

GULF MINES LIMITED
ABN 73 059 954 317
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Your Directors present their report on the company and its controlled entities for the financial year ended 30 June 2006.

Directors

The names of the directors in office at any time during or since the end of the year are:

Roy Maxwell Payne (Chairman appointed 6 October 2005)

Graham Charles Reveleigh (Managing Director)

Sharif Awad Oussa (Non-Executive Director appointed 6 October 2005)

Peter Bennett Smith (Non-Executive Director appointed 6 October 2005)

Principal Activities

The principal activity of the Company and its subsidiaries during the course of the financial year since October 2005, was the acquisition of the Wologorang Copper Project in the Northern Territory, the acquisition of the Branch Creek Diamond Project in the Northern Territory, the acquisition of the Ebagoola Gold Project in North Queensland, and the commencement of exploration on all three projects.

No significant change occurred in the nature of those activities during the year.

Results

The Company incurred a pre-tax operating loss of \$58,909 (2005 - nil)

Dividends

No dividend has been declared or paid since the end of the previous financial year and no dividend is recommended for the current year, (2005 - nil)

Review of Operations

The Company has acquired three mineral exploration projects in the Northern Territory and Northern Queensland and has commenced exploration on all projects. The Wologorang Copper Project was acquired by Gulf Mines Limited by the purchase of all the issued capital of Hartz Range Mines Pty Ltd. The conditions of Sale included retention by the Vendors of the rights and entitlements under the Debbil Debbil Creek Uranium Option Agreement (signed by the Vendors prior to Gulf Mines being formed), and retention of the rights to explore for diamonds over the whole area of the three ELs. Gulf Mines has subsequently agreed in principal with the Vendors to purchase the rights to explore for diamonds, known as the Branch Creek Diamond Project, and documentation of this deal is in progress. Gulf Mines obtained an Option to purchase an EPM and three Mining Leases over the old Ebagoola Goldfield on North Queensland, from a prospector, Mr Glensk. The Option was exercised in June, and the transfer of tenements process has commenced. This project is known as the Ebagoola Gold Project. Gulf Mines has since considerably extended its interest in this region by applying for

additional 273 sub-blocks as EPMs over the rest of the Goldfield, and certain prospective ground to the south. All of this project area will be held and operated by a wholly owned subsidiary of Gulf Mines, Ebagoola Gold Mines Pty Ltd.

The Company was incorporated in Queensland in May, 1993. The Company changed its name to Gulf Mines Pty Ltd in September 2004. In October, 2005, the company set about changing from a proprietary company to a public company, and the conversion was registered by ASIC on 22nd December 2005. The company commenced raising seed capital mainly from sophisticated investors, and issued a total of 19,998,536 new shares, having raised \$998,926.80. This allowed exploration to commence on the Wologorang Copper Project, and the Ebagoola Gold Project.

The prolonged wet season in Northern Australia severely curtailed the field season in 2006. Both project areas were inaccessible to vehicles till mid June, as a result of the two cyclones in April. The airborne geophysical survey commissioned in February 2006, will now commence in August 2006, instead of April 2006 when it was planned. Compilation of digital databases of all previous work completed by other companies on the Project areas was commenced in February, and is nearing completion. Subsequent to the balance date, field work has commenced at Ebagoola.

Significant Changes in State of Affairs

During the year, Gulf Mines Pty Ltd upgraded its status from a private company to a public company limited by shares, and raised further capital through two Information Memoranda to sophisticated investors and a small number of other interested parties.

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Events Subsequent to Reporting Date

During June 2006, the Company had issued an updated Information Memorandum which resulted in additional capital of \$230,000.00 being raised in July.

No other matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect:

- (a) the economic entity's operations;
- (b) the results of those operations; or
- (c) the economic entity's state of affairs

in future financial years.

Future Developments

There are material likely developments in the economic entity's operations and expected results of those operations in future financial years, which will depend on the results of the on-going mineral exploration programmes being undertaken by the Company.

Environmental Issues

The economic entity's operations are subject to significant environmental regulations under either Commonwealth or State Legislation in relation to its mineral exploration programmes. Should a mineral deposit be identified which is capable of sustaining a mining operation, appropriate environmental studies will be undertaken and suitable actions implemented to effectively comply with the current regulations of the time.

Information on Directors

Roy Maxwell Payne, 54, *Solicitor of Supreme Court Qld*
Chairman (non-executive), appointed 6 October 2006.

Mr Payne is the Managing Partner of Williams Graham and Carman, a substantial legal firm in Cairns, and has over 25 years experience in commercial law and litigation in Far North Queensland, including extensive experience in banking and securities, acting for a number of major nationwide lenders. He has experience in acting for local Government and previously had 12 years litigation and dispute resolution experience as a Court Registrar and Stipendiary Magistrate for the Department of Justice in Queensland.

Listed company directorships held during the last three years:

Nil

Graham Charles Reveleigh, 62, *MSc MAusIMM CP(Man) MCIMM MSMME*

Managing Director, appointed 6 October 2006, Director appointed 31 May 1993.

Mr Reveleigh has wide experience in the mining industry, covering exploration, development, construction and mine operations. Graduating from University of Queensland in 1966 with a BSc majoring in Geology, Mr Reveleigh spent 10 years in active exploration for gold, uranium, copper, and other minerals before becoming Mine Manager at Noble's Nob, where he ran the operations for seven years.

During his exploration years Mr Reveleigh completed an MSc at James Cook University of North Queensland in 1977. Subsequently, he has worked on numerous projects both in Australia and overseas as a consultant. Mr Reveleigh worked for Northern Gold NL at Hill End NSW; Elders Resources at Red Dome, Qld as Mine Superintendent /Mine Manager; Cyprus Gold Australia Corp as Project Manager for the feasibility study, construction, and operation of Moline Gold Mine in the Northern Territory, as Project Manager for Arimco at Gold Ridge, Solomon Islands; as part of the Pacific Delta team for Kennecott at Lihir; as well as smaller jobs in Philippines, New Caledonia, Siberia and most States in Australia. Mr Reveleigh has been the Site Manager for Nugget Resources Inc at Hill End NSW since the commencement of the project, and for the last four years was Managing Director of that Company.

Listed company directorships held during the last three years:

Drillsearch Energy Limited
Hill End Gold Limited

Bounty Oil & Gas NL
Circumpacific Energy Limited

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Information on Directors (Cont.)

Sharif Awad Oussa , 36, BSc (Hons)

Director (non-executive), appointed 6 October 2006.

Mr. Oussa worked as a geologist for several junior mining companies. He has also undertaken, but not completed two years of research towards a PhD at Monash University. He joined D&D-Tolhurst, as Resources Analyst where he specialized in the junior mining sector, as well as following other larger resources companies, and was later Head of Mining and Resources in the corporate area and became a leader in the Australian CBM industry having successfully financed several CBM companies through the public markets. On leaving Tolhursts, Mr Oussa was instrumental in founding Planet Gas Ltd, a CBM exploration and development company, Great Artesian Oil and Gas Limited, Purus Energy Limited (CBM, gold and base metals exploration) and is one of the original founders of Energy Investments Limited, a coal bed methane (CBM), and oil and gas appraisal and development company, for which he is currently a major shareholder, Chief Geologist and Chief Investment Officer.

Listed company directorships held during the last three years:

nil

Dr Peter Bennett Smith , 49, BSc (Hons) MBA PhD

Director (non-executive), appointed 6 October 2006.

Dr Smith has more than 12 years, and a significant reputation in the asset and funds management and financial consulting industries. He has been involved with a number of companies in investment management and corporate finance. He was previously a senior portfolio manager at ACSIS Wealth Management (Australia) Ltd where he successfully managed and designed large superannuation and investment funds for several years. He also previously held directorships with the Investec Group Australia as CIO for several years. Additionally, he managed the treasury investments and Australian domiciled funds of Investec Australia Ltd. He currently holds a directorship in Prema Capital Ltd group of companies, an Investment Banking operation specializing in a comprehensive range of financial advice and services including; investment advice, reporting, valuations and analysis, capital raising, IPO's, corporate restructuring, MBO, M&A and joint ventures. He is currently a senior asset consultant and funds manager with Van Eyk Research Ltd.

Listed company directorships held during the last three years:

nil

Company Secretary

Bruce William Peden , 64, FCA

Mr Peden is a Chartered Accountant, and was a Partner of Hall Chadwick in Cairns prior to his retirement from that firm in 2001. He served for a number of years as a State Councillor for the Institute of Chartered Accountants in Australia and currently serves the Institute on one of its support groups. He was appointed Company Secretary of Gulf Mines Limited on 6 October 2005.

Remuneration Report

Remuneration Policy

The remuneration policy of Gulf Mines Limited has been designed to accommodate a lower emolument for Directors during the initial two years of the Company's life, after which emoluments will increase to rates more in keeping with those applicable to small resource companies. Incorporated in this policy is an ability to adjust rates in the event that the Company lists on an Australian Stock Exchange. The Board of Gulf Mines Limited believes this remuneration policy to be appropriate and effective.

The Board may exercise discretion in relation to approving incentives, bonuses and options. The objective is to attract the highest calibre of executives and reward them for performance that results in long term growth in shareholder wealth.

The executive directors and senior executives receive a superannuation guarantee contribution as required by the government, which is currently 9%, and do not receive any other retirement benefits.

Fees for non executive directors are not linked to the performance of the company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

The directors have set the base fees payable for the first year as follows:-

Non-executive Chairman	\$15,000 per annum
Non-executive Directors	\$10,000 per annum

In addition to the fees above, the company makes compulsory superannuation contributions on behalf of each director in accordance with the Superannuation Guarantee Act. The company does not have any schemes for retirement benefits for non-executive directors.

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All matters regarding remuneration are currently reviewed by the full Board.

Remuneration Report (Cont.)

Service Agreements

The Company has entered into a Service Agreement with Zanamere Pty Ltd for the provision of the services of Mr Graham Reveleigh as Managing Director. The Agreement is for an overall term of five years, and provides for a remuneration of \$100,000.00 for the first year. The Agreement can be terminated under circumstances normally contained in such service agreements.

Agreements have also been entered into with Zanamere Pty Ltd for the provision of registered office and administration services for \$4,000.00 per calendar month reviewable annually, and for provision of technical services of professional mining personnel as and when required, such services to be charge at competitive commercial rates.

There are no other service agreements.

Remuneration paid to Directors and their Associated Entities - year ended 30 June 2006

Director	Emolument
Roy Payne	\$5,000.00
Graham Reveleigh	\$33,333.31
Sharif Oussa	\$3,333.33
Peter Smith	\$3,333.33

Remuneration of the five named executives who receive the highest remuneration for the year ended 30 June 2006

No payment was made to the Company Secretary during the year. The executive director's remuneration is included in the Table above. There are no other executives.

Meetings of Directors

During the financial year, four (4) meetings of the Company's directors were held. The number of meetings each director of the Company attended is as follows:

Director	Number of Meetings Held	Number of Meetings Attended
Roy Payne	4	3
Graham Reveleigh	4	4
Sharif Oussa	4	4
Peter Smith	4	4

Indemnifying Officers or Auditor

The company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the company:

- (a) indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- (b) paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is set out on page 5 and forms part of the Director's Report. This report is made in accordance with a resolution of the directors.

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

Signed at Cairns on 27 July 2006.

Roy Payne
Director

Graham Reveleigh
Director

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the directors of Gulf Mines Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Gulf Mines Ltd for the year ended 30 June 2006 there have been:

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

Signed at Cairns on 25 July 2006

WHK Greenwoods

WHK GREENWOODS (CAIRNS)



JASON TAYLOR
Partner

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INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	Economic Entity		Parent Entity	
		2006	2005	2006	2005
Revenue from Ordinary Activities					
Revenue	2	12,507	-	12,395	-
Accountancy		(3,127)	-	(2,877)	-
Administration		(2,549)	-	(1,647)	-
Auditing		(6,000)	-	(6,000)	-
Director & Officer Emoluments		(45,000)	-	(45,000)	-
Exploration Costs		(318)	-	(318)	-
Legal Fees		(9,047)	-	(9,047)	-
Travel		(5,375)	-	(5,375)	-
Profit before Income Tax		<u>(58,909)</u>	<u>-</u>	<u>(57,869)</u>	<u>-</u>
Income tax expense	3	-	-	-	-
Profit attributable to members of the parent entity		<u>(58,909)</u>	<u>-</u>	<u>(57,869)</u>	<u>-</u>

GULF MINES LIMITED
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BALANCE SHEET
AS AT 30 JUNE 2006

	NOTE	Economic Entity		Parent Entity	
		2006	2005	2006	2005
CURRENT ASSETS					
Cash and Cash Equivalents	4	742,127	-	713,279	-
Receivables	5	19,005	-	3,322	-
TOTAL CURRENT ASSETS		<u>761,132</u>	<u>-</u>	<u>716,601</u>	<u>-</u>
NON-CURRENT ASSETS					
Receivables	5	-	-	187,000	-
Other Financial Assets	6	-	-	50,010	-
Capitalised Exploration Costs	8	214,249	-	-	-
TOTAL NON-CURRENT ASSETS		<u>214,249</u>	<u>-</u>	<u>237,010</u>	<u>-</u>
TOTAL ASSETS		<u>975,381</u>	<u>-</u>	<u>953,611</u>	<u>-</u>
CURRENT LIABILITIES					
Payables	9	31,641	-	8,831	-
TOTAL CURRENT LIABILITIES		<u>31,641</u>	<u>-</u>	<u>8,831</u>	<u>-</u>
TOTAL LIABILITIES		<u>31,641</u>	<u>-</u>	<u>8,831</u>	<u>-</u>
NET ASSETS		<u>943,740</u>	<u>-</u>	<u>944,780</u>	<u>-</u>
EQUITY					
Contributed Equity	10	1,002,651	2	1,002,651	2
Accumulated Losses	11	<u>(58,911)</u>	<u>(2)</u>	<u>(57,871)</u>	<u>(2)</u>
TOTAL EQUITY		<u>943,740</u>	<u>-</u>	<u>944,780</u>	<u>-</u>

GULF MINES LIMITED
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Economic Entity		Parent Entity		
	NOTE	Share Capital Ordinary	Accumulated Losses	Share Capital Ordinary	Accumulated Losses
Balance at 1 July 2004		2	(2)	2	(2)
Loss attributable to equity shareholders					
Shares issued during the year					
Subtotal		<u>2</u>	<u>(2)</u>	<u>2</u>	<u>(2)</u>
Dividends paid or provided for					
Balance at 30 June 2005		<u>2</u>	<u>(2)</u>	<u>2</u>	<u>(2)</u>
Balance at 1 July 2005		2	(2)	2	(2)
Loss attributable to equity shareholders			(58,909)		(57,869)
Shares issued during the year		1,002,649		1,002,649	
Subtotal		<u>1,002,651</u>	<u>(58,911)</u>	<u>1,002,651</u>	<u>(57,871)</u>
Dividends paid or provided for					
Balance at 30 June 2006		<u>1,002,651</u>	<u>(58,911)</u>	<u>1,002,651</u>	<u>(57,871)</u>

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STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	Economic Entity		Parent Entity	
		2006 Inflows (Outflows)	2005 Inflows (Outflows)	2006 Inflows (Outflows)	2005 Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers		12,507	-	12,395	-
Payments to Suppliers and Employees		<u>(58,780)</u>	<u>-</u>	<u>(64,755)</u>	<u>-</u>
		(46,273)	-	(52,360)	-
Interest and Other Costs of Finance Paid		-	-	-	-
Interest Received		-	-	-	-
NET CASH FROM OPERATING ACTIVITIES	12(a)	<u>(46,273)</u>	<u>-</u>	<u>(52,360)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for Exploration and Evaluation		(214,249)	-	-	-
Payment for Investments		-	-	(50,010)	-
NET CASH FROM INVESTING ACTIVITIES		<u>(214,249)</u>	<u>-</u>	<u>(50,010)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from Issue of Shares		1,002,649	-	1,002,649	-
Payment of Loan Advances		-	-	(187,000)	-
NET CASH FROM FINANCING ACTIVITIES		<u>1,002,649</u>	<u>-</u>	<u>815,649</u>	<u>-</u>
Increase/(decrease) in Cash Held		742,127	-	713,279	-
Cash at the Beginning of the Financial Year		-	-	-	-
CASH AT THE END OF THE FINANCIAL YEAR	4	<u>742,127</u>	<u>-</u>	<u>713,279</u>	<u>-</u>

GULF MINES LIMITED
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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board¹ and the Corporations Act 2001.

The financial report covers the economic entity of Gulf Mines Limited and controlled entities, and Gulf Mines Limited as an individual parent entity. Gulf Mines Limited is a public company, incorporated and domiciled in Australia.

The financial report of Gulf Mines Limited and controlled entities, and Gulf Mines Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Gulf Mines Limited and controlled entities, and Gulf Mines Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (IFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of IFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Gulf Mines Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis² and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity Gulf Mines Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 8 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Deferred Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development or sale of the area, or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(d) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(e) Revenue

Interest revenue is recognised on a time proportional basis taking in to account the interest rates applicable to the financial assets.

Other revenue is recognised when the right to receive the revenue has been established. All revenue is stated net of the amount of goods and services tax (GST).

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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
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NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(f) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(h) Payables

A liability is recorded for goods and services received prior to balance date, whether invoiced to the company or not. Trade creditors are normally settled within 30 days from the date of the invoice provided the goods / services have been received.

(i) Classification of Cash in the Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash includes cash on hand, in the bank, and at call, on deposit with other financial institutions, net of outstanding bank overdrafts.

(j) Comparatives

Comparative information may have been classified in order to meet with current years presentation requirements. In accordance with change in transitional revisions of certain accounting requirements not all comparative information is presented.

(k) Goods and Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2 - REVENUE	Economic Entity		Parent Entity	
	2006	2005	2006	2005
Interest	12,507	-	12,395	-

NOTE 3 - INCOME TAX EXPENSE

The prima facie tax calculated on the operating loss from ordinary activities before income tax is reconciled to income tax as follows:

Operating loss before income tax	(58,909)	-	(57,869)	-
Prima facie income tax benefit at 30% on operating loss	17,673	-	17,361	-
Add tax effect of:				
Income tax losses not recognised as a benefit	(17,673)	-	(17,361)	-
Timing differences				
Income tax attributable to operating loss	-	-	-	-

NOTE 4 - CASH AND CASH EQUIVALENTS

Cash at Bank	742,127	-	713,279	-
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NOTE 5 - RECEIVABLES

Current

Other receivables	19,005	-	3,322	-
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Non-Current

Loans to controlled entities	-	-	187,000	-
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NOTE 6 - OTHER FINANCIAL ASSETS

Shares in controlled entities	-	-	50,010	-
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NOTE 7 - INVESTMENTS IN CONTROLLED ENTITIES

(a) Name of Entity	Country of incorporation	Class of shares	Equity Holding	
			2006	2005
Hartz Range Mines Pty Ltd	Australia	Ordinary	100%	-
Ebagoola Gold Mines Pty Ltd	Australia	Ordinary	100%	-

(b) Acquisition of controlled entities

On 20 December the parent entity acquired 100% of Harts Range Mines Pty Ltd, with Gulf Mines Limited entitled to all profits earned from 20 December 2005 for a purchase consideration of \$50,000.

On 22 February 2006 the parent entity acquired 100% of Ebagoola Gold Mines Pty Ltd, with Gulf Mines Limited entitled to all profits earned from 22 February 2006 for a purchase consideration of \$10.

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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 8 - DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
Deferred Exploration and Evaluation Expenditure (at cost)	214,249	-	-	-

The ultimate recoupment of the above deferred exploration and evaluation expenditure is dependant on the successful development and commercial exploitation or, alternatively, sale of the respective areas of interest. All of the above expenditure relates to exploration and evaluation phases.

NOTE 9 - PAYABLES

Trade Payables	18,909	-	-	-
Other Payables and Accruals	12,732	-	8,831	-
	31,641	-	8,831	-

NOTE 10 - CONTRIBUTED EQUITY

(a) Ordinary Shares

Issued and paid up capital	1,002,651	2	1,002,651	2
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(b) Movements in Share Capital

	2005		2004	
	No. of Shares '000	\$	No. of Shares	\$
Balance at start of the year	2	2	2	2
Shares Issued	96,962,534	1,014,649	-	-
	96,962,536	1,014,651	2	2
Less Costs of Issue	-	(12,000)	-	-
Balance at end of the year	96,962,536	1,002,651	2	2

(c) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote and, upon a poll, each share is entitled to one vote.

NOTE 11 - ACCUMULATED LOSSES

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
Movements in accumulated losses as follows:				
Balance 1 July	(2)	(2)	(2)	(2)
Net profit / (loss) for the year	(58,909)	-	(57,869)	-
Balance 30 June	(58,911)	(2)	(57,871)	(2)

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NOTE 12 - NOTES TO THE STATEMENT OF CASH FLOWS

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
(a) Reconciliation of Net Cash from Operating Activities to operating				
Operating profit/(loss) after income tax	(58,909)	-	(57,869)	-
Adjust for Changes in Assets and Liabilities:				
(Increase)/decrease in				
Receivables	(19,005)	-	(3,322)	-
Increase/(decrease) in				
Accounts Payable	31,641	-	8,831	-
	<u>(46,273)</u>	<u>-</u>	<u>(52,360)</u>	<u>-</u>

(c) Non-Cash Financing and Investing Activities

During the year there were no non-cash financing or investing activities.

(d) Finance or Bank Overdraft Facilities

The company does not have any finance or overdraft facilities.

NOTE 13 - FINANCIAL INSTRUMENTS

Interest Rate Exposure

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

	Floating Interest Rate		Non-interest Bearing	
	2006	2005	2006	2005
	\$	\$	\$	\$
Financial Assets				
Cash	742,127	-	-	-
Receivables	-	-	19,005	-
	<u>742,127</u>	<u>-</u>	<u>19,005</u>	<u>-</u>
Financial Liabilities				
Payables	-	-	31,641	-
	<u>-</u>	<u>-</u>	<u>31,641</u>	<u>-</u>
Net Financial Assets	<u>742,127</u>	<u>-</u>	<u>(12,636)</u>	<u>-</u>

	Total		Weighted Average Interest Rate	
	2006	2005	2006	2005
	\$	\$	\$	\$
Financial Assets				
Cash	742,127	-	5.65%	-
Receivables	19,005	-	-	-
	<u>761,132</u>	<u>-</u>		
Financial Liabilities				
Payables	31,641	-	-	-
	<u>31,641</u>	<u>-</u>		
Net Financial Assets	<u>729,491</u>	<u>-</u>		

Net Fair Values

The net fair values of the financial assets and financial liabilities approximate their carrying values. No financial assets and financial liabilities are readily traded on organised markets. The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statements of financial position and in the notes to the financial statements.

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FOR THE YEAR ENDED 30 JUNE 2006

NOTE 14 REMUNERATION AND RETIREMENT BENEFITS

(a) **Names of directors and specified executives and the positions held at any time during the year:**

Directors

Roy Maxwell Payne	Chairman
Graham Charles Reveleigh	Managing Director
Sharif Awad Oussa	Non-Executive Director
Peter Bennett Smith	Non-Executive Director

Specified Executives

Bruce William Peden	Company Secretary
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(b) **Relevant Interests in Ordinary Shares at the Date of this Report**

Ordinary Shares	Balance at 1 July 2005	Granted as Remuneration	Net Change Other	Balance at 30 June 2006
Directors				
Roy Maxwell Payne	-	-	236,000	236,000
Graham Charles Reveleigh	2	-	19,719,998	19,720,000
Sharif Awad Oussa	-	-	14,000,000	14,000,000
Peter Bennett Smith	-	-	14,000,000	14,000,000
Specified Executives				
Bruce William Peden	-	-	-	-

(c) **Directors' and Senior Officers' Emoluments**

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies applicable to Board members and senior officers of the Company. The Board's remuneration policy is to ensure the remuneration level properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Company has not employed any executive officers, other than Directors, who were involved in, concerned in, or who took part in the management of the Company's affairs. Details of the nature and amount of the remuneration of each Director of the company are set out below:

(d) **Emolument Of Directors**

2006	Salary, fees and commissions	Superannuation	Total
Roy Maxwell Payne	5,000	-	5,000
Graham Charles Reveleigh	33,333	-	33,333
Sharif Awad Oussa	3,333	-	3,333
Peter Bennett Smith	3,333	-	3,333

(e) **Emoluments of the Executives**

	Salary, fees and commissions	Superannuation	Total
Bruce William Peden	-	-	-

The Board sets all remuneration packages. The broad remuneration policy is to ensure that each senior staff member's remuneration package properly reflects the person's duties and responsibilities. Current market conditions are also taken into account in determining the appropriate remuneration package.

There were no shares or options issued as remuneration to executives during the financial year ended June 2006.

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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
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NOTE 15 - AUDITORS REMUNERATION	Economic Entity		Parent Entity	
	2006	2005	2006	2005
Auditors remuneration for audit or review of the financial reports of the parent entity or any entity in the economic entity.				
- Parent entity	4,000	-	4,000	-
- Controlled entities	2,000	-	2,000	-
Remuneration for other services by the parent				
- Parent entity	2,500	-	2,500	-

NOTE 16 RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated

Transactions with related parties:

(a) Other Related Parties

There are service agreements between the company and Zanamere Pty Ltd for office, administration and technical services. As at reporting date no costs had been incurred in regard to these contracts.

NOTE 17 - INCORPORATION

The company is incorporated under the Corporations Act 2001 as a company limited by share capital.

NOTE 18 - CAPITAL COMMITMENTS

The company has capital commitments of approximately \$250,000 at 30 June 2006 (2005: \$Nil). This is for airborne geophysical surveying.

NOTE 19 - SEGMENT INFORMATION

Business Segments.

The Company operates in the mining industry in Australia only. Operations comprise the exploration and evaluation of mineral deposits.

NOTE 20 - EVENTS SUBSEQUENT TO REPORTING DATE

The company has raised a further \$230,000 capital. This amount was received on or before 27 July 2006.

**GULF MINES LTD
A.B.N. 73 059 954 317
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DIRECTORS' DECLARATION

The directors of the company declare that:

- 1 The financial statements and notes, as set out on pages 6 to 17, are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company and economic entity.

- 2 In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Roy Payne
Director

Graham Reveleigh
Director

Dated this 27th day of July 2006.

INDEPENDENT AUDIT REPORT

To the Members of Gulf Mines Limited.

Scope

We have audited the financial report of Gulf Mines Limited for the financial year ended 30 June 2006 as set out on pages 6 to 18. The financial report includes the consolidated financial statements of the Consolidated Entity comprising the Company and the entity it controlled at year's end, or from time to time during the year. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Independence

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

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration, set out at page 5 of the financial report, has not changed as at the date of providing our audit opinion.

Audit Opinion

In our opinion the financial report of Gulf Mines Limited is in accordance with:

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

Signed at Cairns, 2006.

WHK GREENWOODS (CAIRNS)

JASON TAYLOR
Partner

**GULF MINES LIMITED
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**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

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