Energy Metals Limited ABN 63 111 306 533 Level 2 18 Kings Park Road West Perth WA 6005 PO Box 1033 West Perth WA 6872 Western Australia

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Energy Metals

16 October 2006

Company Announcements Office Australian Stock Exchange Limited Exchange Centre Level 4, 20 Bridge Street Sydney NSW 2000

Via electronic lodgement

# 2006 ANNUAL REPORT

Energy Metals Limited is pleased to provide its 2006 Annual Report as attached.

The Annual Report will be available on the Company's website and will be despatched to shareholders on 18<sup>th</sup> October 2006 together with the Notice of Annual General Meeting and proxy form.

LINDSAY DUDFIELD **Executive Director.** 







# CORPORATE DETAILS

# **DIRECTORS**

Donald Ross Kennedy (Chairman)
Lindsay George Dudfield (Executive Director)
Oscar Aamodt (Non-Executive Director)

# **COMPANY SECRETARY**

Patricia Anne Farr

# **REGISTERED OFFICE**

Level 2

18 Kings Park Road West Perth WA 6005

Telephone: 61 8 9322 6904 Facsimile: 61 8 9321 7950

Email: enquiry@energymetals.net Web: www.energymetals.net

# **AUDITOR**

Horwath Audit (WA) Pty Ltd 128 Hay Street Subiaco WA 6008

# SHARE REGISTRY

Security Transfer Registrars Pty Ltd 770 Canning Highway

Applecross WA 6153

Telephone: 61 8 9315 2333 Facsimile: 61 8 9315 2233

# STOCK EXCHANGE LISTING

The Company's shares are listed by the Australian Stock Exchange Limited ("ASX") - Code EME

The home exchange is Perth

#### **BANKERS**

National Australia Bank Limited 50 St Georges Terrace

Perth WA 6000

# **SOLICITORS**

Blakiston & Crabb 1202 Hay Street West Perth WA 6005



# CHAIRMAN'S REPORT

#### Dear Fellow Shareholder

Energy Metals listed strongly on the Australian Stock Exchange on 9 September 2005 and the ensuing 12 months have been both rewarding and productive for shareholders.

Some of the important milestones since listing include:

- Commencement of field activities, including drilling, at our 53.3% owned Bigrlyi project (NT) after a 23 year hiatus,
- Addition of 9 new EL's (1,612 km²) in NT and WA to the portfolio. These tenements cover untested uranium anomalies highlighted by recent airborne radiometric surveys,
- Calculation of initial JORC compliant uranium (and vanadium) resources for Bigrlyi,
- Assaying of previously unsplit core at Bigrlyi which revealed the uranium mineralisation is central to a significant broad vanadium rich zone
- Commencement of first pass drilling on the WA projects, and
- Formation of a Strategic Alliance with Canadian uranium producer Denison Mines, which included Denison investing \$4.5m into Energy Metals.

These activities have been taking place against a background of renewed interest in uranium as a viable and clean alternative to fossil fuels to generate base-load electricity, and the commensurate rise in the spot price of the metal. This has been positive for the price of Energy Metals shares, which are currently trading around \$2.00 (the issue price was \$0.25).

Most analysts expect the demand for uranium to continue to rise, driven by the appetite for energy from emerging nations (particularly China and India), as well as the increasing adoption of nuclear power by developed countries. However whilst demand for uranium is strong, the lack of exploration for, and development of new uranium deposits over the last two decades has caused mine supply to lag demand. This supply shortfall is unlikely to be corrected in the foreseeable future and has focused attention on those companies with the potential to bring new production to market.

Energy Metals is fortunate to control a portfolio of high quality uranium projects, most of which contain deposits discovered in the 1970's. Furthermore in a time where experienced uranium geologists are in short supply Energy Metals has been able to assemble a team of experienced and highly motivated geoscientists to advance our existing projects and identify new opportunities for Company growth.

Energy Metals is well placed to take advantage of the favourable outlook for uranium and the forthcoming period promises to be very exciting for shareholders.

Uranium Spot Price (\$USlb) 275 \$US54.00lb U3O8 Sept 28 2006 250 225 200 Uranium spot price (lb) World requirement 175 150 World Production 30 125 100 20 75 50 10 25 2020

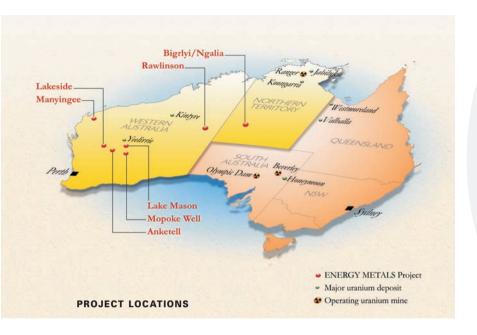
D. ROSS KENNEDY

Chairman

6 October 2006



# REVIEW OF ACTIVITIES



Energy Metals is a dedicated uranium explorer with nine projects located in the Northern Territory (NT) and Western Australia covering over 4,000 km². Most of the projects contain uranium mineralisation discovered by major companies in the 1970's, including the advanced Bigrlyi project (NT), which is characterised by relatively high uranium grades (with vanadium credits) and excellent metallurgical recoveries.

Australia has significant uranium endowment with the continent containing approximately 40% of the world's known uranium resources. Despite this natural endowment, unfavourable politics and a depressed uranium price have resulted in minimal uranium exploration in Australia since the mid 1980's.

However there have been several positive developments recently including:

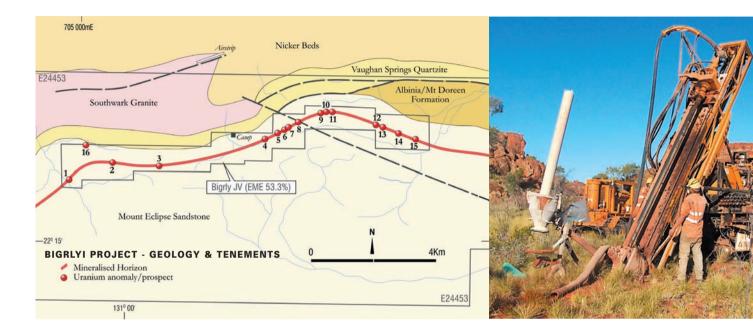
- the uranium price increasing from \$US 10 per pound early 2003 to \$US 54 late September 2006,
- the Federal Government resuming responsibility for uranium mining in NT, and
- public opinion (and the political landscape) becoming increasingly supportive of uranium mining, driven in part by the threat of global warming

Energy Metals is in a prime position to take advantage of the favourable outlook for the metal. In addition to advancing the projects currently in the portfolio the Company is also reviewing new uranium opportunities in Australia.

Energy Metals is supported by Canadian uranium producer Denison Mines, which holds 12% of the issued capital of the Company.



#### REVIEW OF ACTIVITIES Continued



# **NORTHERN TERRITORY**

#### **BIGRLYI (EME 53.3%)**

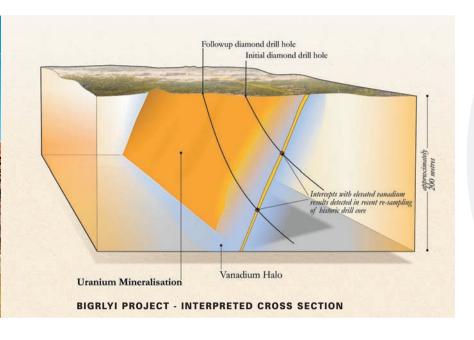
The Bigrlyi project comprises 10 granted exploration retention licences located approximately 350 km northwest of Alice Springs. The project, which is a joint venture with Valhalla Uranium (41.7%) and Southern Cross Exploration (5%), was subject to significant exploration activity in the period 1974 to 1982. Exploration ceased in 1983 following the election of the Hawke Labor Government and the introduction of the "Three Mines" policy.

Historical work completed at Bigrlyi included percussion and diamond drilling (some 450 holes for more than 36,000m) to test uranium prospects outcropping over a strike length of 14 kilometres, resource calculations and metallurgical testing. The project is characterised by relatively high grades and excellent metallurgical recoveries, with the uranium mineralisation accompanied by significant levels of vanadium.

Most anomalous intervals from holes drilled in the period 1974 to 1975 were both geochemically assayed and surveyed in-hole using a radiometric probe to estimate uranium values (referred to as  $eU_3O_8$  values). However post 1975 only high grade intercepts were routinely assayed with most uranium values estimated from downhole radiometric logging. This technique was unable to estimate the levels of vanadium present.

Field activities re-commenced at Bigrlyi in November 2005 after a hiatus of 23 years, following a detailed environmental assessment of the project and installation of appropriate radiation monitoring procedures. Work undertaken during the period included re-establishment of the exploration camp, validation of the drilling and assay data generated by previous explorers and re-assaying of historic drill core. An aboriginal heritage survey was conducted over the Bigrlyi tenements and 58 aircore/RC holes (1,773m) were drilled to test shallow targets developed at Anomalies 3, 4, 7, 8 & 15, in areas where limited drilling has been carried out previously, recording weakly anomalous uranium and vanadium values.





# **Re-Assaying Program**

The re-assaying program involved cutting and assaying sections of drill core (approximately 1,600 samples from 56 holes) not previously subject to geochemical assay for uranium (and vanadium).

Although the intervals are not completely identical the uranium assays recorded from this work compared very favourably with uranium levels previously estimated from radiometric logging (eU<sub>3</sub>O<sub>8</sub> values) eg:

BPD-318	2m	@ 2.99% U <sub>3</sub> O <sub>8</sub>	from 125.5m	(vs.	2m	@ 2.14%	historically)
BPD-320	8.5m	@ 2.17% U <sub>3</sub> O <sub>8</sub>	from 132m	(vs.	11.8m	@ 0.99%	historically)
BPD-321	2m	@ 4.00% U <sub>3</sub> O <sub>8</sub>	from 135m	(vs.	2.9m	@ 1.06%	historically)
BPD-350	5m	@ 1.00% U <sub>3</sub> O <sub>8</sub>	from 178.5m	(vs.	4.3m	@ 0.99%	historically)
BPD-395	2.5m	@ 1.80% U <sub>3</sub> O <sub>8</sub>	from 142.7m	(vs.	3.3m	@ 1.22%	historically)

In addition the re-assaying program recorded significant vanadium values accompanying, and surrounding, the uranium mineralisation eg:

BPD-321	40m	@ 1.18% V <sub>2</sub> O <sub>5</sub>	from 112m
BPD-410	9.5m	@ 0.92% V <sub>2</sub> O <sub>5</sub>	from 61.5m
BPD-411	25m	@ 0.92% V₂O₅	from 150m

Preliminary metallurgical test work undertaken in the 1990's indicated that approximately 98-99% of the uranium and 70% of the vanadium can be recovered by acid leach. The extent of this zone of vanadium mineralisation needs to be further quantified; however it is likely that economically significant vanadium credits will be developed outside of the current resource envelope.



# REVIEW OF ACTIVITIES Continued

Significant uranium and/or vanadium intercepts from the re-assaying program are summarised below.

DEPOSIT	HOLE	INTERVAL	INTERCEPT	Г	U₃O₃ (%)	U₃O₃ (lbs/t)	V₂O₅ (%)	HISTORIO	C eU₃O₃
	BPD-318	119.5 –1 21m	1.5m	@	1.08	24.2	1.00	2.6m	@ 0.96 from 118.2m
		125 - 129.5m	4.5m	@	1.54	34.5	0.27	4.5m	@ 1.16 from 124.3m
		incl. 125.5 - 127.5m	2m	@	2.99	67.0	0.45	2m	@ 2.14 from 124.8m
	BPD-320	132 - 140.5m	8.5m	@	2.17	49.4	0.49	11.8m	@ 0.99 from 128.4m
		incl. 135 - 137m	2m	@	4.18	95.2	0.79		
	BPD-321	112 - 152m	40m	@	0.31	6.8	1.18	40m	@ 0.26 from 112m
		incl. 135 - 137m	2m	@	4.00	88.2	1.12	2.9m	@ 1.06 from 134m
	BPD-350	178.5 - 183.5m	5m	@	1.00	22.9	0.35	4.3m	@ 0.89 from 179.9m
		incl. 178.5 - 181.5m	3m	@	1.69	38.5	0.50		
	BPD-395	136 - 140.5m	4.5m	@	0.53	12.1	1.04	5.5m	@ 0.56 from 134.8m
		143.5 - 146m	2.5m	@	1.80	41.0	1.28	3.3m	@ 1.22 from 142.7m
	BPD-403	75 - 80m	5m	@	0.15	3.4	0.17		
		incl. 78.5 - 80m	1.5m	@	0.48	10.7	0.10	2m	@ 0.91 from 78m
15	BPD-408	49 - 53.5m	4.5m	@	0.20	4.5	0.29	4m	@ 0.20 from 49m
		incl. 50 - 53.5m	3.5m	@	0.25	5.5	0.33	3m	@ 0.27 from 50m
	BPD-410	61.5 - 71m	9.5m	@	0.01	0.6	0.92	5m	@ 0.02 from 66m
	BPD-411	150 - 175m	25m	@	0.18	4.0	0.93	22m	@ 0.18 from 150m
		incl. 159.5 - 171m	11.5m	@	0.23	5.2	1.72	11.5m	@ 0.22 from 159.5m
	BPD-412	39 - 40m	1m	@	1.02	22.8	0.16	1m	@ 0.60 from 39m
	BPD-413	92.5 - 93.5m	1m	@	1.00	22.4	0.27	1m	@ 0.90 from 92.5m
	BPD-418	164 - 170.5m	6.5m	@	0.04	1.0	0.95	6.5m	@ 0.04 from 164m
		171.5 - 172.5m	1m	@	0.88	19.8	0.10	1.5m	@ 0.35 from 172m
	BPD-420	191 - 198.5m	7.5m	@	0.02	0.4	0.65	7.5m	@ 0.02 from 191m
		201.5 - 205.5m	4m	@	0.20	4.6	0.22	4m	@ 0.12 from 201.5m
		incl. 201.5 - 202m	0.5m	@	1.53	34.2	0.50	0.5m	@ 0.40 from 204m
	BPD-421	197 - 212m (EOH)	15m	@	0.16	3.5	0.28	15m	@ 0.17 from 197m
		incl. 201.5 - 204.5m	3m	@	0.5	11	0.44	3m	@ 0.47 from 201.5m
	BPD-427	115 - 116m	1m	@	0.61	13.6	0.31	1m	@ 0.45 from 115m
8	BPD-269	60.5 - 64m	3.5m	@	0.03	0.6	0.46		
	BPD-348	124 - 126.5m	2.5m	@	0.16	3.5	0.75	2.2m	@ 0.17 from 123.9m
	BPD-358	109.5 - 111m	1.5m	@	2.00	44.8	0.38	1.8m	@ 0.87 from 108.8m
	BPD-228	30 - 30.5m	0.5m	@	0.32	7.2	0.07	0.5m	@ 0.22 from 30m
	BPD-406	52 - 56m	4m	@	0.02	0.4	0.63	4m	@ 0.02 from 52m
	BPD-434	83 - 85.5m	2.5m	@	0.87	19.4	1.75	3m	@ 1.08 from 82.9m
4		175 - 178m	3m	@	0.81	18.3	1.97	3m	@ 1.05 from 175.7m
	BPD-435	121.5 - 122m	0.5m	@	1.33	29.8	0.22	0.5m	@ 0.40 from 121.5m
		163.5 - 166m	2.5m	@	0.61	13.7	1.70	2.5m	@ 0.48 from 164.5m
	BPD-441	65.5 - 69m	3.5m	@	0.48	10.8	0.15	4m	@ 0.38 from 65.4m
		incl. 65.5 - 66.5m	1m	@	1.24	27.9	0.38	1m	@ 1.17 from 65.9m

Note: Assays based on core sampled at 0.5m intervals and analysed by ALS Chemex (Brisbane). U analysed by XRF; V by XRF (<1790 ppm) and ICP (>1790 ppm).

#### **Resource Calculations**

Both historical data and results from the re-assaying program were validated and incorporated into a new digital database, with resource consultants Hellman and Schofield ("H&S") providing independent advice on modeling methods, geostatistics and wireframe modeling of the mineralisation domains.

Wireframe models were constructed using 100ppm  $U_3O_8$  and 500ppm  $V_2O_5$  contours. Resources calculated by H&S using ordinary kriging are summarised below at various cut-off grades:

#### **Indicated and Inferred Resources**

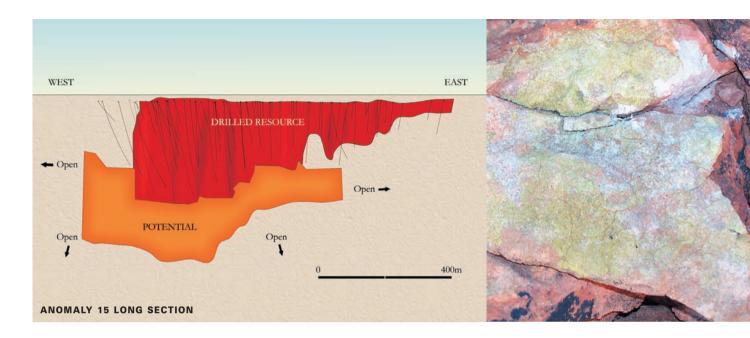
Cut Off (%U₃O₃)	Tonnes	U₃O₃ (%)	V2O5 (%)	U₃O₃ ('000t)	V₂O₅ ('000t)
0.20	655,000	0.33	0.28	2.15	1.80
0.15	1,067,000	0.27	0.25	2.86	2.71
0.10	1,835,000	0.21	0.22	3.80	3.99
0.05	3,763,000	0.14	0.17	5.6	6.3

Energy Metals considers the results for a 0.10% U<sub>3</sub>O<sub>8</sub> (1kg/t) lower cut-off grade best represent the economic cut-off grade considering the style (sandstone hosted) and location of the resources. However most of the resources are within 100 metres of the surface and potentially amenable to open-cut mining, and in the future it may be appropriate to revise the lower resource cut-off grade after resource additions, optimisation and mining reserve parameters are considered.

At the 0.1%  $U_3O_8$  cut-off grade H&S report 57% of the resource tonnage and 65% of the contained uranium metal (or 2.45 Kt  $U_3O_8$ ) to the Indicated resource category. It is likely that approximately 30% of the total resource tonnage could be upgraded to the Measured category upon successful completion of a small targeted infill drilling program designed to provide additional information on the mineralisation.



# REVIEW OF ACTIVITIES Continued



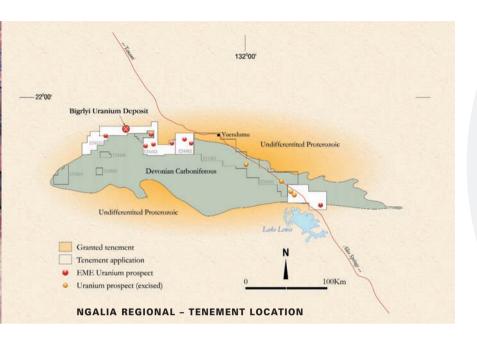
This resource represents a 38% increase in contained uranium (3,800 tonnes vs 2,770 tonnes) from historic (non JORC compliant) resources using polygonal methods and 0.1% cut off. Furthermore the inclusion of the first vanadium resources calculated for Bigrlyi significantly increases the value of the project. Although not directly comparable the Bigrlyi resources have been converted to gold equivalents to assist shareholders to better understand the potential value of the mineralisation outlined to date:

Cut Off	Tonnes	Gold Equivalent*		
(%U₃O₃)		Moz	Grade (g/t)	
0.20	655,000	0.47	22.4	
0.15	1,067,000	0.64	18.6	
0.10	1,835,000	0.86	14.6	
0.05	3,763,000	1.20	9.9	

<sup>\*</sup>Au \$US600/oz, U3O8 \$US53.25/lb, V2O5 \$US8/lb

A program of extensional RC and diamond drilling designed to increase the resource base at Bigrlyi is expected to commence in October 2006. The drilling will focus on the down plunge extensions at the Anomaly 15 and Anomaly 2 deposits, as well as shallower positions at Anomaly 4 and Anomaly 7.





# **NGALIA REGIONAL (EME 100%)**

The Ngalia Regional project comprises ten 100% owned exploration licences (total area 2,840 km²) located in the Ngalia Basin, between 180 and 350 km northwest of Alice Springs in the Northern Territory. Seven of these tenements are contiguous and enclose the Bigrlyi project as well as containing a number of uranium occurrences including the Malawiri prospect (EME 52%) and the Walbiri prospect (EME 42%). The remaining 3 applications cover discrete uranium anomalies located southwest of the Bigrlyi deposits.

Four exploration licences, including EL 24453 enclosing the Bigrlyi project, were granted in the March 2006 quarter, with a fifth tenement (EL 24807) granted in the September 2006 quarter. It is expected that three tenements located on pastoral leases will be granted shortly, whilst grant of the remaining ELA's, which are located on aboriginal freehold land, is currently being considered by the Central Land Council (CLC) and the traditional owners.

Interpretation of regional radiometric data has identified a stratabound uranium channel anomaly with strong similarities to the anomaly over the Bigrlyi uranium deposits centred on EL 24807. It is anticipated that follow up of this anomaly will take place in the 2006/07 field season following completion of aboriginal heritage surveys.

# **WESTERN AUSTRALIA**

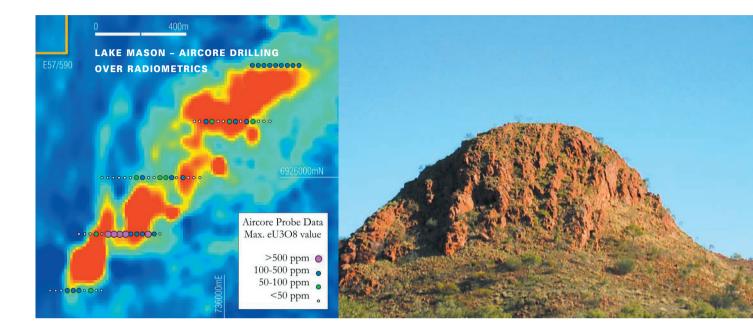
# LAKE MASON (EME 100%)

This project comprises one granted exploration licence (EL 57/590) with an area of 64 km² centred 25 km north-northeast of Sandstone and 80 km southwest of the Yeelirrie deposit (reported resource of 52,500 tonnes of U<sub>3</sub>O<sub>8</sub>). Previous exploration by BP Minerals in the 1970's discovered shallow carnotite (uranium-vanadium) mineralisation in valley calcretes associated with the Lake Mason drainage system.

Some 71 shallow aircore holes (total 710m) were drilled at Lake Mason in September 2006. The holes, which were designed to confirm previous results, were drilled 100m apart on five traverses spaced 1km apart. Holes were radiometrically logged using a calibrated downhole gamma probe to estimate uranium values (referred to eU<sub>3</sub>O<sub>8</sub> values).



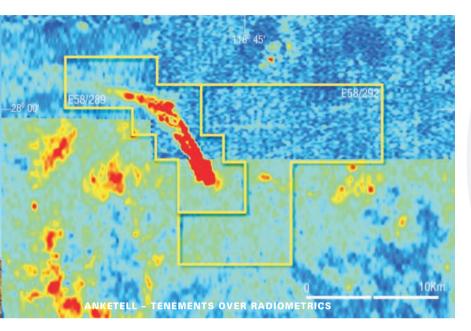
# REVIEW OF ACTIVITIES Continued



Shallow uranium mineralisation was recorded from all five traverses with some of the better intercepts summarised below:

HOLE	N (GDA)	E (GDA)	FROM (m)	INTERVAL (m)	eU₃O₅ (ppm)
LMAC052	6924997	734002	1.29	3.90	362
LMAC053	6925007	734094	0.72	1.25	417
			2.27	2.45	187
LMAC054	6925001	734200	2.20	1.75	272
LMAC059	6924999	734693	3.56	3.00	350
LMAC065	6924000	733298	4.10	1.05	240
LMAC066	6924001	733401	4.51	2.50	247

Orientation samples and samples from significant intervals identified by the downhole probe have been submitted for geochemical assay to confirm the grade of the uranium mineralisation and check for radiometric disequilibrium (assays pending). Following interpretation of the results it is planned to undertake further drilling at Lake Mason, followed by resource calculations.



#### **ANKETELL (EME 100%)**

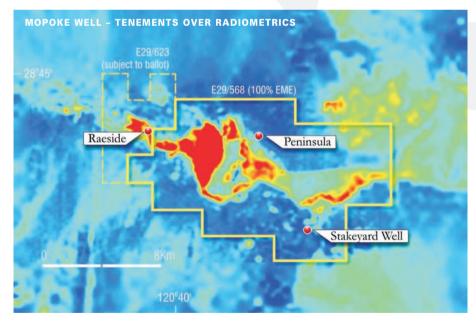
The Anketell project is located 100 km east of Mt Magnet and comprises two granted exploration licences (EL's 58/289 & 58/292) with a total area of 165 km². The tenements contain shallow calcrete hosted carnotite mineralisation discovered by Western Mining Corporation (WMC) in 1972. The mineralisation is similar in style to the Yeelirrie deposit, also discovered by WMC in the same year and located 150 km to the northeast.

An aboriginal heritage survey scheduled for completion in October 2006 quarter will be followed by shallow aircore drilling designed to assess the known mineralisation and define a higher grade core.

# **MOPOKE WELL (EME 100%)**

Mopoke Well project exploration comprises two licences (EL 29/568 & ELA 29/623) located 55 km west of Leonora and covers an area of 160 km<sup>2</sup>. Exploration Licence 29/568 was granted early January 2006 and contains two historic uranium deposits (Peninsula and Stakeyard Well), with a third deposit (Raeside) located on the western edge of the tenement ELA 29/623, which abuts EL 29/568 to the west, was applied for in August 2006 and is subject to competing applications, with priority likely to be decided by ballot.

All three deposits are hosted by valley calcretes associated with



the Lake Raeside drainage system. Since the discovery of these deposits in the 1970's much of Lake Raeside, including the area covered by the Mopoke tenements, has been registered as an aboriginal mythological site. Energy Metals conducted an aboriginal heritage survey in the September 2006 quarter with the traditional owners indicating that they support the Company exploring for uranium in the area.

Detailed radiometric data covering the area have been acquired with first pass shallow aircore drilling to be undertaken following approval by the appropriate authorities.

#### REVIEW OF ACTIVITIES Continued



# LAKESIDE (EME 100%)

The Lakeside project is located in the Murchison district 20 km west of Cue and comprises exploration licence EL 21/120 (area 75 km²) which was granted late January 2006. Like the other WA calcrete projects the Lakeside tenement was acquired to follow up previously discovered carnotite mineralisation hosted by valley calcretes associated with major saline drainages.

The proposed program for Lakeside includes completion of an aboriginal survey followed by aircore drilling to infill known mineralisation and to seek extensions buried beneath transported cover.

### MANYINGEE (EME 100%)

The Manyingee exploration licence (EL 08/1480) is located 85 km south of the port of Onslow. The tenement (total area 86 km²) was granted early February 2006 and surrounds the mining leases containing Paladin's Manyingee resource, a stacked series of paleochannel hosted roll front uranium deposits.

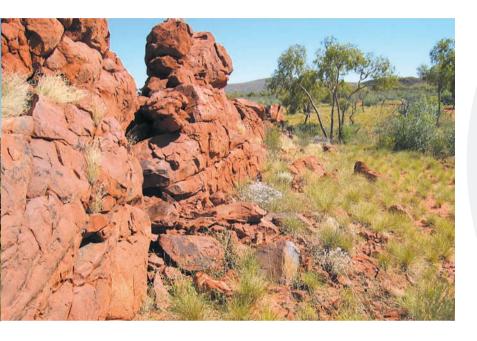
The tenement will be explored for extensions to known mineralisation and for new uranium bearing paleochannels masked by transported cover.

#### **RAWLINSON (EME OPTION TO ACQUIRE 100%)**

The Rawlinson project comprises four exploration licence applications (total area of 1,450 km²) located in the Gibson Desert, approximately 950 km northeast of Kalgoorlie and 60 km west of the NT border. The tenements cover strong uranium channel anomalies revealed by a recent (1998) government airborne geophysical survey. The Company can acquire a 100% interest in three ELA's by reimbursing the vendor for initial costs and issuing 2M Energy Metals shares and 1M Energy Metals options exercisable at \$2.30 within 3 years of grant and approval of access for exploration. In addition the Company has made application for a further exploration licence adjacent to the three existing licence applications.

The area is part of the Central Australia Aboriginal Reserve and due to the remote location and restricted access the geology of the area is poorly understood. However it appears that the main uranium anomalies are associated with mid Proterozoic age metasediments unconformably overlain by younger sedimentary rocks with potential for unconformity and roll-front style uranium deposits, as well as surficial uranium mineralisation. There is no evidence of previous uranium exploration in the area.

The Rawlinson project provides Energy Metals with a low cost option to control untested outcropping uranium anomalies with the potential to represent a completely new uranium province. Energy Metals will build on recent experience negotiating with Traditional Owners elsewhere in Central Australia and is confident that access for exploration will be granted to the Company.



# CORPORATE

Several potential acquisitions were examined and rejected during the period. Management continues to review opportunities to grow the Company, including mergers where appropriate.

Note: The information in this report relating to mineral resources is based on information compiled by Lorry Hughes BSc, MAusIMM and Arnold van der Heyden BSc, MAusIMM, both of whom have more than five years relevant experience in estimation of mineral resources and the mineral commodity uranium. Mr Hughes is a full time employee of Energy Metals Limited and takes responsibility for the quality of the data and geological interpretations provided to H & S. Mr van der Heyden is a full time employee of H & S and takes responsibility for the resource estimation.

Mr Hughes and Mr van der Heyden have sufficient experience relevant to the assessment of this style of mineralisation to qualify as a Competent Person as defined in the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves – The JORC Code". Each of the above named consents to the inclusion of the information in the report in the form and context in which it appears.

The information in this report that relates to exploration results is based on information compiled by Mr Lindsay Dudfield BSc, MAusIMM who is a Director of the Company. Mr Dudfield has sufficient experience relevant to the styles of mineralisation and types of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves.' Mr Dudfield consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



# DIRECTORS' REPORT

The Directors present their report of Energy Metals Limited for the year ended 30 June 2006.

#### **DIRECTORS**

The following persons were directors of Energy Metals Limited during the whole of the financial year (or as disclosed) and up to the date of this report:

Lindsay George Dudfield

Oscar Aamodt (appointed 6 July 2005)

Donald Ross Kennedy

Jordan Luckett (resigned 6 July 2005)

#### PRINCIPAL ACTIVITIES

The principal activity of Energy Metals throughout the year was uranium exploration. During the financial year there was no change in the nature of this activity.

#### FINANCIAL RESULTS

The loss of the Company after providing for income tax for the year ended 30 June 2006 was \$1,195,221 (2005: loss \$51,579).

#### DIVIDENDS

No dividends have been paid or declared and no dividends have been recommended by the Directors.

# SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There has been no significant change in the state of affairs of the Company during the year.

# **REVIEW OF OPERATIONS**

Following the successful listing of the Company on the ASX, the Company has conducted uranium exploration activities on its various projects with the major focus being on the Bigrlyi Project in the Northern Territory.

Full details of the Company's exploration activities during the year are included within the Review of Activities section of the Annual Report.

# **FINANCIAL POSITION**

The net assets of the company were \$7,430,470 at 30 June 2006 (2005: \$316,317). The company raised \$3,000,000 from the public offer of 12,000,000 shares at a price of 25 cents each pursuant to a prospectus dated 14 July 2005. A non-renounceable issue of loyalty options was completed in November 2005 (1 option issued for every 2 shares held) at an issue price of 1c to raise \$109,622. An additional \$4,500,000 was raised pursuant to a placement of 3,000,000 shares at an issue price of \$1.50 each to Canadian uranium producer Denison Mines Inc on 3rd April 2006. The shares issued to Denison Mines are subject to a 12 month voluntary escrow agreement.

Cash and assets utilised by the Company for the period ended 30 June 2006 is consistent with the Company's business objectives since listing on the Australian Stock Exchange on 9 September 2005. The Directors believe the Company is in a strong financial position to continue its exploration endeavours.

# MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations, the results of those operations, or the state of affairs of the Company in future financial years.

# LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Directors are not aware of any developments that might have a significant effect on the operations of the Company in subsequent financial years that are not already disclosed in this report.

DIRECTORS' REPORT Continued

# INFORMATION ON DIRECTORS

Name	Director's Experience	Special Responsibilities		
Mr Donald Ross Kennedy BSc (Hons)	Mr Kennedy is a qualified geologist with 42 years experience in gold and base metals exploration, both in Australia and overseas. As Managing Director, then Exploration Director, of Resolute Limited he was the leader of one of the most successful exploration teams in Australia leading to the development of gold mines at Marymia, Chalice, Higginsville and Challenger in Australia and Nkran and Golden Pride in Africa. Fellow of the AusIMM and member of the AIG, GSA, MICA and AICD.  Other public company directorships held by Mr Kennedy over the last three years are:  Jindalee Resources Limited – current  Uran Limited – current  Vital Metals Limited – current  Lach Drummond Resources Ltd (January 2004 – July 2004)  Paladin Resources Ltd (December 2002 – March 2003).	Chairman Non-Executive Director		
Mr Lindsay George Dudfield BSc	Mr Dudfield is a qualified geologist with 26 years experience exploring for gold and base metals in Australia and overseas, including close involvement with a number of greenfields discoveries. Member of the AusIMM, SEG, AIG and GSA. He is currently the Managing Director of Jindalee Resources Ltd. Other public company directorships held by Mr Dudfield over the last three years are:  Jindalee Resources Limited – current Horizon Global Limited (October 1994 – June 2005)	Executive Director		
Oscar Aamodt FCIS (appointed 6 July 2005)	Mr Aamodt is a member of the Institute of Chartered Secretaries and Administrators and has more than 21 years experience in the administration and management of mining and exploration listed companies in Australia and overseas.  He has held a number of directorships in Australian mining companies and exploration companies as well as having held the position of Chief Financial Officer of a large mining company with operations in Australia and Africa. From February 2002 until June 2004 he was a director and company Secretary of Abelle Limited and most recently company secretary of Bluestone Tin Limited and Metals Exploration Limited.  Other public company directorships held by Mr Aamodt over the last three years are: Independence Group NL – current Abelle Limited (February 2002 – June 2004) Sirius Resources Limited - current	Non-executive Director		

#### DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

The particulars of Directors' interest in shares and options are as at the date of this report.

· 	Ordinary Shares	30c Options Expiring 30/06/2008	Unlisted 35c Options Expiring 30/06/2010
D R Kennedy	36,000	18,000	500,000
L G Dudfield	1,372,000	686,000	500,000
O Aamodt	50,000	25,000	250,000

# **MEETINGS OF DIRECTORS**

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2006 and the numbers of meetings attended by each Director.

	Number Held Whilst in Office	Number Attended
D R Kennedy	17	16
L G Dudfield	17	17
O Aamodt	16	16
J A Luckett (resigned 6 July 2005)	1	1

As at the date of this report, the Company did not have an Audit Committee of the Board of Directors. The Board considers that due to the Company's size, an audit committee's functions and responsibilities can be adequately and efficiently discharged by the Board as a whole, operating in accordance with the Company's mechanisms designed to ensure independent judgement in decision making.

# **COMPANY SECRETARY INFORMATION**

Ms Patricia Farr was appointed company secretary on 9 May 2005. She is an experienced company administrator, having previously worked for Resolute Mining Ltd, and is currently employed by Jindalee Resources Limited.

# PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

DIRECTORS' REPORT Continued

#### REMUNERATION REPORT

This report details the nature and amount of remuneration for directors receiving the highest remuneration.

#### **Remuneration Policy (Audited)**

The remuneration policy of the Company has been designed to align director and specified executive objectives with shareholder and business objectives. The Board of Energy Metals Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Company, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members and specified executives of the Company is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and specified executives, was developed and approved by the Board. All executives receive either consulting fees or a salary, part of which maybe taken as superannuation, and from time to time, options. Options issued to directors are subject to approval by Shareholders. The Board reviews executive packages annually by reference to the Company's performance, executives performance and comparable information from industry sectors and other listed companies in similar industries. There is no Employee Share Option Plan in place at present.

Salaried executive directors and specified executives are allocated superannuation guarantee contributions as required by law, and do not receive any other retirement benefits. From time to time, some individuals may choose to sacrifice their salary or consulting fees to increase payments towards superannuation.

All remuneration paid to directors and specified executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at commercial market rates for comparable companies for their time, commitment and responsibilities. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company. Non-executive directors' remuneration may also include an incentive portion consisting of options, subject to approval by Shareholders.

# Remuneration Link To Company Performance (Audited)

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of shareholders' value.

The following table shows the share price and the market capitalisation of the Company at the end of the financial year. No dividends have been paid during the period.

 At 30 June 2006

 Share Price
 \$1.81

 Market Capitalisation
 \$45M

(Note that the Company was first listed on the Australian Stock Exchange on 9 September 2005 and consequently there was no share market capitalisation of the Company prior to 30 June 2006).

#### **Directors and Executives Emoluments (Audited)**

The Company's policy for determining the nature and amount of emoluments of board members and senior executives of the Company is that Directors are to be paid consulting fees at commercial rates for professional services performed.

Details of the nature and amount of each element of the emoluments of each director of Energy Metals Limited are set out in the following tables.

Non-Executive Directors of Energy Metals Limited			t-term refits	Post- employment	Share-based payment		
Name		Directors Fees \$	Consulting Fees \$	Super- annuation \$	Options \$	Total \$	
D R Kennedy	2006	10,000	25,400	-	267,950	303,350	
	2005	-	-	-	-	-	
O Aamodt**	2006	25,000	-	-	133,975	158,975	
	2005	-	-	-	-	-	
J Luckett*	2005	-	-	-	-	-	
	2006	-	-	-	-	-	

<sup>\*</sup> Resigned 6 July 2005. \*\* Appointed 6 July 2005.

Executive Directors of Energy Metals Limited  Name			Short-term benefits		Post- employment	Share-based payment	
		Salary \$	Vehicle Hire \$	Consulting Fees \$	Super- annuation \$	Options \$	Total \$
L G Dudfield	2006 2005	-	640 -	84,900 -	-	267,950 -	353,490 -

On 6th July 2005 the Company entered into a consultancy agreement with the Executive Director Mr Dudfield and Jopan Management Pty Ltd trading as Western Geological Services whereby Western Geological Services has agreed to provide Mr Dudfield's services for not less than 50 hours per month. In consideration for providing Mr Dudfield's services the Company will pay Western Geological Services a retainer of \$4,000 per month.

# Options granted as part of remuneration

Name	Grant Date	Grant Number	Value per option at grant date	Value of options granted during the year	Value of options exercised during year	Value of options lapsed during year	Total value of options granted, exercised and lapsed during year	% remuneration consisting of the options for the year
L G Dudfield	06/12/05	500,000	53.59c	267,950	-	-	267,950	75.870
D R Kennedy	06/12/05	500,000	53.59c	267,950	-	-	267,950	88.370
O Aamodt	06/12/05	250,000	53.59c	133,975	-	-	133,975	84.270

For details on the valuation of the options, including models and assumptions used, please refer to Note 22. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

DIRECTORS' REPORT Continued

# **DIRECTORS AND OFFICERS INSURANCE**

The Company has paid a premium to insure the directors and officers of the Company for the period 22/08/2005 to 22/08/2006 against those liabilities for which insurance is permitted under section 199B of the Corporations Act 2001. Details of the nature of the liabilities insured for and the amount of the premium are subject to a confidentiality clause under the contract of insurance.

#### SHARE OPTIONS

The details of the options on issue by the Company are as follows:

	Number	Exercise Price	Expiry Date
Quoted	10,840,061	30 cents	30 June 2008
Unquoted	1,150,000	30 cents	30 June 2008
Unlisted Options issued to directors pursuant to resolutions passed at AGM 28/11/2005	1,250,000	35 cents	30 June 2010

#### Shares Issued on Exercise of Options

There were 179,802 shares issued on exercise of options during the year and up to the date of this report.

#### **ENVIRONMENTAL REGULATION**

The Company is subject to significant environmental regulation in respect of its exploration activities. Tenements in the Northern Territory and Western Australia are granted subject to adherence to environmental conditions with strict controls on clearing, including a prohibition on the use of mechanised equipment or development without the approval of the relevant government agencies and with rehabilitation required on completion of exploration activities.

Energy Metals Limited conducts its exploration activities in an environmentally sensitive manner and the Company is not aware of any breach of statutory conditions or obligations.

# **AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required by section 307C of the Corporations Act 2001 is included on page 42 of this report.

# **NON-AUDIT SERVICES**

The external auditor did not perform any non-audit services during the year ended 30 June 2006.

This report which includes the accompanying Corporate Governance Statement is signed in accordance with a resolution of the Directors.

1st day of September 2006, at Perth, Western Australia

L G DUDFIELD

Executive Director

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

It is the responsibility of the Board of Directors of Energy Metals Limited to monitor the business affairs of the Company and to protect the rights and interests of the shareholders. The corporate governance practices in place throughout the reporting year ended 30 June 2006 have aimed to ensure the implementation of a strategic business plan and an integrated framework of accountability over the Company's resources, functions and assets.

In accordance with the ASX Corporate Governance Council's best practice recommendations, the Corporate Governance Statement contains specific information, and also reports on the Company's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted by the Company, together with the reasons why they have not been adopted. The Company's corporate governance principles and policies are therefore structured with reference the Corporate Governance Council's best practice recommendations, which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Encourage enhanced performance
Principle 9	Remunerate fairly and responsibly
Principle 10	Recognise the legitimate interests of stakeholders

The Company's corporate governance practices were in place throughout the year ended 30 June 2006. With the exception of the departures from the Corporate Governance Council recommendations in relation to the independence of the board, the nomination committee and audit committee as detailed below, the corporate governance practices of the Company were compliant with the council's best practice recommendations.

# THE BOARD

The Board is responsible for the overall Corporate Governance of the Company including the strategic direction, establishing goals for management and monitoring the achievement of these goals. Due to the size of the Board, all issues are considered by the full Board. The Board has established a framework for the management of the Company including an overall framework of internal control, director nomination, risk management and ethical standards.

The Directors of the Company in office at the date of this statement are:

Name	Age	Position	Special Expertise
Donald Ross Kennedy	67	Non-Executive Chairman	Resource Industry
Oscar Aamodt	60	Non-Executive Director	Company Management
Lindsay George Dudfield	49	Executive Director	Resource Industry

The Company's Executive Director has the responsibility for guiding management in effectively carrying out tasks and achieving Company objectives.

The Board comprises of a non-executive Chairman, one other non-executive director and one executive director. The Board believes this structure is effective for the current range of duties of the Board to be properly discharged.

The Directors may, in fulfilling their duties, obtain independent professional advice at the Company's expense, however prior notification by the Director to the Board is required.

At every Annual General Meeting one third of the Directors must retire and sit for re-election.

#### CORPORATE GOVERNANCE STATEMENT Continued

#### **INDEPENDENCE**

Corporate Governance Council Recommendation 2.1 requires a majority of the board to be independent directors. In addition, Recommendation 2.2 requires the chairperson of the company to be independent. The Corporate Governance Council defines independence as being free from any business or other relationships that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement.

In accordance with this definition, two of the Directors making up the Board as at year end are not considered to be independent when applying the Council's definition of independence, either by virtue of their substantial shareholdings in the Company or because they are on the Board of a company which is a substantial shareholder of the Company. The Company considers industry experience and specific expertise to be important attributes of its Board members. The Board is conscious of the need for independence and ensures that directors who have interests in specific transactions or potential transactions do not receive Board papers related to those transactions or potential transactions, do not participate in any part of a Directors' meeting which considers those transactions or potential transactions and asks that those Directors do not discuss those transactions or potential transactions with other Directors.

#### NOMINATION COMMITTEE

Recommendation 2.4 requires listed entities establish a nomination committee. During the year ended 30 June 2006, Energy Metals Limited did not have a separately established nomination committee. However, responsibilities of the full Board include the duties and responsibilities typically delegated to such a committee and given the size of the Company the Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee.

#### **AUDIT COMMITTEE**

Recommendation 4.2 requires listed entities establish an audit committee. During the year ended 30 June 2006 Energy Metals Limited did not have a separately established audit committee. The Board considers that due to the Company's size, an audit committee's functions and responsibilities can be adequately and efficiently discharged by the Board as a whole, operating in accordance with the Company's mechanisms designed to ensure independent judgement in decision making.

The Board considers and deals with matters which would ordinarily be attended to by an audit committee including:

- setting policy and long and short term strategic planning;
- communicating strategy to relevant parties for implementation;
- monitoring the Company's performance against strategy;
- approving and monitoring all significant or major business transactions;
- designing and implementing an appropriate organisational structure;
- appointing and monitoring the conduct and performance of management and personnel and overseeing all remuneration, development and succession;
- approving and monitoring financial reporting and compliance;
- identifying and monitoring the principal risks and opportunities of the Company's business;
- ensuring appropriate risk management systems are established and reviewed;
- overseeing control and accountability systems;
- ensuring that the Board remains appropriately skilled to meet Company needs;
- reviewing and approving corporate governance systems; and
- delegating authority to management where appropriate.

The Executive Director is accountable to the Board for management of the Company within authority levels approved by the Board and is subject to the supervision of the Board.

#### REMUNERATION

The Company is required to disclose in its annual report details of remuneration to Directors. A detailed explanation of the basis and quantum of Directors' remuneration is set out in the Directors' Report.

#### **REVIEW OF BOARD PERFORMANCE**

There is currently no formal process for performance evaluation of the Board, individual directors or the Executive Director.

#### **CONTINUOUS DISCLOSURE**

The Company must comply with the continuous disclosure requirements of the ASX Listing Rules and Corporations Act 2001. The Company is required to disclose to the ASX any information which a reasonable person would expect to have a material effect on the price or value of the Company's securities unless certain exemptions from the requirements apply. To ensure it meets its continuous disclosure obligations, the Board has nominated the Executive Director and Company Secretary as responsible for all disclosure matters. Their role is to collate and, where appropriate, disclose share price sensitive information.

#### IDENTIFICATION AND MANAGEMENT OF SIGNIFICANT BUSINESS RISK

The Board has identified the significant areas of potential business and legal risk to the Company. The identification, monitoring and, where appropriate, the reduction of significant risk to the Company is the responsibility of the Executive Director.

The Board reviews and monitors the parameters under which such risks will be managed.

#### **ETHICAL STANDARDS**

The Company recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity.

The Company's officers and employees are members of their appropriate professional bodies and are required to act in accordance with the law and with the highest ethical standards.

Directors and staff of Energy Metals Limited are not permitted to engage in trading of the Company's shares during a period when they are in possession of price sensitive information which is not currently available to the market. This includes the period leading up to the release of periodic reports.

Where a conflict of interest may arise, the relevant Director(s) leave the meeting to ensure a full and frank discussion of the matter(s) under consideration.

# SHAREHOLDER COMMUNICATION

In the Company's current stage of development, matters of crucial importance arise regularly. The Executive Director will discuss significant issues with Board members and jointly will make a decision on the timely release of factual and balanced information concerning the Company's activities.

The Board of Energy Metals Limited endeavours to ensure that shareholders are informed of all the activities affecting the Company. Information is conveyed to shareholders via the annual report, quarterly reports and other announcements which are delivered to the Australian Stock Exchange and posted on the Company's website (http://www.energymetals.net). Shareholders with access to the internet are encouraged to submit their email addresses to receive electronic copies of information distributed by the Company. Hard copies of this information are available on request.

The Board encourages the attendance and participation of shareholders at the Annual General Meeting and specifically convened General Meetings by holding those meetings in a location accessible by a large number of shareholders.

#### External auditor

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. It is the auditor's policy to rotate engagement partners on listed companies at least every five years.

The auditor is required to attend the Annual General Meeting of Shareholders. The Chairman will permit shareholders to ask questions about the conduct of the audit and the preparation and content of the audit report, in accordance with section 250T of the Corporations Act 2001.

# INCOME STATEMENT

# FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Revenue from continuing operations		169,852	
Depreciation expenses		(11,180)	(293)
Exploration expenditure written off		(41,588)	-
Employee benefits expenses		(806,862)	-
Corporate and regulatory expenses		(271,449)	-
Other administrative expenses from ordinary activities		(233,994)	(5,286)
Profit (Loss) before income tax		(1,195,221)	(51,579)
Income tax expense	25	-	-
Profit (Loss) after income tax		(1,195,221)	(51,579)
Profit (Loss) attributable to members of Energy Metals Limited		(1,195,221)	(51,579)
Earnings per share for profit (loss) attributable to the			
ordinary equity holders of the company:			
Basic earnings per share (cents per share)	14	(0.058)	(0.0051)
Diluted earnings per share (cents per share)	14	(0.035)	(0.0051)

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

# BALANCE SHEET

AS AT 30 JUNE 2006

	Note	2006 \$	2005 \$
CURRENT ASSETS			
Cash and cash equivalents	13	6,082,087	-
Trade and other receivables	12	232,916	3
Total Current Assets		6,315,003	3
NON-CURRENT ASSETS			
Property, plant and equipment	6	127,323	2,812
Exploration and evaluation expenditure	7	1,003,922	494,952
Total Non-Current Assets		1,131,245	497,764
TOTAL ASSETS		7,446,248	497,767
CURRENT LIABILITIES			
Trade and other payables	8	15,778	-
Borrowings	8a	-	181,450
Total Current Liabilities		15,778	181,450
TOTAL LIABILITIES		15,778	181,450
NET ASSETS		7,430,470	316,317
EQUITY			
Contributed equity	9	8,007,395	367,896
Reserves	22, 24	669,875	-
Accumulated losses	20	(1,246,800)	(51,579)
TOTAL EQUITY		7,430,470	316,317

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

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
		Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Payments to suppliers and consultants		(640,725)	(51,286)
Net cash inflow (outflow) from operating activities	11	(640,725)	(51,286)
Cash flows from investing activities			
Payments for exploration, evaluation and development expendit	ure	(550,558)	(494,952)
Payments for property, plant and equipment		(135,691)	(3,105)
Interest received		129,990	-
Net cash inflow (outflow) from investing activities		(556,259)	(498,057)
Cash flows from financing activities			
Proceeds from issue of shares and options		7,639,499	3
Proceeds from Ioan from Jindalee Resources Ltd		-	549,343
Repayment of borrowing		(360,431)	-
Net cash inflow (outflow) from financing activities		7,279,068	549,346
Net increase / (decrease) in cash and cash equivalents		6,082,084	3
Cash and cash equivalents at the beginning of the financial	year	3	Nil
Cash and cash equivalents at the end of the financial year	11	6,082,087	3

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

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

		2006 \$	2005 \$
Total equity at the haginning of the year		316,317	
Total equity at the beginning of the year		,	(54.570)
Loss for the year		(1,195,221)	(51,579)
Total recognised income and expense for the year		(1,195,221)	(51,579)
Transactions with equity holders in their capacity as equity holder	s		
Contributions of equity net of transaction costs	(Note 9)	7,639,499	367,896
Share options	(Note 22)	669,875	
		8,309,374	367,896
Total equity at the end of the year		7,430,470	316,317
Total recognised income and expense for the year is attributable to:			
Members of Energy Metals Limited		(1,195,221)	(51,579)

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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

#### 1. CORPORATE INFORMATION

The financial report of Energy Metals Limited for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of directors on 1 September 2006.

Energy Metals is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

As at 30 June 2005 the Company was an unlisted public company, domiciled in Australia. The Company was incorporated in Australia on 8 October 2004.

As at 30 June 2005 the Company was a wholly owned subsidiary of Jindalee Resources Limited and formed part of the economic entity of Jindalee Resources Limited and controlled entities.

The nature of the operations and principal activities of the Company are described in note 19.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In order to assist in the understanding of the accounts, the following summary explains the material accounting policies that have been adopted in the preparation of the accounts.

# (a) Basis of Preparation/Accounting.

The financial report is a general purpose financial report prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001. The Financial Report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

# (b) Statement of Compliance

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 annual 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.

The Directors are of the opinion that there are no material differences resulting from the conversion of the Company's accounting policies to AIFRS and that the financial effect of any differences is insignificant. The impact of the alternative treatment and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

#### (c) Impairment of Assets

The Company 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 Company 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 case inflows that are largely independent of those from other assets or groups of assets and the asset's values 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 it's 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 revalued amount (in which case the impairment loss is treated as a revaluation decrease).

As 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 the impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at the 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.

#### (d) Share Based Payment Transactions

# Share based payments

Under AASB 2 Share Based Payments, the Company must recognise the fair value of options granted to directors, employees and consultants as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share-based payment costs were not recognised under AGAAP.

The Company provides benefits to employees (including directors) of the company in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). The cost of these equity-settled transactions with employees (including directors) is measured by reference to fair value at the date they are granted. The fair value is determined using a binomial model.

# (e) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated using the diminishing value and prime cost methods and is brought to account over the estimated economic lives of all buildings, plant and equipment. The rates used are based on the useful life of the assets and range from 10% to 40%.

#### (f) 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 interest 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.

#### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS Continued

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued

#### (f) Income Tax Continued

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.

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

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

#### Other taxes

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

- where 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 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 flow 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.

#### (g) Exploration and Evaluation Expenditure

The Company's policy with respect to exploration and evaluation expenditure is to use the area of interest method. Under this method exploration and evaluation expenditure is 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 expenditure related to an area of interest is carried forward provided that rights to tenure of the area of interest are current and that one of the following conditions is met:
  - such evaluation 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 of each particular area of interest include only net direct expenditure.

# (h) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand, cash in bank accounts, money market investments readily convertible to cash within two working days, and bank bills but net of outstanding bank overdrafts.

#### (i) Employee Entitlements

The Company's liability for employee entitlements arising from services rendered by employees to balance date are recognised in other payables. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, and annual leave which will be settled within one year, have been measured at their nominal amount and include related on-costs.

#### (j) Earnings Per Share

#### (i) Basic Earnings Per Share

Basic earnings per share is determined by dividing the operating loss attributable to the equity holder of the Company after income tax by the weighted average number of ordinary shares outstanding during the financial period.

#### (ii) Diluted Earnings Per Share

Diluted earnings per share adjusts the figures used in determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will arise from the exercise of options outstanding during the period.

#### (k) Revenue

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

All revenue is stated net of the amount of goods and services tax.

# (I) Interest in a jointly controlled operation

The Company has an interest in a joint venture that is a jointly controlled operation. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A joint controlled operation involves the use of assets and other resources of the venturers rather than establishment of a separate entity. The Company recognises its interest in the jointly controlled operation by recognising the assets that it controls and the liabilities that it incurs. The Company also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

# (m) Trade and Other Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Current receivables for GST are due for settlement within 30 days and other current receivables within 12 months. Cash on deposit is not due for settlement until rights of tenure are forfeited or performance obligations are met.

# (n) Trade and Other Payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and usually paid within 30 days of recognition.

# (o) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

		2006	2005
		<b>\$</b>	\$
3.	EXPENSES		
	Profit (Loss) includes the following specific expenses:		
	Depreciation	11,180	293
	Exploration expenditure written off	41,588	
3 a	REVENUE		
	Profit (Loss) includes the following revenue items:		
	Interest received from other parties	129,990	-
	Joint Venture administration fees	39,862	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS Continued

# 4. EXPLANATION OF TRANSITION TO AUSTRALIAN INTERNATIONAL FINANCIAL REPORTING STANDARDS ("AIFRS") TO INTERNATION FINANCIAL REPORTING STANDARDS ("IFRS")

The Company changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (AIFRS). The transition to AIFRS is accounted for in accordance with AASB 1 'First-time adoption of Australian equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

The Company did not exist at 1 July 2004 and therefore no reconciliation of equity at that date is necessary.

The transition from AGAAP to AIFRS has not affected the Company's income statement, balance sheet, statement of equity and cash flows as at 1 July 2005.

#### 5. KEY MANAGEMENT PERSONNEL DISCLOSURES

# (a) Details of Directors and Key Management Personnel

#### (i) Directors

The following persons were directors of Energy Metals Limited during the financial year:

Mr D R Kennedy - Chairman

Mr L Dudfield - Executive Director

Mr O Aamodt - Non-Executive Director – appointed 6 July 2005.

Mr J Luckett - Non-Executive Director – resigned 6 July 2005.

#### (ii) Other Key Management Personnel

During the financial year there were no employees that fulfilled the role of a key management person, other than those disclosed as Executive Directors.

# (b) Key Management Personnel Compensation

	2006 \$	2005 \$
Short-term employee benefits	145,940	-
Post-employment benefits	-	-
Share-based payments	669,872	
	815,815	-

The Company has utilised the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in the remuneration report within the Directors' Report.

#### (c) Equity Instrument Disclosures Relating to Key Management Personnel

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

Details of options provided as remuneration and shares issued on any exercise of such options, together with terms and conditions can be found within the Directors' Report.

# (ii) Share and option holdings

The number of shares and options over ordinary shares in the Company held during the financial year by each Director of Energy Metals Limited and any other key management personnel of the Company, including their personally related parties, are set out below:

A. The Company listed on the Australian Stock Exchange on 9 September 2005 and the following directors subscribed for shares which were allotted as follows:

	Number of shares allotted where Director is the holder	Number of shares allotted where Director is not the relevant holder
Donald Ross Kennedy	16,000	20,000
Lindsay George Dudfield	1,372,000	-
Oscar Aamodt	-	50,000

B. On 3 October 2005 the Company issued a prospectus for the non-renounceable issue of options (1 option for every 2 shares held) at an issue price of 1c per option. The options are exercisable at 30c with an expiration of 30 June 2008 and are listed on the Australian Stock Exchange code EMEO. The Directors as shareholders applied for and were allotted the following options:

	Number of options allotted where Director is the holder	Number of options allotted where Director is not the relevant holder
Donald Ross Kennedy	8,000	10,000
Lindsay George Dudfield	686,000	-
Oscar Aamodt	-	25,000

C. At the Company's Annual General Meeting held on 28 November 2005 shareholders approved an issue of 1,250,000 options to directors. The options are unlisted options exercisable at 35c with an expiration of 30 June 2010. The options were issued as follows:

	Number of options issued	Number of options exercised at 30/06/2006
Donald Ross Kennedy	500,000	-
Lindsay George Dudfield	500,000	-
Oscar Aamodt	250,000	-

#### 5. KEY MANAGEMENT PERSONNEL DISCLOSURES Continued

## (c) Equity Instrument Disclosures Relating to Key Management Personnel Continued SHAREHOLDINGS

Aggregate numbers of shares and options of the Company held directly, indirectly or beneficially by Directors of the Company at the date of this report:

	2006	2005
Mr D R Kennedy		
Ordinary fully paid shares	36,000	-
Listed Options (ASX Code EMEO)	18,000	-
Unlisted Options (ASX Code EMEAM)	500,000	-
Mr L G Dudfield		
Ordinary fully paid shares	1,372,000	-
Listed Options (ASX Code EMEO)	686,000	-
Unlisted Options (ASX Code EMEAM)	500,000	-
Mr O Aamodt		
Ordinary fully paid shares	50,000	-
Listed Options (ASX Code EMEO)	25,000	-
Unlisted Options (ASX Code EMEAM)	250,000	-

#### (d) Other Transactions with Key Management Personnel

- i) Pursuant to a Consulting Agreement dated 6 July 2005 between the Company and Jopan Management Pty Ltd ("Jopan"), the Company during the year the Company paid a total of \$84,900 to Western Geological Services (a division of Jopan). The fees being for the provision of technical and management services provided to the Company by Mr Lindsay Dudfield. During the year the Company reimbursed Western Geological Services \$640 on a cost basis for vehicle hire. Mr Dudfield's spouse is the major shareholder of and the sole director and company secretary of Jopan.
- ii) During the year the Company paid Little Tagon Pty Ltd, a company related to Mr Donald Ross Kennedy, \$10,000 being Directors Fees and \$25,400 for the provision of technical and management services provided by Mr Kennedy.
- iii) During the year the Company paid a total of \$77,600 to Jindalee Resources Limited for the provision of registered and serviced offices and the provision of staff (employed by Jindalee) to provide administrative, secretarial, corporate compliance and reception services. During the year the Company reimbursed Jindalee Resources a total of \$404,353 (being repayment of loan in the amount of \$360,431.54 and reimbursement for goods purchased by Jindalee on behalf of Energy Metals in the amount of \$43,921.02). Jindalee Resources is a substantial shareholder in Energy Metals holding 10,000,000 shares escrowed until 09/09/2007. Lindsay George Dudfield and Donald Ross Kennedy are also directors of Jindalee Resources Limited.

	2006 \$	2005 \$
NON-CURRENT ASSETS		
- PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment - at cost	117,432	3,105
Less accumulated depreciation	(11,012)	(293)
	106,420	2,812
Motor vehicle – at cost	21,364	-
Less accumulated depreciation	(461)	-
	20,903	
Reconciliation of the carrying amount of property, plant and equipment:		
Carrying amount at 1 July 2005	2,812	-
Additions	135,691	3,105
Less depreciation expense for the period	(11,180)	(293)
Carrying amount at 30 June 2006	127,323	2,812
NON-CURRENT ASSETS		
- EXPLORATION AND EVALUATION EXPENDITURE		
Balance at beginning of the year	494,952	-
Exploration expenditure incurred	550,558	494,952
Exploration expenditure written off	(41,588)	-
Balance at the end of the year	1,003,922	494,952
The balance carried forward represents projects in the		
exploration and evaluation phase.		
Ultimate recoupment of exploration expenditure carried forward		
is dependent on successful development and commercial		
exploitation, or alternatively, sale of respective areas		
CURRENT LIABILITIES		
- TRADE AND OTHER PAYABLES		
Other payables	15,778	-
	15,778	-
CURRENT LIABILITIES - BORROWINGS		
Payables – Jindalee Resources Limited		181,450
	-	181,450

Share capital	2006 \$	2005 \$
9. CONTRIBUTED EQUITY		
25,179,802 ordinary shares, fully paid (2005: 10,000,000)	8,007,395	367,896
Balance at the beginning of the year	367,896	-
Movements:		
12,000,000 fully paid shares @ 25 cents each issued pursuant to prospectus and ASX listing on 09/09/05	3,000,000	-
3,000,000 fully paid shares @ \$1.50 each pursuant to placement on 03/04/06	4,500,000	-
179,802 fully paid ordinary shares @ 30 cents each on the exercise of options on various dates	53,941	-
10,969,863 loyalty options @ 1 cent each pursuant to prospectus	109,698	-
less: transaction costs	(24,140)	-
100 Shares issued on incorporation 08/10/04	-	3
9,999,900 Shares issued to Jindalee Resources Ltd on 24/06/05 for conversion of debt into equity	-	367,893
Balance at the end of year	8,007,395	367,896

Ordinary shares participate in dividends. On winding up of the company any proceeds would be distributed in proportion to the number of the shares held. At shareholder meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholders has one vote on a show of hands.

#### 10. PERFORMANCE BONDS AND SECURITY DOCUMENTS

In support of titles granted to or operated by the Company, various securities have been submitted to the Department of Industry and Resources. These consist of unconditional performance bonds, securities or Form 32 security documents with a total potential liability of \$30,000.

# 11. RECONCILIATION OF PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

Profit (Loss) from ordinary activities after income tax	(1,195,221)	(51,579)
Exploration expenditure written off	41,588	-
Depreciation	11,180	293
Share based payment expense	669,875	-
Change in operating assets and liabilities during the financial year:		
(Increase) decrease in trade and other receivables	(46,524)	-
Increase (decrease) in trade and other payables	8,367	
Net cash (outflow) from operating activities	(510,735)	(51,286)
Reconciliation of cash balance comprises:		
Cash and cash equivalents	6,082,087	3

	2006 \$	2005 \$
12. TRADE AND OTHER RECEIVABLES		
Trade receivables	186,392	-
Other receivables	46,524	3
	232,916	3
13. CASH AND CASH EQUIVALENTS		
Term deposits	5,503,081	-
Cash at bank	579,006	-
	6,082,087	-
14. EARNINGS PER SHARE		
Earnings used in calculation of basic and diluted earnings per share	(1,195,221)	(51,579)
Basic earnings (loss) per share (cents per share)	(0.058)	(0.0051)
Diluted earnings (loss) per share (cents per share)	(0.035)	(0.0051)
	2006 Number	2005 Number
Weighted average number of ordinary shares used as the		
denominator in calculating basic earnings per share.	20,430,747	10,000,000
Adjustments for calculation of diluted earnings per share:		
Options	13,240,061	-
Weighted average number of ordinary shares and potential		
ordinary shares used as the denominator in calculating		
diluted earnings per share	33,670,808	10,000,000

#### **15. CONTINGENCIES**

#### **Contingent Liabilities**

Claims of Native Title

To date the Company has been notified by the Native Title Tribunal of native title claims which cover some of the Company's licence holdings. Until further information arises in relation to the claims and its likelihood of success, the Company is unable to assess the likely effect, if any, of the claims.

2006	2005
\$	\$

#### 16. COMMITMENTS

#### Tenement Expenditure Commitments:

The Company is required to maintain current rights of tenure to tenements, which require outlays of expenditure in 2006/2007. Under certain circumstances these commitments are subject to the possibility of adjustment to the amount and/or timing of such obligations, however, they are expected to be fulfilled in the normal course of operations. Estimated expenditure on mining, exploration and prospecting leases for 2006/2007.

530,700	313,220

#### Capital Commitments

There are no capital expenditure commitments for the Company as at 30 June 2006.

#### 17. REMUNERATION OF AUDITORS

Amounts received or due and receivable at 30 June 2006 by the auditors for: Audit and review of the financial reports Other assurance services

10,106	5,000
-	-
10,106	5,000

#### 18. FINANCIAL RISK MANAGEMENT

#### (a) Credit Risk Exposure

The Company has no significant concentrations of credit risk.

#### (b) Interest Rate Risk Exposure

The Company's exposure to interest rate risk arises from assets and liabilities bearing variable interest rates. The weighted average interest rate on cash holdings was 4% at 30 June 2006. All other financial assets and liabilities are non interest bearing. The net fair value of the Company's financial assets and liabilities approximates their carrying value.

#### 19. SEGMENT INFORMATION

#### **Business Segment**

During the financial year the Company operated in one segment, the mining exploration and prospecting industry.

#### **Geographical Segments**

During the financial year the Company operated within Australia only, specifically the Northern Territory and Western Australia.

	2006 \$	2005 \$
20. ACCUMULATED LOSSES		
Accumulated losses at the beginning of the financial year	(51,579)	-
Net profit (loss) attributable to members of the Company	(1,195,221)	(51,579)
Accumulated profits (losses) at the end of the financial year	(1,246,800)	(51,579)

#### 21. EVENT OCCURRING AFTER BALANCE SHEET DATE

There are no events subsequent to the end of the financial year that would have a material effect on the financial report.

#### 22. SHARE BASED PAYMENT TRANSACTIONS

Share based payments transactions are recognised at fair value in accordance with AASB 2. The adoption of AASB 2 is equity-neutral for equity-settled transactions. The expense in the year was \$669,875.

#### Fair Value of share options and assumptions

The fair value of services received in return for share options granted to directors is measured by reference to the fair value of options granted. The estimate of the fair value of the services is measured based on a black-scholes option valuation methodology. This life of the options and early exercise option are built into the option model.

The assumptions used for the options valuation are as follows:

Exercise Price	\$0.35
Expected Life	2.32 years
Share Price at time of issue	\$0.84
Expected volatility	88.34%
Dividend yield	0%
Risk free interest rate	5.23%
Option value	53.59 cents

#### 23. JOINT VENTURES

The Company has the following interest in unincorporated joint ventures:

		% Interest	
Joint Venture	Principal Activity	2006	2005
Bigrlyi Joint Venture	Uranium Exploration	53.29%	-

The joint venture is a contractual arrangement between participants for the sharing of costs and outputs and do not in themselves generate revenue and profit. The joint venture does not hold any assets and accordingly the Company's share of exploration and evaluation expenditure is accounted for in accordance with the policy set out in Note 1.

	2006 \$	2005 \$
24. RESERVES		
Share-based option reserve		
Balance at the beginning of the year	-	-
Options expense	669,875	-
Balance at the end of the year	669,875	-
Nature and purpose of the reserve:		
The share-based payments reserve is used to recognise		
the fair value of options issued but not exercised		
5. TAXATION		
The reconciliation between tax expense and the product of accounting		
loss before income tax multiplied by the Company's applicable		
income tax rate is as follows:		
Loss before income tax	(1,195,221)	(51,579)
Income tax (benefit) @ 30%	(358,566)	(15,474)
Tax effect of amounts which are not deductible in calculating taxable income:		
Share based payments	200,962	-
Other costs not deductible	115	-
Temporary differences not recognised	834	-
Deferred tax assets relating to tax losses not recognised	156,655	15,474
Total income tax expense		-
The franking account balance at year end was \$nil (2005: \$nil).		
Deferred tax assets and liabilities not recognised relate to the following:		
Deferred tax assets		
Tax losses	573,760	51,579
Other temporary differences	834	-
Deferred tax liabilities		
Other temporary differences		-
Net deferred tax assets	574,594	51,579

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

#### 26. DIVIDENDS

There were no dividends paid or declared by the Company during the year.

### DIRECTORS' DECLARATION

In accordance with a resolution of the Board of Directors, I state that:

In the opinion of the Directors:

- (1) (a) the financial statements, notes and audited remuneration disclosures included in the directors' report of the Company are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position at 30 June 2006 and of their performance for the year ended on that date: 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; and
  - (c) the audited remuneration disclosures set out on pages 6 to 7 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures and the Corporations Regulations 2001.*
- (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 ending 30 June 2006.

On behalf of the Board.

L G DUDFIELD

**Executive Director** 

Perth, Western Australia

1 September 2006.

#### AUDITOR'S INDEPENDENCE DECLARATION



1 September 2006

Horwath Audit (WA) Pty Ltd
ABN 79 112 284 787
Chartered Accountants
A member of Horwath International
128 Hay Street Subiaco WA 6008
PO Box 700 West Perth WA 6872
Email horwath@perth.horwath.com.au
Telephone (08) 9380 8400
Facsimile (08) 9380 8499

#### **Private and Confidential**

The Board of Directors Energy Metals Pty Ltd PO Box 1033 WEST PERTH WA 6872

#### **AUDITOR'S INDEPENDENCE DECLARATION**

This declaration is made in connection with my audit of the financial report of Energy Metals Ltd for the year ended 30 June 2006 and in accordance with the provisions of the Corporations Act 2001.

As lead auditor I declare that, to the best of my knowledge and belief, there have been:

- · No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

HORWATH AUDIT (WA) PTY LTD

HORWATH.

CHA OBREA

GLYN O'BRIEN

Director

Horwath Audit (WA) Pty Ltd conducts its practice independently of all other firms of chartered accountants who are members of Horwath International in Australia

#### INDEPENDENT AUDIT REPORT

TO MEMBERS OF ENERGY METALS LIMITED



Horwath Audit (WA) Pty Ltd
ABN 79 112 284 787
Chartered Accountants
A member of Horwath International
128 Hay Street Subiaco WA 6008
PO Box 700 West Perth WA 6872
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Facsimile (08) 9380 8499

#### REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Energy Metals Limited for the year ended 30 June 2006. The financial report comprises the balance sheet at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, summary of significant accounting policies and other explanatory notes, and the directors' declaration for the year then ended.

#### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in pages 18 to 20 of the directors' report, as permitted by the Corporations Regulations 2001.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### INDEPENDENT AUDIT REPORT Continued

#### Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditors' Independence Declaration, a copy of which is included in the Financial Report.

#### **Auditor's Opinion**

In our opinion the financial report of Energy Metals Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia including the Australian Accounting Interpretations and the Corporations Regulations 2001.

The remuneration disclosures that are contained in pages 18 to 20 of the directors' report comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

Dated the 1st day of September 2006.

HORWATH AUDIT (WA) PTY LTD

GLYN O'BRIEN

HORNAMM.

Director

#### ADDITIONAL INFORMATION

The following additional information not shown elsewhere in this report is required by the Australian Stock Exchange Ltd in respect of listed public companies only. This information is current as at 20/09/2006.

#### SUBSTANTIAL SHAREHOLDERS

The Company has received a notice of substantial holding from the following:

Jindalee Resources Limited in relation to 10,000,000 ordinary shares (39.33%)

Denison Mines Inc. in relation to 3,000,000 ordinary shares (11.80%)

Kale Capital Corporation in relation to 1,403,641 ordinary shares (5.52%)

Mr Lindsay Dudfield in relation to 1,372,000 ordinary shares (5.40%)

#### **ISSUED SECURITIES**

#### **Quoted Securities**

ASX Code	Number of Holders	Security Description	Total Securities
EME	791	Ordinary Fully Paid	25,428,852
EMEO*	337	Options expiring 30/06/2008	10,791,011
		exercisable at 30c	

#### **Unquoted Securities**

Unquoted Securities			
ASX Code	Number of Holders	Security Description	Total Securities
EMEAI	1	Ordinary fully paid restricted	10,000,000
EMEAM*	3	Options expiring 30/06/10	1,250,000
		exercisable at 35c	
ASX Code	Name of Holders	Security Description	Total Securities
EMEAK*	Central Pacific Minerals NL	Options expiring 30/06/08	400,000
		exercisable at 30c	
EMEAK*	Yuendumu Mining Company NL	Options expiring 30/06/08	550,000
		exercisable at 30c	

#### **VOTING RIGHTS**

The voting rights of each class of share are as follows:

Fully Paid Ordinary Shares - one vote per share held.

<sup>\*</sup>Options - no voting rights are attached to unexercised options.

#### ADDITIONAL INFORMATION Continued

#### **DISTRIBUTION SCHEDULE**

Spread of Holdings	Ordinary Shares (EME)	Listed Options (EMEO)
1 - 1,000	141	28
1,001 - 5,000	319	197
5,001 - 10,000	192	59
10,001 - 100,000	127	41
100,001 -	12	11
TOTAL HOLDERS	790	336

#### **UNMARKETABLE PARCELS**

As at 20/09/2006 there were 12 shareholders holding less than a marketable parcel of shares.

#### **20 LARGEST SHAREHOLDERS**

The names of the twenty largest shareholders (ASX Code: EME) are listed below:

Name	% of Issued Securities	Number of Ordinary Shares
Jindalee Resources Limited	39.33	10,000,000
2. Denison Mines Inc.	11.80	3,000,000
3. Kale Capital Corporation	5.52	1,403,641
4. Lindsay George Dudfield	5.40	1,372,000
5. Grandor Pty Ltd	4.92	1,250,000
6. Perth Select Seafoods Pty Ltd	1.97	500,000
7. Jopan Management Pty Ltd	1.88	479,000
8. Teck Cominco Australia Pty Ltd	1.64	416,811
9. Yandal Investments Pty Ltd	1.42	361,000
10. Ross Asset Management Limited	0.96	245,000
11. Fleubaix Pty Ltd	0.87	220,000
12. Yuendumu Mining Company NL	0.74	188,184
13. Clive Anthony Rutherford	0.39	100,000
14. Jordan Luckett	0.39	100,000
15. Hendricus Pty Ltd	0.39	100,000
16. Andrew Daniel Gabor Scott	0.39	99,000
17. United Asset Management Limited	0.30	76,000
18. Peter Trevor Chappell	0.28	72,000
19. Lake Argyle Holdings Pty Ltd	0.28	72,000
20. Australian Golf Promotion	0.28	70,000

#### **20 LARGEST OPTION HOLDERS**

The names of the twenty largest holders of listed options (ASX Code: EMEO) are listed below:

Name	`% of Issued Securities	Number of Options
Jindalee Resources Limited	46.33	5,000,000
2. Kale Capital Corporation	7.18	774,610
3. Lindsay George Dudfield	6.36	686,000
4. Grandor Pty Ltd	4.63	500,000
5. Teck Cominco Australia Pty Ltd	4.63	500,000
6. Perth Select Seafoods Pty Ltd	2.50	270,000
7. Jopan Management Pty Ltd	2.17	234,500
8. Yandal Investments Pty Ltd	1.67	180,500
9. Ross Asset Management Pty Ltd	1.64	177,500
10. Jordan Luckett	1.26	136,500
11. James Farr	0.96	103,500
12. Nefco Nominees Pty Ltd	0.55	59,000
13. Peter Trevor Chappell	0.53	57,397
14. Hendricus Pty Ltd	0.46	50,000
15. Andrew Daniel Gabor Scott	0.41	44,500
16. Scott John Harmer	0.38	41,040
17. M & K Korkidas Pty Ltd	0.38	41,000
18. Davmin Pty Ltd	0.37	40,000
19. Randall Olgers	0.37	40,000
20. United Asset Management Pty Ltd	0.35	38,000

#### RESTRICTED SECURITIES

Jindalee Resources is the holder of 10,000,000 unquoted fully paid ordinary shares (ASX Code: EMEAI) subject to escrow until 09/09/2007

Denison Mines Inc is the holder of 3,000,000 fully paid ordinary shares (ASX code: EME) subject to voluntary escrow until 3 April 2007.

#### ADDITIONAL INFORMATION Continued

#### INTERESTS IN MINING TENEMENTS AS AT 20/09/2006

#### Western Australia

E08/1480	Manyingee	Granted	E58/289	Anketell	Granted
E21/120	Lakeside	Granted	E58/292	Anketell	Granted
E29/568	Mopoke Well	Granted			
ELA29/623	Mopoke Well	Application			
E57/590	Lake Mason	Granted			
orthern Territory					
ERL46 <sup>1</sup>	Bigrlyi Project	Granted	MCSA2731	Ngalia Regional	Application
ERL47 <sup>1</sup>	Bigrlyi Project	Granted	MCSA274 <sup>1</sup>	Ngalia Regional	Application
ERL48 <sup>1</sup>	Bigrlyi Project	Granted	MCSA275 <sup>1</sup>	Ngalia Regional	Application
ERL49 <sup>1</sup>	Bigrlyi Project	Granted	MCSA276 <sup>1</sup>	Ngalia Regional	Application
ERL50 <sup>1</sup>	Bigrlyi Project	Granted	MCSA277 <sup>1</sup>	Ngalia Regional	Application
ERL51 <sup>1</sup>	Bigrlyi Project	Granted	MCSA278 <sup>1</sup>	Ngalia Regional	Application
ERL52 <sup>1</sup>	Bigrlyi Project	Granted	MCSA318 <sup>1</sup>	Ngalia Regional	Application
ERL53¹	Bigrlyi Project	Granted	MCSA319 <sup>1</sup>	Ngalia Regional	Application
ERL54 <sup>1</sup>	Bigrlyi Project	Granted	MCSA3201	Ngalia Regional	Application
ERL55¹	Bigrlyi Project	Granted	MCSA3211	Ngalia Regional	Application
ELA24450	Ngalia Regional	Application	MCSA322 <sup>1</sup>	Ngalia Regional	Application
EL24451	Ngalia Regional	Granted	MCSA3231	Ngalia Regional	Application
EL24453	Ngalia Regional	Granted	MCSA324 <sup>1</sup>	Ngalia Regional	Application
ELA24462	Ngalia Regional	Application	MCSA325 <sup>1</sup>	Ngalia Regional	Application
EL24463	Ngalia Regional	Application	MCSA326 <sup>1</sup>	Ngalia Regional	Application
EL24533	Ngalia Regional	Granted	MCSA327 <sup>1</sup>	Ngalia Regional	Application
ERLA41 <sup>2</sup>	Ngalia Regional	Application	MCSA328 <sup>1</sup>	Ngalia Regional	Application
ERLA45 <sup>3</sup>	Ngalia Regional	Application	MCSA329 <sup>1</sup>	Ngalia Regional	Application
MCSA270 <sup>1</sup>	Ngalia Regional	Application	MCSA3301	Ngalia Regional	Application
MCSA271 <sup>1</sup>	Ngalia Regional	Application	MLNA19521	Ngalia Regional	Application
MCSA272 <sup>1</sup>	Ngalia Regional	Application	MLNA19531	Ngalia Regional	Application
EL24804	Ngalia Regional	Application			
EL24805	Ngalia Regional	Application			
EL24806	Ngalia Regional	Application			
EL24807	Ngalia Regional	Granted			

All of the above tenements are beneficially owned by Energy Metals Limited and percentage interest is 100% unless otherwise stated.

#### ABBREVIATIONS

 $^{*_{1}}$  = 53.3% interest E = Exploration Licence (WA)

 $^{*2}$  = 52.1% interest ELA = Exploration Licence Application (WA)

 $^{13}$  = 41.9% interest EL = Exploration Licence (NT)

ELA = Exploration Licence Application (NT)
ERL = Exploration Retention Licence (NT)

ERLA = Exploration Retention Licence Application (NT)
MCSA = Mineral Claim (Southern) Application (NT)
MLNA = Mineral Lease (Northern) Application (NT)

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