 30 June 2006 Ordinary
<b>Directors</b>				
T M McConnachie	-	-	-	-
E FG Nealon	-	750,000	-	750,000
G M Button	500,000	750,000	-	1,250,000
Dr E Kirby	14,300	750,000	-	764,300
M J Sturgess	65,000	750,000	-	815,000
K S Huntly	-	-	-	-
<b>Executives</b>				
M J Langoulant	100,000	250,000	-	350,000
	<u>679,300</u>	<u>3,250,000</u>	<u>-</u>	<u>3,929,300</u>

30 June 2005	Balance 1 July 2004 Ordinary	Issued under incentive Share Plan (Note 22(d))	On Exercise of Options Ordinary	Balance 30 June 2005 Ordinary
<b>Directors</b>				
T M McConnachie	-	-	-	-
E FG Nealon	-	-	-	-
G M Button	250,000	-	250,000	500,000
Dr E Kirby	14,300	-	-	14,300
M J Sturgess	-	-	65,000	65,000
K S Huntly	-	-	-	-
<b>Executives</b>				
M J Langoulant	100,000	-	-	100,000
	<u>364,300</u>	<u>-</u>	<u>315,000</u>	<u>679,300</u>

All equity transactions with key management personnel other than those arising under the Group's Incentive Option Plan (Note 22(c)) and Incentive Share Plan (Note 22(d)) have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

**SYLVANIA RESOURCES LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 23: RELATED PARTY DISCLOSURE**

The consolidated financial statements include the financial statements of Sylvania Resources Limited and the subsidiaries listed in the following table:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2006	2005
			%	%
Twinloop Nominees Pty Ltd	Australia	Ordinary	100	100
Sylvania South Africa (Pty) Ltd	South Africa	Ordinary	100	100
Sylvania Metals (Pty) Ltd	South Africa	Ordinary	100	-
Sylvania Minerals (Pty) Ltd	South Africa	Ordinary	100	-
Sylvania Mining (Pty) Ltd	South Africa	Ordinary	100	-

Sylvania Resources Limited is the ultimate Australian parent entity and the ultimate parent of the Group. Transactions between Sylvania Resources Limited and its controlled entities during the year consisted of loans advanced by Sylvania Resources Limited.

**Related Party**

The following table provides details of advances to related parties during the year and outstanding balances at balance date:

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Magnum Gold NL	114,731	-	57,347	-

*Joint venture in which the entity is a venturer*

The Group has a 25% interest in the assets, liabilities and output of an un-incorporated joint venture, CTRP, which operates a chrome tailings re-treatment plant at Kroondal in South Africa (2005: 25%)

*Terms and conditions of transactions with related parties*

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

**SYLVANIA RESOURCES LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 24: RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	<i>Consolidated</i>		<i>Parent entity</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	\$	\$	\$	\$
a) <i>Reconciliation of loss from ordinary activities after income tax to net cash outflow from operating activities</i>				
Loss from ordinary activities after income tax	<b>(8,981,807)</b>	(1,011,374)	<b>(9,855,882)</b>	(1,142,048)
Administration fee charged to subsidiaries	-	-	<b>(177,672)</b>	-
Equity accounted net profit from joint venture	<b>(1,148,649)</b>	(143,079)	-	-
Joint venture cash distribution	<b>155,390</b>	-	-	-
Project generation costs	<b>7,200,000</b>	-	<b>7,200,000</b>	-
Depreciation	<b>5,633</b>	-	<b>2,673</b>	-
Non-cash employee benefits expense – share-based payments	<b>325,441</b>	-	<b>325,441</b>	-
Net exchange differences	<b>(135,209)</b>	56,630	<b>(135,209)</b>	-
Write down of other non-current assets to recoverable amount	-	1,783	-	1,783
Net (gain) / loss on sale of non-current assets	<b>543</b>	-	<b>543</b>	-
Mining tenement expenditure written off	<b>251,855</b>	10,705	-	19,926
Write down of loan to subsidiaries	-	-	<b>706,693</b>	(9,221)
(Increase) / Decrease in trade and other debtors	<b>(187,170)</b>	(14,277)	<b>(14,339)</b>	(14,277)
(Increase) / Decrease in deferred tax asset	<b>(158,129)</b>	-	-	-
Increase / (Decrease) in trade creditors	<b>324,346</b>	55,676	<b>142,253</b>	53,703
	<hr/>			
Net cash outflow from operating activities	<b>(2,347,756)</b>	(1,043,936)	<b>(1,805,499)</b>	(1,090,134)

b) *Non-cash financing and investing activities*

During the 2006 financial year the following non-cash financing or investing activities occurred:

- 6,000,000 shares in the company were issued at a deemed issue price of \$0.60 per share in consideration for assistance in identifying the tender opportunity and in the preparing the tender to retreat chrome tailings at Millsell and Waterloo; and
- 4,000,000 shares in the company were issued at a deemed issue price of \$0.90 for services rendered in securing opportunities to participate in eligible projects involving the re-treatment of Samancor's tailings for the extraction of chrome at Samancor's tailing dumps at its Western and Eastern Chrome mines.

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 25: TRANSITION TO AIFRS**

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice ('AGAAP'). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards ('AIFRS').

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time adoption of AIFRS.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

*Exemptions applied*

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the company and group have adopted AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005.
- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 July 2004.
- AASB 2 Share-based Payment has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

*Explanation of material adjustments to the cash flow statement*

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

**NOTE 25: TRANSITION TO AIFRS (CONTINUED)**

**Impact of adoption of AIFRS**

The impacts of adopting AIFRS on the total equity and loss after tax as reported under Australian Accounting Standards applicable before 1 January 2005 (previous Australian GAAP) are illustrated below.

**(i) Reconciliation of total equity as presented under previous Australian GAAP to that under AIFRS**

	Consolidated	
	1 July 2004	30 June 2005
Total equity under previous Australian GAAP	\$ 6,643,760	\$ 15,488,064
<i>Adjustments to equity:</i>		
Currency translation differences	-	(569,360)
Total equity under AIFRS	6,643,760	14,918,704

**(ii) Reconciliation of profit after tax under previous Australian GAAP to that under AIFRS**

	Consolidated	
	Year ended 30 June 2005	
Loss after tax as previously reported	\$ (954,744)	
Foreign currencies translations	(56,630)	
Loss after tax under AIFRS	(1,011,374)	

The foreign currency translation difference has no effect on income tax expense under either Australian GAAP or AIFRS.

**SYLVANIA RESOURCES LIMITED**  
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**DIRECTORS' DECLARATION**

1. In the opinion of the directors:
  - a. the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001 including:
    - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year then ended; and
    - ii. complying with Accounting Standards and Corporations Regulations 2001; and
  - b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2006.

This declaration is signed in accordance with a resolution of the Board of Directors.



**Edward Nealon**  
**Non-executive Chairman**

Perth, Western Australia  
28 September 2006



**INDEPENDENT AUDIT REPORT**

*To the members of*

**Sylvania Resources Limited**

**Scope**

*The Financial Report and Directors' Responsibility*

The financial report comprises the balance sheet as at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements and the directors' declaration for the year then ended for both Sylvania Resources Limited ('the company') and the consolidated entity. 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 designed to prevent and detect fraud and error, for the accounting policies and for the accounting estimates within 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 that the financial report is free of material misstatement. The nature of an audit is influenced by several factors including the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of audit evidence which may be persuasive rather than conclusive. Accordingly, 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 and the consolidated entity's financial position, and of their performance as represented by the results of their 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.

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

## Independence

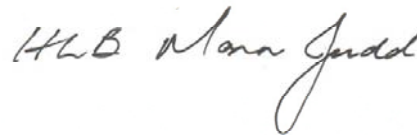
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The Directors' Report attached to the financial statements includes a copy of the Independence Declaration given to the Directors by the lead auditor for the audit. That Declaration would be on the same terms if it had been given to the Directors at the time this audit report was made.

## Audit Opinion

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position at 30 June 2006 and of their performance for the year then ended; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



**HLB MANN JUDD**  
**Chartered Accountants**



**Perth, Western Australia**  
**28 September 2006**

**W M CLARK**  
**Partner**

**SYLVANIA RESOURCES LIMITED**  
**ABN 80 091 415 968**

**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

The shareholder information set out below was applicable as at 31 August 2006.

**A. Distribution of equity securities**

Analysis of numbers of equity security holders by size of holding:

	<i>Class of equity security</i>
	<i>Ordinary shares</i>
1 – 1,000	11
1,001 – 5,000	85
5,001 – 10,000	112
10,001 – 100,000	209
100,001 and over	82
	499

There were 5 holders of less than a marketable parcel of ordinary shares.

**B. Equity security holders**

**Twenty largest quoted equity security holders – ordinary shares**

<b>Name</b>	<b>Ordinary shares</b>	
	<b>No. held</b>	<b>% of issued shares</b>
Computershare Clearing Pty Ltd	42,928,899	28.47
ANZ Nominees Limited	19,232,559	12.75
National Nominees Limited	16,388,533	10.87
Sunshore Holdings Pty Ltd	9,586,766	6.36
J P Morgan Nominees Australia Limited	6,336,696	4.20
Portpatrick Inc	4,351,801	2.89
HSBC Custody Nominees (Australia) Limited	4,126,850	2.74
Levante Shipping Est	3,275,000	2.17
Westpac Custodian Nominees Limited	3,037,200	2.01
Mellon Nominees (UK) Ltd	2,447,500	1.62
Victoria Global Holdings Limited	1,900,000	1.26
Fortis Clearing Nominees	1,754,928	1.16
Bell Potter Nominees Ltd	1,600,000	1.06
Citicorp Nominees Pty Limited	1,351,700	0.90
Golden Food Pty Ltd	1,230,000	0.82
Dr Salim Cassim	1,200,000	0.80
Flue Holdings Pty Ltd	1,200,000	0.80
Mr Christopher Robert Rogerson	1,000,000	0.66
Mr Grant Button	750,000	0.50
Mr Evan Kirby	750,000	0.50
	124,448,432	82.54

**SYLVANIA RESOURCES LIMITED**  
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**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

**C. Substantial shareholders**

Substantial shareholders in the Company are set out below:

	<b>Number Held</b>	<b>Percentage</b>
Ordinary shares		
Sunshore Holdings Pty Ltd	9,586,766	6.36
FRM Corp	8,256,550	9.01

**D. Voting rights**

The voting rights attaching to each class of equity securities are set out below:

(a) **Ordinary shares**

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

**E. Tenement schedule**

<b><u>Project</u></b>	<b><u>Tenement details</u></b>	<b><u>% Held</u></b>
<b>Copper Knob</b>	M52/211	100 (subject to option to sell 100%)
<b>Jimblebar</b>	P52/869	80 (subject to option to sell 100%)
	MLA52/739	80 (subject to option to sell 100%)
	P52/972	100 (subject to option to sell 100%)
<b>Everest North</b>	Mineral Area 2 on farm Vygenhoek No 10 JT measuring 180 hectares	Right to acquire 100%