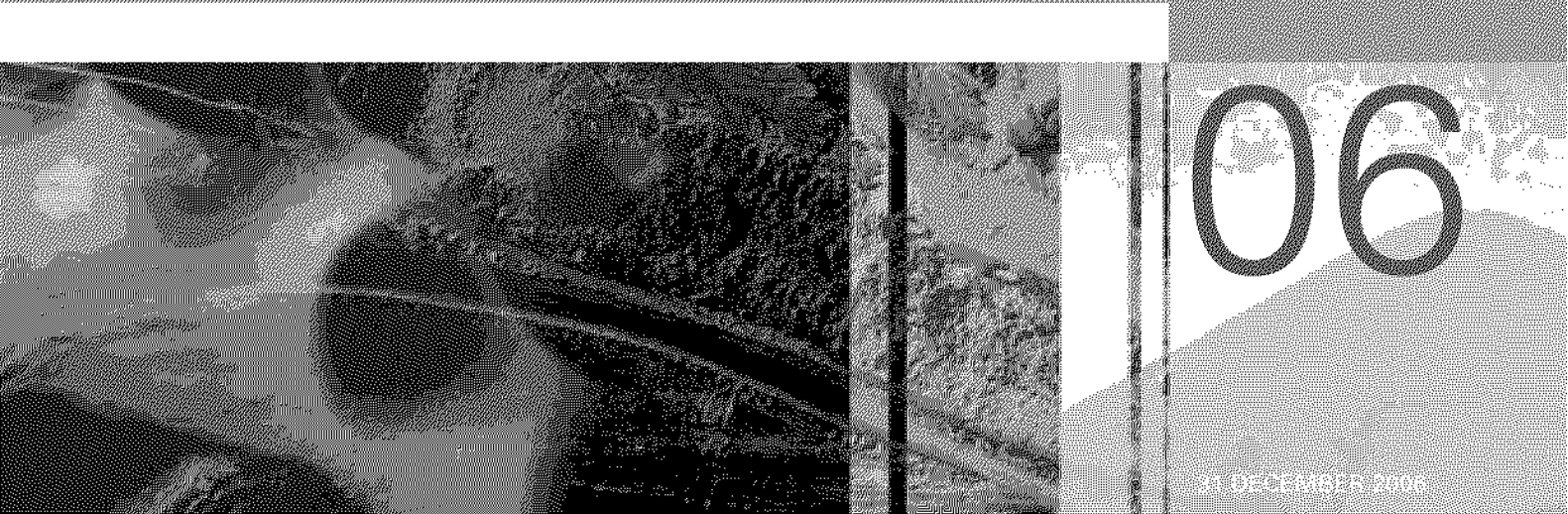




Mineral Commodities Limited

ASX LISTED COMPANY



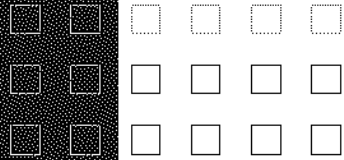
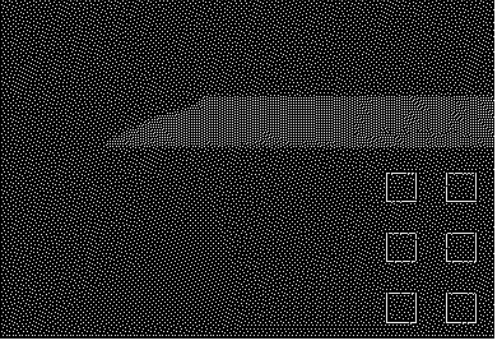
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31 DECEMBER 2006

Annual Report

Corporate Directory

| | |
|------------------------|---|
| Directors | Joseph Anthony Caruso - Non-Executive Chairman Mark Victor Caruso - Managing Director Gregory Hugh Steemson - Non-Executive Director |
| Company Secretary | Peter Torre |
| Registered Office | Level 1 Unit 15 51-53 Kewdale Road Welshpool Western Australia 6106 Telephone: (61 8) 9353 4890 Facsimile: (61 8) 9353 4894 Email: info@mncom.com.au Website: www.mncom.com.au |
| Solicitors | Steinepreis Paganin Level 4, Next Building 16 Milligan Street Perth WA 6000 |
| Auditors | BDO Chartered Accountants 256 St Georges Terrace Perth, Western Australia 6000 |
| Share Registry | Security Transfer Registrars Pty Limited 770 Canning Highway Applecross, Western Australia 6153 Telephone: (61 8) 9315 2333 Facsimile: (61 8) 9315 2233 Email: registrar@securitytransfer.com.au |
| Bankers | Australia & New Zealand Banking Group Ltd 77 St Georges Terrace Perth WA 6000 |
| Stock Exchange Listing | The Company is Listed on the Australian Stock Exchange Limited under ASX Code - MRC |



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Chairman's Letter

Dear Shareholders,

It is with pleasure that I address you in respect to the 2006 year. Whilst the Company still experienced a certain degree of frustration in finalising certain aspects of its projects, significant milestones were reached throughout the year and in the period to the date of this report.

Last year I advised of the formation of the BEE alliance with Ehlobo Heavy Minerals (EHM). BEE compliance is a pre-condition to obtaining mining right approval under the South African Mineral and Petroleum Resources Development Act and the Charter.

A condition of the alliance was the entering into of a shareholders agreement with EHM. Subsequent to a lengthy negotiation process, both parties could not reach mutually agreeable terms and the alliance was terminated.

The Company subsequently entered into a BEE arrangement with Marodi Mining (Proprietary) Limited (Marodi) in respect to the Tormin Project. Similarly, in accordance with recommendations from the Department of Minerals and Energy (DME), the Company then proceeded to enhance its relationship with its local empowerment partner, Xolobeni Empowerment Company (Pty) Ltd (Xolco), on the Xolobeni Project.

It was with pleasure that the Company advised that the Mining Right Applications for both the Tormin and Xolobeni project were lodged in the period subsequent to 31 December 2007. Underpinning the MRA's were the BEE arrangements noted above.

The Company completed a \$9 million capital raising in May 2006. The majority of these funds were used to progress and enhance the companies diamond project in Sierra Leone. The commissioning of this project has taken longer than expected due to various obstacles encountered by the Company, however costs have been kept within budget.

In terms of other corporate and investment activity it also gives me pleasure to report on the continued success of the Company's investment in Allied Gold Limited. Mineral Commodities Limited is still one of the larger shareholders and this represents a strategic stake in a highly regarded emerging gold producer. Allied Gold expects to be in production by the end of this year and we look forward to sharing in its success.

Overall, the Company has progressed forward on each of its projects and expects even further enhancement this year. As always, the Board of Mineral Commodities Limited will continue to review and assess other new and exciting prospects in the interests of maximising shareholder value.

I would like to express my appreciation and thank my fellow Board members and staff both in Australia and overseas for their commitment, perseverance and dedication.

Joseph A. Caruso
Chairman

Review of Operations

XOLOBENI MINERAL SANDS PROJECT, SOUTH AFRICA

Location

The Xolobeni mineral sands deposit is located in the Eastern Cape Province of South Africa approximately 300 kilometres north of East London and 200 kilometres south of Durban.

The current tenement area is approximately 22 kilometres long and 1,500 metres wide and covers some 2866 hectares within the Xolobeni area. The area consists of three main dune systems which range from 25m to 95m above sea level. The resource is divided into five blocks bounded by the Mzamba, Mpahlane, Mnyameni, Kwanyana, Sikombe and Mtentu Rivers. Each block is named after the river defining the southern boundary. The current extent of mineralisation proposed to be mined takes in about 855ha or about 30% of the tenement area.

Tenure

TEM holds a current Prospecting Right issued under the Minerals and Petroleum Resources Development Act 2002.

In March 2007, TEM, under a unique empowerment arrangement between Mineral Commodities Limited (MRC), its South African subsidiary Transworld Energy and Minerals Resources (SA) (Pty) Limited (TEM) and the Xolobeni community empowerment company - XolCo (now a 26% shareholder of TEM) lodged the Mining Right for the Xolobeni Heavy Mineral Sands Project with the department of Minerals and Energy in Port Elizabeth.

One of the pre-requisites for obtaining a Mining Right is to prepare an Environmental Impact Assessment (EIA). Work on this has commenced and will be completed in 2008.

The Xolobeni project is more than just a mining operation. When the mining right is granted it will bring socio-economic upliftment to the impoverished local communities. The benefits will include;

- a solution to the environmental degradation of the area
- the provision of basic infrastructure and services which are currently severely lacking
- a significant impact on the local and regional economies.
- The project will maintain South Africa's position as one of the top 3 mineral sands producers in the world.



Lodging the application for a Mining Right. (Left to right XolCo directors - Nomangesi Malunga and Zeka Mnyamana, DME regional director Nomvuyo Ketse, John Barnes MRC/TEM operations manager.



Figure 1. Location of Xolobeni and Tormin projects.

Review of Operations (continued)

Resources

The mineralised sands occur within recent sands and remnant red beds of Pleistocene Berea Formation. The predominant valuable heavy mineral is ilmenite, the feedstock for titanium slag production. Rutile, zircon and leucoxene add significantly to the value of the deposit.

In 2002 a detailed drilling programme over the Sikombe, Kwanyana and Mnyameni blocks was completed. The results were assessed according to the JORC code by SRK Consulting, and used to complete a Resource Estimation Report and Desktop Mining Study. The Xolobeni mineral resource is estimated to be 346 million tonnes of sand containing nine million tonnes of ilmenite. Of this total resource 65% is in the measured category. It is the tenth largest mineral sands resource in the world. The mining study concluded that the Xolobeni mineral sand deposit is economically viable with a mine life of some 25 years.

Project development

A new order Prospecting Right was granted in October 2005. In March 2007 the Xolobeni Mining Right was lodged. South African environmental consultants GCS (Pty) Ltd have already been working on the EIA for several months as part of the necessary environmental and social studies required by the MPRD Act.

To compliment this effort, Australian based environmental consultants have been engaged to ensure that the work meets international best practice standards.

The EIA which will form part of the due process over the next 12 months in order for the mining right to be granted.

No further exploration activity is needed on the area as the mineral resources are classified as JORC compliant for measured, indicated and inferred. In 2002 part of the area was drilled on a grid spacing of 50m x 100m, sufficient density for mine planning.

TABLE 1 RESOURCE ESTIMATE SUMMARY

| Resource Classification | Tonnes (Mt) | HM Grade (HM%) |
|-------------------------|-------------|----------------|
| Measured | 224 | 5.7 |
| Indicated | 104 | 4.1 |
| Inferred | 18 | 2.3 |
| Total Resource | 346 | 5.0 |

TABLE 2 XOLOBENI BLOCK RESOURCE DATA

| Area | Resource Status | Tonnes (Mt) | % HM | % Fines | % Ilm ⁽²⁾ |
|--------------|-----------------|-------------|------------|-------------|----------------------|
| Mtentu | Not drilled | | | | |
| Sikombe | Measured | 85 | 5.5 | 17.9 | 3.1 |
| Kwanyana | Measured | 139 | 5.8 | 19.6 | 3.1 |
| Mnyameni | Indicated | 104 | 4.1 | 28.1 | 2.2 |
| Mpahlane | Inferred | 18 | 2.3 | 28.0 | 1.6 |
| TOTAL | | 346 | 5.0 | 22.2 | 2.7 |

(1) All tonnages are based on a 1% HM cut-off grade.

(2) The reported percentage of ilmenite is a magnetic fraction of the THM.

Review of Operations (continued)

On completion of the EIA and subject to the mining right being granted, it is proposed to commence a bankable feasibility study in 2008.

Socio-economic aspects

MRC/TEM has entered into a unique agreement with XolCo the local Amadiba Tribal Community broad based Black Economic Empowerment (BEE) partner. XolCo as 26 % equity partner will economically empower an impoverished community by having a significant stake in a major mining and down-stream processing project. MRC/TEM personnel have extensive experience in mining and rehabilitation and by combining this with XolCo as a broad based stakeholder engaged in operations and management will ensure the integrity of this unique project.

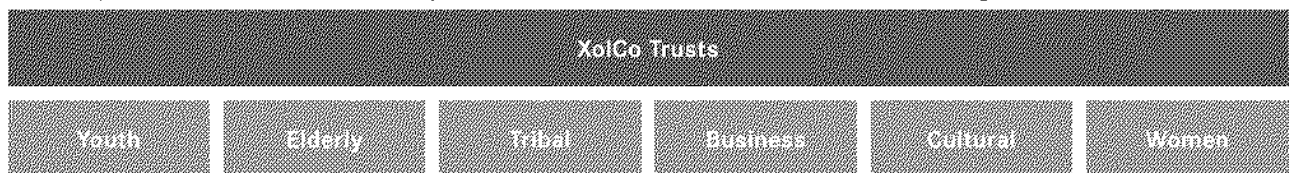
Consultation between TEM, XolCo and the local, regional and national government departments is ongoing in order to link common development plans for the area.

Key issues facing the local community are the creation of jobs, reduction in poverty, elimination of illiteracy, provision of water, power and transport and the determination of sustainable land use. The community's continued concern over the accelerating degradation of the area in terms of top soil erosion, wet land destruction and uncontrolled indigenous bush clearing for firewood has been brought to the attention of key government departments. All parties agree that mining is one activity than can stop the degradation and bring in the required infrastructure, jobs and wealth.

A number of community development programs are already in place as part of TEM's long term commitment to the area.

The project has the potential to bring a wide range of basic socio - economic benefits to the region such as improved roads, access to water and electricity, better education and health facilities providing a higher standard of living for all the people. Infrastructure will also encourage the development of sustainable industries and these together with the down stream processing of material through the smelter will continue to deliver long term economic benefits to the region.

XolCo represents a number of community base trusts as beneficiaries outlined in the following chart



Xolobeni resource statement

The Xolobeni resource statement included in this report was prepared by Mr Daniel Guibal (SRK Consulting), a competent person as defined under the JORC code.

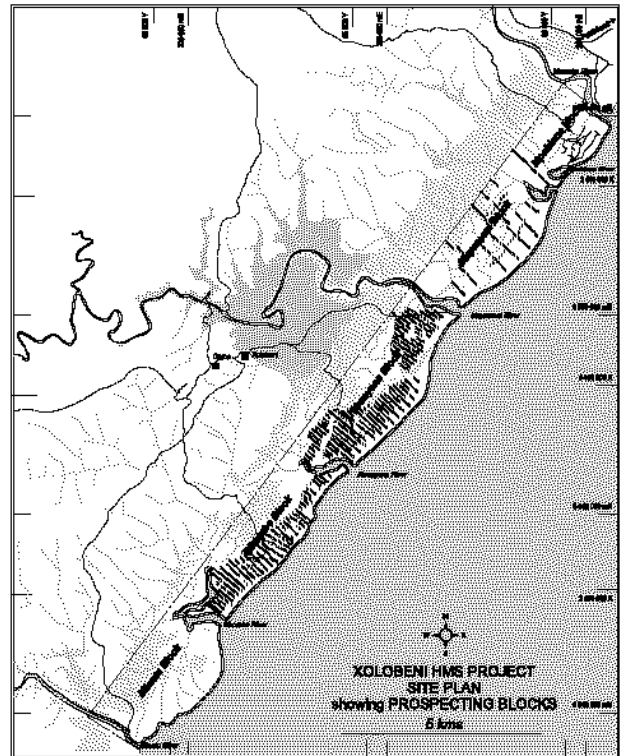


Figure 2. Xolobeni Project Site Plan.

Review of Operations (continued)

TORMIN MINERAL SANDS PROJECT, SOUTH AFRICA

Location

The Tormin mineral sands prospect is a small beach deposit located on the rugged west coast of South Africa approximately 400km north of Cape Town. The deposit is situated about 14km north of Trans Hex's diamond processing operation at De Pont near the Olifants River and about 50km south of Anglo's Namakwa Sands operation at Brand se Baai. The project is some 40 km from Anglo's mineral separation plant at Lutzville. (Figure 3).

The tenement area covers 120ha of mineralised beach which has accumulated along the ~12km long, 100m wide beach, to a maximum depth of 12m. Because of the dynamic beach environment the beach is continually being supplemented by erosion of a heavy mineral enriched 25m thick paleo-beach terrace 35m above the current sea level. The predominant heavy mineral is garnet with ilmenite, pyroxene, zircon, rutile, and leucoxene contained in the heavy mineral assemblage.

Tenure and BEE compliance

Mineral Commodities Limited holds its interest in the Tormin project through South African subsidiary Mineral Sands Resources (Pty) Ltd (MSR).

In late 2003 the Company applied for a Prospecting Permit over the area. With the introduction of the new MRPD Act a revised Prospecting Right Application (PRA) was submitted in August 2004 with an amended environment management plan (EMP) submitted in December 2004. The Prospecting Right was granted in March 2006 and the related EMP was also approved.

In February 2007 MSR lodged a Mining Right application over the area in concurrence with the EIA that had commenced and is ongoing as part of the mining right requirement.

Following the discontinuation of the BEE alliance with Ehlobo Heavy Minerals (Ehlobo) due the parties not being able to arrive at mutually agreeable terms in the Shareholders Agreement, MRC Resources and MSR have entered into a Shareholders Agreement with Marodi Mining Resources (Pty) Ltd which will establish MSR as a fully compliant BEE company.

Under the Shareholders Agreement, Marodi will pay a purchase consideration of R2 million and commit to funding development up to R15 million for a 50.1% interest in MSR. MSR will manage the Tormin Mineral Sands Project.

The Company has an agreement with the holder of a Mining Permit that covers part of the heavy mineral sand resource which allows the Company to purchase those rights. This will consolidate the Company's rights over the full extent of the deposit.

Resources

The Tormin heavy mineral placer deposits overlie diamond bearing gravel beds. In 1992 a feasibility study into mining the beach deposits and extracting both diamonds and heavy minerals was undertaken by Trans Hex Operations (Pty) Ltd (THG), a South African diamond producer. Trans Hex decided to focus on mining and producing diamonds only and in 2002 MSR signed an agreement with THG allowing MSR to apply for the mineral sands rights over the Trans Hex diamond concession. Under this agreement THG would support the Company's application and in turn THG will retain the rights to any diamond production from the area.

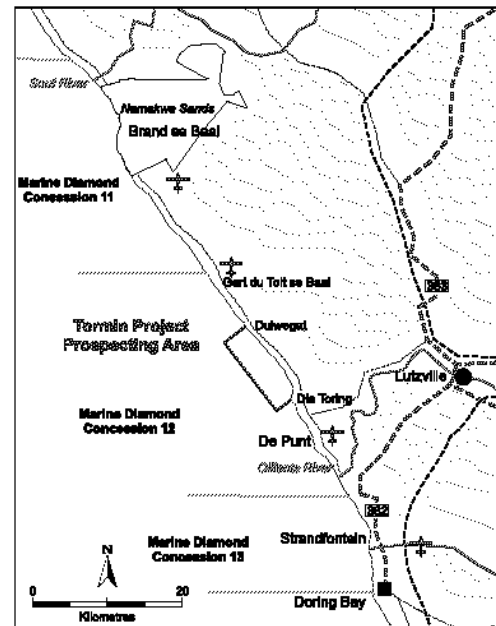
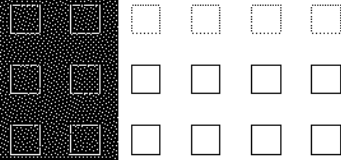


Figure 3. Location of the Tormin prospecting permit application in relation to existing regional



Review of Operations (continued)

Bateman Minerals (Pty) Ltd was engaged to undertake a feasibility study for the project in 2004 - 2005. An internal review was carried out to consider opportunities for cost savings, changes to the configuration of processing plant and the mining method to achieve better efficiencies. Based on these criteria independent engineering consultants RSV of South Africa were commissioned to carry out a formal technical assessment and re design work on the project.

Metallurgical test work carried out indicates the deposit would yield a high quality (ceramic grade) zircon and high grade Ti product containing Rutile and Lucoxene.

Based on the Trans Hex drilling and test work mineral resources were estimated at 3.43Mt containing 81,300t of Zircon and 20,000t of Rutile. As part of a recent review the resource had been re - estimated using the historical Trans Hex data in comparison to more recent MSR bulk sampling program. The MSR revised mineral resources for the Tormin beach sands is now estimated at 2.71Mt containing 76,100tn of Zircon and 18,300tn of Rutile in the inferred category.

Project development

The mining right was lodged in February 2007 with the Department of Minerals and Energy South Africa with due process to take twelve months. As part of the information required to support the mining right, environmental consultants GCS are working to complete the comprehensive EIA.

The approach to the mine and plant design has been to optimise the mineral resource whilst minimising the impact to ecologically sensitive areas. This approach has been well received by the local Department of Environmental Affairs and Tourism.

Socio - economic aspects

The Company will undertake a detailed social and labour plan as part of the feasibility study and local communities have been identified that would benefit from the project.

Tormin resource statement

The information in this report that relates to exploration results for the Tormin project is based on information compiled by Greg Steemson who is a Fellow of the Australian Institute of Geoscientists. Mr Steemson is a competent person as defined under the JORC code.

INVESTMENT IN KARIBA KONO DIAMONDS, SIERRA LEONE

On 22 May 2006, Mineral Commodities Limited (MRC) announced an offer for all the shares in Erebus PLC (Erebus) that it did not already own. The offer consisted of 1.5 MRC shares plus half an option for every 1 Erebus share. The options have an exercise price of \$0.40 and expire on 30 June 2007. On 16 June 2006, MRC announced that the offer had been accepted by holders representing 100% of the ordinary shares of Erebus. The takeover was successfully completed on 23 June, 2006 with the total number of shares and options issued being 9,406,878 and 3,135,626 respectively.

Erebus's principle activity through its 100% wholly owned Sierra Leone subsidiary, Kariba Kono (SL) Ltd, is diamond tailings dump re-treatment, diamond mining and mineral exploration in Sierra Leone. Kariba Kono's principal asset is the No. 11 Oversize Tailings Dump at Koidu.

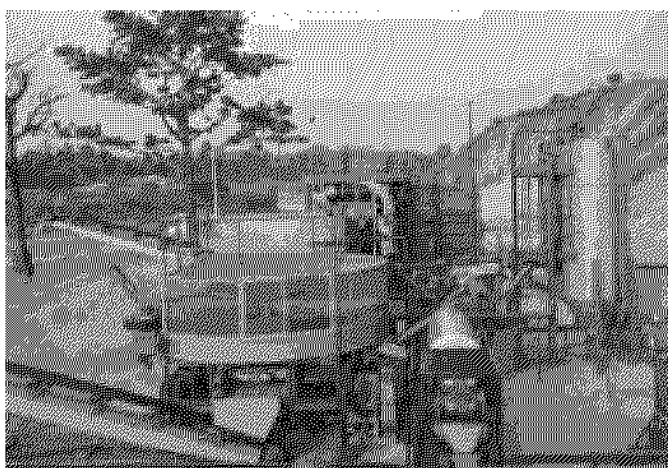
The No.11 tailings dump resulted from alluvial diamond operations in the 1960's by the Sierra Leone Diamond Trust ("SLDT"). Although the plant was advanced for its time, investigation into the operating history of the plant after the fortuitous discovery of the 969.8 carat "Star of Sierra Leone" diamond indicated that the initial plant design was flawed and it is believed the operating efficiency would have reduced with time, leading to the loss of diamonds to tailings.

During the period under review, MRC also awarded the contract for the manufacture, supply, delivery and commissioning of an 80tph ROD Diamond Pan Plant for the No.11 tailings dump to ProMet Engineers Africa (Pty) Ltd. ProMet have extensive experience operating in Sierra Leone and accordingly bring to the project a broad knowledge of local customs and goods and services procurement. The plant includes 1 x 16 foot pan complete with 2 x 16m Scrubber, Recovery, single stage Flow Sort and diesel generated power supply.

Review of Operations (continued)

During the period, the company successfully mobilised plant operators provided by ProMet Engineers to site where housing, communications, infrastructure and earthmoving site works have been established. Since that time sustainable processing operations in close co-operation with the Gbense Chiefdom have been established. The programme of bulk sampling will test the dump as well as selected basal gravels underneath to establish the grade and size of diamonds present.

ProMet Engineers were delayed in completing the erection of the Diamond Pan Plant due to logistical and bureaucratic issues. Despite these delays, project costs remain within budget. However, the delays did inhibit the engineering contractor in completing plant wet commissioning and performance testing in a timely fashion.



OTHER PROJECTS AND INVESTMENTS

INVESTMENT IN ALLIED GOLD LIMITED

Allied Gold Limited (ALD) is a listed gold development and exploration company with the Tabar Islands Gold Project in Papua New Guinea as its principal asset. This project consists of the Simberi Oxide Gold Project and all exploration property on the Tabar Islands. ALD has committed over 50% of the budgeted AUD\$80m construction and development programme to build a 2.2 million tonne per annum gold mining operation. First gold production is anticipated in October 2007.

At reporting date, ALD had Measured, Indicated and Inferred Resources of 2.389 million ounces of gold at the Simberi Oxide Gold Project and associated sulphide extensions.

MRC is one of the largest shareholders in ALD and holds a direct interest in 7.15% (approximately 19.4 million shares) of ALD's issued fully paid ordinary shares and 13.98% (approximately 3.1 million options) of its listed options.

The market value of MRC's share and option holdings at 31 December, 2006 was \$7.5 million

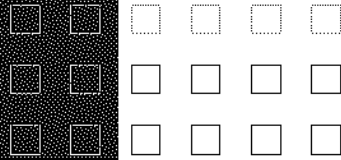
INVESTMENT IN BLACKHAWK OIL AND GAS LIMITED

During the period under review, the Company advised that, via its wholly owned subsidiary Blackhawk Oil & Gas Limited, it had entered into an exclusive Participation Purchase Option Agreement with Chasel Energy of Salt Lake City, Utah, USA. The Agreement provided Blackhawk with certain drill rights over formations in the Monument Butte Oil Field in Utah USA, as well as certain participating interests in lifetime net revenues.

The formation of Blackhawk was undertaken to take advantage of the emerging growth in oil and gas prices in the USA by drill testing the leases in the Monument Butte Field which previously may have been lacking in geological information or were previously considered uneconomic due to poor drilling, development and well stimulation techniques.

On 2 June 2006, MRC advised that it had received a preliminary report on the Utah oil and gas project whereby the independent expert was unable to assign any reserves to the Monument Butte properties which were the subject of the Chasel Energy Participation Purchase Option Agreement and accordingly resolved not to proceed with the agreement with Chasel Energy.

The Company is reviewing other oil and gas opportunities.



Directors Report

The Directors present their report together with the financial report of Mineral Commodities Limited ("the Company") and its controlled entities for the year ended 31 December 2006.

DIRECTORS

The Directors of the Company in office during or since the end of the financial year are:

- Mr Joseph A Caruso - Non Executive Chairman
- Mr Mark V Caruso - Managing Director
- Gregory H Steemson - Non Executive Director

Directors have been in office since the start of the financial year to the date of this report.

DIRECTORS' INFORMATION

Joseph Anthony Caruso (60 Years of Age)

Non-Executive Chairman

Mr Caruso is a Director of Zurich Bay Holdings Pty Ltd and Construction Manager of Simto Australia Pty Ltd, both of which are involved in mining, earthmoving and civil engineering construction earthworks. Mr Caruso has considerable experience in the management and administration of engineering, mining, raw materials production operations, earthmoving and related infrastructure utilities services resource contracts. Mr Caruso has been a director of Mineral Commodities Limited since September 2000.

Mark Victor Caruso (44 Years of Age)

Managing Director

Mr Caruso is a Director of Zurich Bay Holdings Pty Ltd and Simto Australia Pty Ltd, both of which are involved in mining, earthmoving and civil engineering construction earthworks. Mr Caruso has been a director of Mineral Commodities Limited since September 2000. He is also a Director of Allied Gold Limited and CI Resources Limited. Former directorships of public listed companies in the last 3 years are Fortescue Metals Group Limited from June 2002 until November 2003 and ORT Limited from August 2003 until August 2005.

Gregory Hugh Steemson (53 Years of Age)

Non Executive Director

Mr Steemson is a qualified Geologist and Geophysicist with an extensive background in exploration, development and management of mining projects. Mr Steemson has been a Director of the Company since April 2001. Mr Steemson is also a Director of Allied Gold Limited and Sandfire Resources Limited. Former directorships of public listed companies in the last 3 years include Fortescue Metals Group Limited from June 2002 until July 2003.

COMPANY SECRETARY

Peter Torre CA, ACIS, MAICD

Mr Torre was appointed Company Secretary of Mineral Commodities Limited in July 2006. He is a Chartered Accountant and a Chartered Secretary. He was previously a partner of an internationally affiliated firm of Chartered Accountants. Mr Torre is the Company Secretary of several ASX listed companies and is a Director of CI Resources Limited and Carbine Resources Ltd.

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the year was exploration for mineral sands and other mineral resources. This has mainly involved exploration and evaluation of the Xolobeni Mineral Sands Project in the Eastern Cape Province of South Africa, the Tormin Mineral Sands Project in the Western Cape Province of South Africa and diamond mining and tailings dump retreatment operation in Sierra Leone.

CONSOLIDATED RESULTS

The loss of the consolidated entity after income tax and outside equity interests was \$(1,523,542) (2005: Loss of \$618,413).

DIVIDENDS

No dividends have been paid, declared or recommended for payment, in respect of the current financial year.

Directors Report (continued)

REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

Highlights of the Company's operations for the period under review are as follows.

Xolobeni Mineral Sands Project (South Africa)

Prospecting Right

During the period under review, work on the Environmental Impact Assessment was started with GCS (Pty) Ltd being commissioned to undertake this task. As part of this process GCS completed a comprehensive socio-economic study of the project. This involved a demographic survey and meetings with local communities, government and key stakeholders. This information will be used in the project impact and mitigation assessment and will form the basis of the Xolobeni Social and Labour Plan.

A Mining Right Application was also lodged in the period subsequent to year end with the Department of Minerals and Energy. The Board considers the lodgement of the Mining Right as a significant milestone in the development of the Xolobeni Project.

Xolobeni Black Empowerment and Consultation

In the Company's Half Yearly Financial Report, we advised that Ehlobo Heavy Minerals ("EHM") had completed due diligence and issued a Continuation Notice as prescribed under the Heads of Agreement dated 11 November 2005. Finalisation of the transaction was then dependent on signing of a Shareholders Agreement, payment by EHM of Rand 2.0 million, the issue by EHM of a bond for Rand 8.0 million and the issue to EHM of such number of shares in MRC Resources which represents a 50.1% interest.

Unfortunately, the parties could not settle the terms of the Shareholders Agreement and the BEE alliance with Ehlobo Heavy Minerals (Ehlobo) was terminated.

In accordance with recommendations from the Department of Minerals and Energy (DME), the Company then proceeded to enhance its relationship with its local empowerment partner, Xolobeni Empowerment Company (Pty) Ltd (Xolco).

In line with the recommendations, Xolco have appointed four new directors who represent and reside in different areas within and adjacent to the Xolobeni project area and the shareholders agreement with Xolco has been modified to reflect the principles in the original 26% Option agreement specified by the DME to meet BEE compliance for the project.

Tormin Zircon Project (South Africa)

Prospecting Right Application

A Prospecting Right Application for the Tormin project was granted during the period under review. The related Environmental Management Plan (EMP) was also approved enabling work on the EIA to commence.

In the period subsequent to year end a Mining Right Application (MRA) for the Tormin Mineral Sands Project was lodged with the DME.

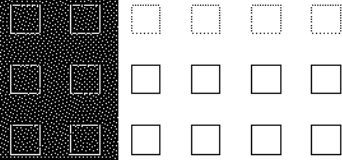
In addition, the conversion of the existing Old Order Mining Right to the South of the Tenement to a New Order Mining Right was lodged simultaneously. Once processed, the two rights will be consolidated into a single mining tenement.

Black Economic Empowerment Partner

Underpinning the Mining Right Application is the Company's new Black Economic Empowerment (BEE) arrangement with Marodi Mining (Proprietary) Limited (Marodi). BEE compliance is a pre-condition to obtaining mining right approval under the South African Mineral and Petroleum Resources Development Act and the Broad-Based Socio Economic Empowerment Charter of South Africa.

The Company's South African subsidiaries, MRC Resources and Mineral Sands Resources (Pty) Ltd (MSR), have entered into a Shareholders Agreement with Marodi which will establish MSR as a fully compliant BEE company.

Under the Shareholders Agreement, Marodi will pay a purchase consideration of R2 million and will commit to fund development up to R15 million for a 50.1% interest in MSR.



Directors Report (continued)

MSR and MRC Resources have also entered into a mining management agreement whereby MSR will be engaged to manage the Tormin Mineral Sands Project.

The Company continues to field expressions of interest from parties that wish to secure the rights to the non magnetic heavy mineral concentrates likely to be produced from the Tormin project. Negotiations have reached an advanced stage with marketing samples dispatched to the various parties for review.

Erebus PLC

On 22 May 2006, Mineral Commodities Limited (MRC) announced an offer for all the shares in Erebus PLC (Erebus) that it did not already own. The offer consisted of 1.5 MRC shares plus half an option for every 1 Erebus share. The options have an exercise price of \$0.40 and expire on 30 June 2007. On 16 June 2006, MRC announced that the offer had been accepted by holders representing 100% of the ordinary shares of Erebus. The takeover was successfully completed on 23 June, 2006 with the total number of shares and options issued being 9,406,878 and 3,135,626 respectively.

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The No.11 tailings dump resulted from alluvial diamond operations in the 1960's by the Sierra Leone Diamond Trust ("SLDT"). Although the plant was advanced for its time, investigation into the operating history of the plant after the fortuitous discovery of the 969.8 carat "Star of Sierra Leone" diamond indicated that the initial plant design was flawed and it is believed the operating efficiency would have reduced with time, leading to the loss of diamonds to tailings.

During the period under review, MRC also awarded the contract for the manufacture, supply, delivery and commissioning of an 80tph ROD Diamond Pan Plant for the No.11 tailings dump to ProMet Engineers Africa (Pty) Ltd. ProMet have extensive experience operating

in Sierra Leone and accordingly bring to the project a broad knowledge of local customs and goods and services procurement. The plant includes 1 x 16 foot pan complete with 2 x 16m Scrubber, Recovery, single stage Flow Sort and diesel generated power supply.

During the period, the company successfully mobilised plant operators provided by ProMet Engineers to site where housing, communications, infrastructure and earthmoving site works have been established. Since that time sustainable processing operations in close co-operation with the Gbense Chiefdom have been established. The programme of bulk sampling will test the dump as well as selected basal gravels underneath to establish the grade and size of diamonds present.

ProMet Engineers were delayed in completing the erection of the Diamond Pan Plant due to logistical and bureaucratic issues. Despite these delays, project costs remain within budget. However, the delays did inhibit the engineering contractor in completing plant wet commissioning and performance testing in a timely fashion.

Although Mineral Commodities Limited completed the takeover of Erebus and effectively took control from 23 June 2006, the Directors decided not to consolidate Erebus as at 31 December 2006. Immediately following the handing over of control to Mineral Commodities Limited, the accounting and financial records of Erebus were requisitioned so that Mineral Commodities Limited could assume this function. Upon receipt of the accounting records subsequent to the reporting date, it became apparent that the records were incomplete and the Company began the process of reconstructing the records with the limited information that was available.

As at the date of signing this Report, the records are not yet sufficiently reliable to be able to represent a true and fair view of the financial position of Erebus and its subsidiary for the full year ended 31 December 2006 due to the incomplete information received up to the date of acquisition. For this reason, the directors have decided not to consolidate the financial information of Erebus and controlled entities, but rather carry the investment at cost.

Directors Report (continued)

The value of the consideration paid for Erebus was \$2,297,935 comprising 9,406,878 shares and 3,135,626 unlisted options.

The majority of the expenditure within the Erebus Group relates to the mining activities and is capitalised accordingly in the balance sheet. The acquisition and consolidation of the Erebus Group would have resulted in assigning a fair value to the mining right. The Directors believe that this value essentially represents the value of the consideration that was paid to takeover the company and reflecting the investment at cost is a more appropriate way of reporting to shareholders at present given the current situation.

The Directors will continue to work to reconstruct the financial records and hope to have a reliable true and fair financial position of Erebus in due course.

Acquisition of Small Claim Mining Lease No.5 (Dump No.5)

During the period under review, MRC entered into an agreement with Mohagib Enterprises Limited (Mohagib) and Leonaust Mining Company Limited (Leonaust) to acquire Monagib's 50% interest in Leonaust.

Leonaust is the legal and beneficial owner of the Dump No.5 mining area which is located within 1km of Dump No.11. On settlement, Leonaust will become a 100% owned subsidiary of MRC.

Between 1961 and 1963, bulk sampling of the No.5 mining area by the National Diamond Mining Corporation was undertaken with three mining cuts along the east/west axis following approximately the course of the old Koyie River which enters the mining lease from the south west. Approximately 2,500 cubic metres of gravel was mined. Of this volume, records indicate that 1,713 cubic metres of gravel was processed to produce 2,298 carats giving a grade of 1.34 carats/cubic metre. While the Company is not relying on these figures in terms of resources, the Company does take comfort from the reported recoveries.

The acquisition of Dump No.5 will provide MRC with further latitude to expand its diamond production within the Kono District.

Investment in Allied Gold Limited

Allied Gold Limited (ALD) is a listed gold development and exploration company with the Tabar Islands Gold Project in Papua New Guinea as its principal asset. This project consists of the Simberi Oxide Gold Project and all exploration property on the Tabar islands. ALD has committed over 50% of the budgeted AUD\$80m construction and development programme to build a 2.2 million tonne per annum gold mining operation. First gold production is anticipated in October 2007.

At reporting date, ALD had Measured, Indicated and Inferred Resources of 2.389 million ounces of gold at the Simberi Oxide Gold Project and associated sulphide extensions.

MRC is one of the largest shareholders in ALD and holds a direct interest in 7.15% (approximately 19.4 million shares) of ALD's issued fully paid ordinary shares and 13.98% (approximately 3.1 million options) of its listed options.

The market value of MRC's share and option holdings at 31 December, 2006 was \$7.5 million.

Investment in Blackhawk Oil & Gas Limited

During the period under review, the Company advised that, via its wholly owned subsidiary Blackhawk Oil & Gas Limited, it had entered into an exclusive Participation Purchase Option Agreement with Chasel Energy of Salt Lake City, Utah, USA. The Agreement provided Blackhawk with certain drill rights over formations in the Monument Butte Oil Field in Utah USA, as well as certain participating interests in lifetime net revenues.

The formation of Blackhawk was undertaken to take advantage of the emerging growth in oil and gas prices in the USA by drill testing the leases in the Monument Butte Field which previously may have been lacking in geological information or were previously considered uneconomic due to poor drilling, development and well stimulation techniques.

On 2 June 2006, MRC advised that it had received a preliminary report on the Utah oil and gas project whereby the independent expert was unable to assign any reserves to the Monument Butte properties which were the subject of the Chasel Energy Participation Purchase Option Agreement and accordingly resolved not to proceed with the agreement with Chasel Energy.

Directors Report (continued)

The Company is reviewing other oil and gas opportunities.

FINANCIAL POSITION

The net assets of the economic entity have increased by \$10,294,861 from 31 December 2005 to \$22,707,357 at 31 December 2006. This has largely resulted from the capital raising undertaken by the economic entity in the first half of the year.

The funds raised were used to acquire plant and equipment for the economic entity's diamond operations in Sierra Leone and to fund working capital.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The company will continue the process of development of both the Tormin and Xolobeni projects in South Africa. It will also commence diamond mining operations in Sierra Leone with the commissioning of the plant and equipment.

In the opinion of the directors, it may prejudice the interests of the Company to provide additional information in relation to likely developments in the operations of the Company and the expected results of those operations in subsequent financial periods.

ENVIRONMENTAL REGULATIONS

In the course of its normal mining and exploration activities, the Company adheres to environmental regulations imposed upon it by the relevant regulatory authorities, particularly those regulations relating to ground disturbance and the protection of rare and endangered flora and fauna. The Company has complied with all material environmental requirements up to the date of this report.

SCHEDULE OF MINING TENEMENTS

Mining tenements currently held by the economic entity are:

| Area | Entity holding the interest | % Held | Title | Status |
|-------------------------|--|--------|---|---------|
| Xolobeni - South Africa | Transworld Energy & Minerals Resources | 100 | New order Prospecting Right | Granted |
| Tormin - South Africa | Mineral Sands Resources | 100 | New order Prospecting Right Geelwal Karoo 262 | Granted |
| Koidu - Sierra Leone | Kariba Kono (SL) Ltd | 100 | Mining lease 3/04 | Granted |

SIGNIFICANT CHANGES IN STATE OF AFFAIRS AND LIKELEY DEVELOPMENTS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the year:

- In May 2006, 5,000,000 shares were issued in Mineral Commodities Limited for consideration of the remaining 10% interest in MRC Resources Ltd.
- On 23 May 2006, the company placed 30,000,000 shares at \$0.30 to raise \$9,000,000.
- On 16 June 2006, the company concluded a takeover of all the issued capital of Erebus PLC that it did not already own. The consideration payable being 9,406,878 shares and approximately 3 million options exercisable at \$0.40 on or before 30 June 2007.

OPTIONS

The total number of unissued ordinary shares under option at the date of this report is 22,494,233 of which 18,008,607 are listed and 4,485,626 are unlisted. Options do not entitle the holder to receive a dividend paid to ordinary shareholders. New issues of options and options exercised in the period is as follows:

| Date of Grant | No of Options | Exercise Price | Expiry date |
|-----------------------------|---------------|----------------|--------------|
| Opening Balance | 18,008,607 | \$0.30 | 30 June 2007 |
| - 16 June 2006 | 3,135,626 | \$0.40 | 30 June 2007 |
| - 12 June 2006 | 1,350,000 | \$0.35 | 11 May 2008 |
| Balance at 31 December 2006 | 22,494,233 | | |

Directors Report (continued)

DIRECTORS' SHAREHOLDING INTERESTS

The relevant interest of each director in the share capital of the Company, shown in the Register of Directors' Shareholding at the date of the Directors' Report is:

| Director | Ordinary Shares | | Options over Ordinary Shares | |
|--------------|-----------------|------------|------------------------------|-----------|
| | Direct | Indirect | Direct | Indirect |
| J A Caruso | - | 10,256,642 | - | 3,085,338 |
| M V Caruso | 12,627 | 10,256,642 | 4,209 | 3,085,338 |
| G H Steemson | 210,000 | - | 53,333 | - |

J A Caruso and M V Caruso are both directors of Zurich Bay Holdings Pty Ltd, which holds 10,256,642 shares and 3,085,338 options in the Company.

MEETINGS OF DIRECTORS

There were no formal meetings of directors throughout the year. However, many matters of board business have been resolved by circular resolutions of directors, which are a record of decisions made at a number of informal meetings of the directors held to control, implement and monitor the Company's activities throughout the year.

REMUNERATION REPORT

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

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

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the Corporations Act 2001 and the Corporation Regulations 2001 which have not been audited.

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

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management

of the Company's operations, the board reviews the remuneration packages of all directors and executive officers on an annual basis and makes recommendations. Remuneration packages are reviewed with due regard to performance and other relevant factors.

Remuneration packages may contain the following key elements:

- (a) Directors Fees;
- (b) Salary & Consultancy;
- (c) Benefits - including provision of motor vehicle, superannuation;

Fees payable to non-executive directors reflect the demands which are made on, and the responsibilities of the directors. Non-Executive directors' fees and payments are reviewed annually by the Board.

Executives are offered a competitive base pay that consists of fixed components. Base pay for senior executives is reviewed annually to ensure the executives pay is competitive with the market. Total Base Pay can be structured as a total employment package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives discretion.

The directors are not required to hold any shares in the company under the constitution of the company; however, to align directors interests with shareholders interests the directors are encouraged to hold shares in the company.

Directors Report (continued)

B. Details of Remuneration

Details of the remuneration of directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Mineral Commodities Limited and the Mineral Commodities Limited Group are set out in the following tables.

There are no key management personnel other than the directors of the company. The amounts disclosed are therefore applicable for both Mineral Commodities Limited and the Mineral Commodities Limited Group.

All elements of remuneration are not directly related to performance.

| 2006 | Short-term benefits | Post employment benefits | Share-based payment | |
|--|----------------------|--------------------------|---------------------|---------|
| Name | Cash Salary and fees | Super-annuation | Shares/Options | Total |
| <i>Non-Executive Directors</i> | | | | |
| Joe Caruso | 30,000 | 2,700 | - | 32,700 |
| Greg Steemson | 58,000 | - | - | 58,000 |
| <i>Sub-total non-executive directors</i> | 88,000 | 2,700 | - | 90,700 |
| <i>Executive Directors</i> | | | | |
| Mark Caruso | 33,000 | - | - | 33,000 |
| Total | 121,000 | 2,700 | - | 123,700 |

| 2005 | Short-term benefits | Post employment benefits | Share-based payment | |
|--|----------------------|--------------------------|---------------------|---------|
| Name | Cash Salary and fees | Super-annuation | Shares/Options | Total |
| <i>Non-Executive Directors</i> | | | | |
| Joe Caruso | 30,000 | 2,700 | - | 32,700 |
| Greg Steemson | 40,000 | - | - | 40,000 |
| <i>Sub-total non-executive directors</i> | 70,000 | 2,700 | - | 72,700 |
| <i>Executive Directors</i> | | | | |
| Mark Caruso | 30,750 | 2,025 | - | 32,775 |
| Total | 100,750 | 4,725 | - | 105,475 |

Directors Report (continued)

C. Service Agreements (audited)

There were no formal service agreements with any directors or key management personnel.

D. Share Based Compensation

There were no shares or options issued to directors during the year.

E. Additional Information

There is no additional information to be provided in respect to the remuneration of the directors.

INDEMNIFICATION AND INSURANCE OF DIRECTORS

During the year, the Company has paid an insurance premium in respect of a contract indemnifying the parent entity's directors. This contract prohibits disclosure of the nature of the liability and the amount of the premium.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Mineral Commodities Limited adhere to strict principles of corporate governance. The Company's Corporate Governance statement is included before the Additional ASX Information section of the Annual Financial Report.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No event or transaction has arisen in the interval between the end of the financial year and the date of this report of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company or the Consolidated Entity, the results of those operations or the state of affairs of the Company or the Consolidated Entity in future financial years.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings, other than to the extent the Company's insurers have certain interests and rights in respect of insurance policies in relation to the matter of a train derailment as described in note 27 to the accounts.

AUDITORS' INDEPENDENCE DECLARATION

The Auditors' Independence Declaration on page 52 forms part of the Directors' Report for the year ended 31 December 2006. This relates to the audit report, where they state that they have issued an Independent Declaration.

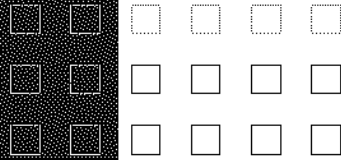
NON-AUDIT SERVICES

The Company's auditors are BDO Chartered Accountants & Advisers. The auditors have not provided any non-audit services during or since the end of the financial year.

This report has been made in accordance with a resolution of the Directors.



Mark V Caruso
Managing Director
Perth, Western Australia
30 March 2007



Income Statement

for the year ended 31 December 2006

| | Note | Consolidated | | Company | |
|--|------|--------------|-------------|-------------|------------|
| | | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Revenue | 2 | 333,811 | 1,395,889 | 698,674 | 1,799,975 |
| Exploration and evaluation costs | | - | (266,483) | - | (208,833) |
| General & administration expenses | | (1,773,047) | (1,308,483) | (1,115,951) | (991,577) |
| Share of net result of associates using the equity method | 11 | (167,770) | (423,712) | - | - |
| Profit/(Loss) before income tax expense | 3 | (1,607,006) | (602,789) | (417,277) | 599,565 |
| Income tax expense | 4 | 83,464 | - | - | - |
| Profit/(Loss) after income tax expense | | (1,523,542) | (602,789) | (417,277) | 599,565 |
| (Profit)/Loss attributable to minority equity interest | 12 | - | (15,624) | - | - |
| Profit/(Loss) after income tax expense attributable to members of the parent entity | 18 | (1,523,542) | (618,413) | (417,277) | 599,565 |
| Earnings per share for profit attributable to the ordinary equity holders of the company | | | | | |
| Basic (loss) earnings per share (cents) | 19 | (1.7) | (1.1) | | |
| Diluted earnings per share (cents) | 19 | n/a | n/a | | |

At 31 December 2006 there are no potentially dilutive ordinary shares and therefore diluted earnings per share has not been calculated.

The income statements are to be read in conjunction with the notes to the financial statements.

Balance Sheet

as at 31 December 2006

| | Note | Consolidated | | Company | |
|---|-------|-------------------|-------------------|-------------------|-------------------|
| | | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 5 | 2,561,364 | 937,261 | 2,440,717 | 906,967 |
| Trade and other receivables | 6 | 244,729 | 283,296 | 2,308,906 | 2,199,217 |
| Financial assets | 7 | 663,574 | 465,409 | 663,574 | 465,409 |
| Other current assets | 8 | 19,640 | 12,889 | 19,640 | 12,889 |
| Total Current Assets | | 3,489,307 | 1,698,855 | 5,432,837 | 3,584,482 |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 9 | 2,544,443 | 52,825 | 2,542,171 | 47,230 |
| Exploration & development expenditure | 10 | 8,863,985 | 7,749,010 | 42,256 | - |
| Investments accounted for using the equity method | 11(a) | 3,623,988 | 3,218,232 | 4,601,667 | 4,028,141 |
| Financial assets | 11(b) | 2,296,935 | - | 3,846,940 | 100,003 |
| Trade and other receivables | 13 | 2,261,727 | - | 6,919,532 | 3,461,020 |
| Total Non-Current Assets | | 19,591,078 | 11,020,067 | 17,952,566 | 7,636,394 |
| Total Assets | | 23,080,385 | 12,718,922 | 23,385,403 | 11,220,876 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 14 | 333,108 | 191,577 | 147,440 | 179,547 |
| Short term provisions | 15 | 39,920 | 25,361 | 39,920 | 25,361 |
| Total Current Liabilities | | 373,028 | 216,938 | 187,360 | 204,908 |
| NON-CURRENT LIABILITIES | | | | | |
| Deferred tax liabilities | 15 | - | 89,488 | - | - |
| Total Non Current Liabilities | | - | 89,488 | - | - |
| Total Liabilities | | 373,028 | 306,426 | 187,360 | 204,908 |
| NET ASSETS | | 22,707,357 | 12,412,496 | 23,198,043 | 11,015,968 |
| EQUITY | | | | | |
| Issued capital | 16 | 35,087,042 | 23,001,718 | 35,087,042 | 23,001,718 |
| Reserves | 17 | 2,476,672 | 2,743,593 | 514,028 | - |
| Accumulated losses | 18 | (14,990,697) | (13,467,155) | (12,403,027) | (11,985,750) |
| Parent entity interest | | 22,573,017 | 12,278,156 | 23,198,043 | 11,015,968 |
| Minority interest | 12 | 134,340 | 134,340 | - | - |
| TOTAL EQUITY | | 22,707,357 | 12,412,496 | 23,198,043 | 11,015,968 |

The balance sheets are to be read in conjunction with the notes to the financial statements.

Cash Flow Statement

for the year ended 31 December 2006

| | Note | Consolidated | | Company | |
|---|-------|--------------------|--------------------|--------------------|------------------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Exploration expenditure | 10 | (905,016) | (760,342) | (42,256) | (103,556) |
| Interest received | | 166,290 | 43,681 | 162,811 | 43,206 |
| Payments to suppliers & employees | | (877,508) | (1,001,597) | (659,542) | (530,933) |
| Interest Paid | | (10,933) | - | (10,933) | - |
| Sundry Income | | 1,020 | 690 | 1,020 | 690 |
| Net cash generated from (used in) operating activities | 24a | (1,626,147) | (1,717,568) | (548,900) | (590,593) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Payment for plant and equipment | 9 | (2,521,440) | (8,044) | (2,521,440) | (7,768) |
| Purchase of equity investments | | (411,320) | (50,133) | (411,320) | (50,133) |
| Purchase of further investment in associate | 11(a) | (573,526) | (1,828,514) | (573,526) | (1,828,514) |
| Proceeds from sales of investments | | 567,207 | 1,874,042 | 567,207 | 1,874,042 |
| Proceeds from sale of mining project | | - | 860,001 | - | - |
| Investment in controlled entities | 11(b) | (99,111) | - | (99,111) | (100,000) |
| Loans advanced to controlled entities | | (1,995,280) | - | (3,216,014) | (220,756) |
| Loan advance to associate | | - | - | - | - |
| Loans to other entities | | (100,645) | (141,414) | (100,645) | (141,414) |
| Net cash generated by (used in) investing activities | | (5,134,116) | 705,938 | (6,354,850) | (474,543) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from the issue of shares | 16 | 8,437,500 | 960,000 | 8,437,500 | 960,000 |
| Net cash generated by financing activities | | 8,437,500 | 960,000 | 8,437,500 | 960,000 |
| Net increase (decrease) in cash held | | 1,677,237 | (51,630) | 1,533,750 | (105,136) |
| Cash at beginning of financial year | | 937,261 | 1,040,763 | 906,967 | 1,012,103 |
| Difference arising from movements in foreign currency | | (53,134) | (51,872) | - | - |
| Cash at end of financial year | 5 | 2,561,364 | 937,261 | 2,440,717 | 906,967 |

The cash-flow statements are to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

| Consolidated entity | Issued capital | Accumulated losses | General reserve | Foreign currency translation reserve | Financial asset reserve | Minority interests | Total equity |
|---|-------------------|---------------------|------------------|--------------------------------------|-------------------------|--------------------|-------------------|
| For the year ended 31 December 2006 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| At the beginning of the year | 23,001,718 | (13,467,155) | 2,551,100 | 192,493 | - | 134,340 | 12,412,496 |
| Issue of share capital | 10,635,324 | | | | | | 10,635,324 |
| Share issue to minority interests | 1,450,000 | | | | | | 1,450,000 |
| Acquisition of minority interests | | | | | | | |
| Movement for the year | | | | (780,949) | 514,028 | | (266,921) |
| Loss for the period | | (1,523,542) | | | | | (1,523,542) |
| Recognised income and expense during the year | | (1,523,542) | | | | | (1,523,542) |
| At the end of the year | 35,087,042 | (14,990,697) | 2,551,100 | (588,456) | 514,028 | 134,340 | 22,707,357 |

| Parent entity | Issued capital | Accumulated losses | Financial asset reserve | Total equity |
|---|-------------------|---------------------|-------------------------|-------------------|
| For the year ended 31 December 2006 | \$ | \$ | \$ | \$ |
| At the beginning of the year | 23,001,718 | (11,985,750) | | 11,015,968 |
| Issue of share capital | 12,647,824 | | | 12,647,824 |
| Costs of capital raising | (562,500) | | | (562,500) |
| Movement for the year | | | 514,028 | 514,028 |
| Loss for the period | | (417,277) | | (417,277) |
| Recognised income and expense during the year | | (417,277) | | (417,277) |
| At the end of the year | 35,087,042 | (12,403,027) | 514,028 | 23,198,043 |

Statement of Changes in Equity (continued)

| Consolidated entity | Issued capital | Accumulated losses | General reserve | Foreign currency translation reserve | Minority interests | Total equity |
|---|-----------------------|---------------------------|------------------------|---|---------------------------|---------------------|
| For the year ended 31 December 2005 | \$ | \$ | \$ | \$ | \$ | \$ |
| At the beginning of the year | 22,041,718 | (12,848,742) | 2,242,034 | 371,617 | 373,072 | 12,179,699 |
| Issue of share capital | 960,000 | - | - | - | - | 960,000 |
| Exercise of options | - | - | - | - | - | - |
| Share issue to minority interests | - | - | - | - | 54,710 | 54,710 |
| Acquisition of minority interests | - | - | 309,066 | - | (309,066) | - |
| Movement for the year | - | - | - | (179,124) | - | (179,124) |
| Loss for the period | - | (618,413) | - | - | 15,624 | (602,789) |
| Recognised income and expense during the year | | (618,413) | | | 15,624 | (602,789) |
| At the end of the year | 23,001,718 | (13,467,155) | 2,551,100 | 192,493 | 134,340 | 12,412,496 |

| Parent entity | Issued capital | Accumulated losses | Total equity |
|---|-----------------------|---------------------------|---------------------|
| For the year ended 31 December 2005 | \$ | \$ | \$ |
| At the beginning of the year | 22,041,718 | (12,585,315) | 9,456,403 |
| Issue of share capital | 960,000 | - | 960,000 |
| Exercise of options | - | - | - |
| Profit for the period | - | 599,565 | 599,565 |
| Recognised income and expense during the year | | 599,565 | 599,565 |
| At the end of the year | 23,001,718 | (11,985,750) | 11,015,968 |

Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

This financial report is for Mineral Commodities Limited as the parent entity, and Mineral Commodities Limited and controlled entities, as the consolidated entity. Mineral Commodities Limited is an Australian domiciled public listed company.

This general purpose financial report for the year ended 31 December 2006 has been prepared in accordance with Australian Accounting Standards, other mandatory professional reporting requirements and Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report of Mineral Commodities Limited and controlled entities, and Mineral Commodities Limited as an individual parent entity, comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. AIFRS compliance ensures that the consolidated financial statements and notes of each of the company's subsidiaries comply with International Financial Reporting Standards.

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

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(b) Principles of Consolidation

The consolidated financial report incorporates the assets and liabilities of all controlled entities of Mineral Commodities Ltd ("Company" or "parent entity") as at 31 December 2006 and the results of its controlled entities for the year then ended. Mineral Commodities Ltd and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

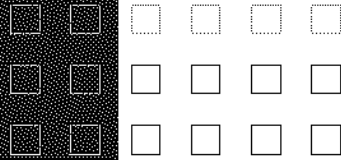
On 23 June 2006, Mineral Commodities Limited completed a takeover of Erebus Plc and effectively took control from this date. Immediately following the handing over of control to Mineral Commodities Limited, the accounting and financial records of Erebus Plc were requisitioned so that Mineral Commodities Limited could also control this function. Upon receipt of the accounting records subsequent to the reporting date, it became apparent that the records were incomplete and the Company began the process of reconstructing the records with the limited information that was available.

As at the date of signing this Report, the records are not yet sufficiently reliable to be able to represent a true and fair view of the financial position of Erebus Plc and its subsidiary for the full year ended 31 December 2006 due to the incomplete information received up to the date of acquisition.

The value of the consideration paid for Erebus Plc was \$2,297,935 comprising 9,406,878 shares and 3,135,626 unlisted options.

For these reasons, the Directors of Mineral Commodities have decided not to consolidate Erebus Plc from 23 June 2006 and to report its investment in Erebus Plc at cost in the Economic Entity.

The majority of the expenditure within the Erebus Group relates to the mining activities and is capitalised accordingly in the balance sheet. The acquisition and consolidation of the Erebus Group would have resulted in assigning a fair value to



Notes to the Financial Statements (continued)

the mining right. The Directors believe that this value essentially represents the value of the consideration that was paid to takeover the company and reflecting the investment at cost is a more appropriate way of reporting to shareholders at present given the current situation.

As the Company is not consolidating Erebus, the Investment in Erebus and loan receivable from Erebus will not be eliminated. The Companies ability to recover the investment and loan receivable is dependant upon the successful mining of diamonds in the Erebus Group which in turn will provide sufficient cash flow to recover the cost of investment and repay this debt. Mining is due to commence in the short term and the Directors are confident that this loan will be repaid.

The Mineral Commodities Group that is being reported as at 31 December 2006 therefore consists of the Parent Entity, Mineral Commodities Limited and the subsidiary companies listed in note 11 (b) with the exception of Erebus PLC and its subsidiary:

(c) Revenue Recognition

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

Interest Income

Interest and other income is recognised as it accrues.

(d) Taxes

Income taxes

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

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

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

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

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

The income tax expense for the year is calculated using the 30% tax rate (2005: 30%).

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods & 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 where receivables and payables are stated with the amount of GST included.

Notes to the Financial Statements (continued)

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

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

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

(e) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group Companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows;

Assets and liabilities translated at year-end exchange rates prevailing at that reporting date.

Income expenses are translated at average exchange rates for the period.

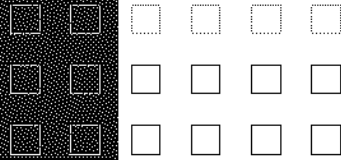
Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(f) Acquisitions of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is determined by reference to the fair value of the assets acquired, including goodwill where applicable.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.



Notes to the Financial Statements (continued)

Where the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated.

(g) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Acquisition

Items of plant and equipment are initially recorded at cost and depreciated as outlined below.

Depreciation of Plant and Equipment

Plant and equipment are depreciated at rates based upon the expected useful lives of these assets. The expected useful lives of these assets are 3-10 years.

Disposal of Assets

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal and is included in the results in the year of disposal.

Any related revaluation increment standing in the asset revaluation reserve at the time of disposal is transferred to the capital profit reserve.

(h) Exploration and Development Expenditure

Costs incurred during the exploration and development stages of specific areas of interest are accumulated. Such are only carried forward if they are expected to be fully recouped through the successful development of the area, or where activities to date have not yet reached a stage to allow reasonable assessment regarding the existence of economically recoverable reserves. Costs are written off as soon as an area has been abandoned or considered to be non-commercial or provided against where an area is considered non-commercial at the period end.

Once production commences, expenditure accumulated in respect of areas of interest is amortised on a unit of production basis over the life of the total proven economically recoverable reserves. Restoration costs recognised in respect of areas of interest in the exploration and evaluation stage are carried forward as exploration and evaluation expenditure. Costs recognised after the commencement of production in areas of interest will be charged to the profit and loss statement.

Potential capital gains tax is not taken into account in determining revaluation amounts unless there is an intention to sell the asset concerned

(i) Investments

Interests in - Controlled Entities

Investments in controlled entities are carried in the Company's financial report at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the Company's income statement when they are declared by the controlled entities.

Other Financial Assets

Investments in listed companies held for re-sale are marked to market value at the end of the financial period, and the resultant net gain or loss is recognised in the Income Statement.

Notes to the Financial Statements (continued)

Investments in associates

Associates are those entities over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements, investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's equity accounted share of the associate's net profit or loss is recognised in the consolidated income statement from the date the significant influence commences until the date the significant influence ceases.

(j) Impairment of Assets

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

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

(k) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

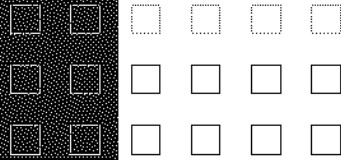
These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principle payments and amortisation.



Notes to the Financial Statements (continued)

Derivative Instruments

Derivative Instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value of all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(l) Contributed equity

Ordinary share 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.

(m) Cash

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

(n) Earnings per Share

Basic Earnings per Share

Basic earnings per share is determined by dividing the operating profit after income tax attributable to members of Mineral Commodities Ltd by the weighted average number of ordinary shares outstanding during the financial year.

Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share would arise from the exercise of options outstanding at the end of the financial year.

(o) Employee Entitlements

Provision is made for the consolidated entity's liability for employee entitlements arising from services rendered by employees to balance date. These benefits include wages and salaries annual leave. Sick leave is non-vesting and has not been provided for. Employee entitlements expected to be settled within one year have been measured at their nominal amount.

The contributions made to superannuation funds by entities within the consolidated entity are charged against profits when due.

(p) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Notes to the Financial Statements (continued)

(q) Segment reporting

Individual business segments have been identified on the basis of grouping individual products or services subject to similar risks and returns.

(r) Comparatives

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

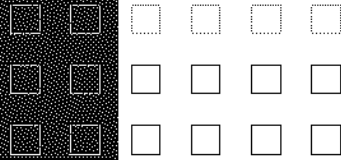
Key Estimates - Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

CHANGE IN ACCOUNTING POLICY

Australian Accounting Standards that have recently been issued or amended but are not yet effective for the parent and economic entity have not been adopted for the annual reporting period ended 31 December 2006.

| AASB Amendment | Affected Standard(s) | Nature of Change to Accounting Policy | Application Date of Standard* | Application Date for Group |
|----------------|--|---|-------------------------------|----------------------------|
| 2005 - 1 | AASB 139 "Financial Instruments: Recognition and Measurement" | No change to accounting policy required. Therefore no impact. | 1 Jan 06 | 1 Jul 06 |
| 2005 - 4 | AASB 132 Financial instruments presentation and disclosure AASB 139 "Financial Instruments: Recognition and Measurement" | No change to accounting policy required. Therefore no impact. | 1 Jan 06 | 1 Jul 06 |
| 2005 - 5 | AASB 1 "First Time Adoption of AIFRS" AASB 139 "Financial Instruments: Recognition and Measurement" | No change to accounting policy required. Therefore no impact. | 1 Jan 06 | 1 Jul 06 |
| 2005 - 6 | AASB 3 "Business Combinations" | No change to accounting policy required. Therefore no impact. | 1 Jan 06 | 1 Jul 06 |
| 2005 - 9 | AASB 139 <i>Financial Instruments - Recognition and Measurement</i> and AASB 132 <i>Financial Instruments - Disclosure and Presentation</i> | No change to accounting policy required. Therefore no impact. | 1 Jan 07 | 1 Jul 07 |
| New standard | AASB 7 "Financial Instruments: Disclosures" | No change to accounting policy required. Therefore no impact. | 1 Jan 07 | 1 Jul 07 |



Notes to the Financial Statements (continued)

(a) Statement of compliance

| AASB Amendment | Affected Standard(s) | Nature of Change to Accounting Policy | Application Date of Standard* | Application Date for Group |
|----------------|---|---|-------------------------------|----------------------------|
| 2005 – 10 | AASB 132 "Financial Instruments: Disclosure and Presentation" AASB 101 "Presentation of Financial Statements" AASB114 "Segment Reporting" AASB 117 "Leases" AASB 133 "Earnings Per Share" AASB 139 "Financial Instruments: Recognition and Measurement" AASB 1"First Time Adoption of AIFRS" AASB 4 "Insurance Contracts" AASB 1023 "General Insurance Contracts" AASB 1038 "Life Insurance Contracts" | No change to accounting policy required. Therefore no impact. | 1 Jan 07 | 1 Jul 07 |
| UIG – 4 | Determining whether an arrangement contains a lease | No change to accounting policy required and no such arrangements have been in place during the reporting period. Therefore no impact. | 1 Jan 06 | 1 Jul 06 |

Application date is for the annual reporting periods beginning on or after the date shown in the above table.

Notes to the Financial Statements (continued)

The following amendments are not applicable to the Group and therefore have no impact:

| AASB Amendment | Affected Standard(s) |
|-------------------|--|
| New Standard | AASB 119 <i>Employee Benefits</i> (Revised Dec 04) - Accounting policy options contained within the revised standard affect accounting for defined benefit schemes only. As the Group does not have or do not contribute to a defined benefit scheme, there is no impact of this change. |
| 2004 - 3 | AASB 1 <i>First-time Adoption of AIFRS</i> , AASB 101 <i>Presentation of Financial Statements</i> , AASB 124 <i>Related Party Disclosures</i> |
| 2005 - 2 | AASB 1023 <i>General Insurance Contracts</i> |
| 2005 - 3 | AASB 119 <i>Employee Benefits</i> |
| 2005 - 4 | AASB 132 <i>Financial Instruments - Disclosure and Presentation</i> , AASB 1023 <i>General Insurance Contracts</i> and AASB 1028 <i>Life Insurance Contracts</i> |
| 2005 - 9 | AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General Insurance Contracts</i> |
| 2005 - 12 | AASB 1038 <i>Life Insurance Contracts</i> and AASB 1023 <i>General Insurance Contracts</i> |
| 2006 - 1 | AASB 121 <i>The Effects of Changes in Foreign Exchange Rates</i> |
| UIG - 5 | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds |
| UIG - 6 | Liabilities arising from participating in a specific market - waste electrical and electronic equipment |
| UIG - 7 | Applying the restatement approach under AASB 129 <i>Financial Reporting in Hyperinflationary Economies</i> |
| UIG - 8 | Scope of AASB 2 <i>Share-based Payments</i> |
| UIG - 9 | Reassessment of embedded derivatives |

| | Consolidated | | Company | |
|---|----------------|------------------|----------------|------------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 2. REVENUE | | | | |
| Gain from sales of investments in listed companies | 49,466 | 440,548 | 49,466 | 440,548 |
| Gain on sale of mining project | - | 754,924 | - | - |
| Reversal of provision for non-recovery of loan to controlled entity | - | - | - | 842,130 |
| Interest revenue from unrelated entities | 166,290 | 43,681 | 162,811 | 43,206 |
| Interest revenue from controlled entity | - | - | 239,241 | 181,023 |
| Management fees | 100,035 | 112,242 | 229,136 | 248,574 |
| Reversal of provision for impairment of investment in listed securities | 17,000 | 43,804 | 17,000 | 43,804 |
| Other income | 1,020 | 690 | 1,020 | 690 |
| Total Revenue | 333,811 | 1,395,889 | 698,674 | 1,799,975 |

Notes to the Financial Statements (continued)

| | Consolidated | | Company | |
|--|--------------|------------|------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 3. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES | | | | |
| Profit/(Loss) from ordinary activities before income tax has been arrived at after charging the following: | | | | |
| Exploration expenditure written off | - | 266,483 | - | 208,833 |
| Operating lease rentals | 56,620 | 47,838 | 56,620 | 47,838 |
| Depreciation - plant and equipment | 25,958 | 54,906 | 22,223 | 22,980 |
| Impairment of plant and equipment | - | - | - | 49,244 |
| Movement in provision for employee entitlements | 14,559 | 6,404 | 14,559 | 6,404 |
| Unrealised foreign exchange loss | 570,114 | 132,107 | 219,614 | 49,946 |

4. INCOME TAX

The components of current income tax expense comprise:

| | | | | |
|---|----------|---|---|---|
| Deferred income tax relating to origination and reversal of temporary differences | (83,464) | - | - | - |
| Income tax (benefit) reported in the income statement | (83,464) | - | - | - |

The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense as follows:

| | | | | |
|---|-------------|-----------|-----------|-----------|
| Profit/(Loss) before income tax | (1,523,542) | (602,789) | (417,277) | 599,564 |
| Prima facie tax payable /(benefit) on profit/(loss) from ordinary activities @ 30% (2005:30%) | (457,063) | (180,837) | (125,183) | 179,870 |
| Non allowable items | 99,722 | 515,446 | - | 78,044 |
| Non-assessable income | (33,750) | - | (33,750) | - |
| Net deferred tax assets not brought to account | 307,627 | (69,695) | 158,933 | (251,217) |
| Benefit of losses not previously brought to account | - | (264,914) | - | (6,697) |
| Income tax expense/ (benefit) reported in the consolidated income statement | (83,464) | - | - | - |

Future income tax benefit arising from un-recouped deductions at balance date, for Australian tax resident entities.

| | | | | |
|----------------|-----------|-----------|-----------|-----------|
| Revenue losses | 5,375,174 | 2,923,764 | 1,549,863 | 1,488,392 |
| Capital losses | 4,643,254 | 4,643,254 | 4,643,254 | 4,643,254 |

In addition the economic entity has unconfirmed tax losses and accumulated exploration expenditure that gives rise to potential carry forward tax benefits in South Africa amounting to approximately Rand 21 million (approximately A\$4.7 million). The benefit of these potential future tax benefits has not been brought to account, and will only be realised if circumstances similar to those described above, also apply to the economic entity's future operations in South Africa.

There are no franking credits available.

Notes to the Financial Statements (continued)

| | Consolidated | | Company | |
|--|------------------|----------------|------------------|------------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 5. CASH AND CASH EQUIVALENTS | | | | |
| Cash at bank | 2,561,364 | 937,261 | 2,440,717 | 906,967 |
| | <u>2,561,364</u> | <u>937,261</u> | <u>2,440,717</u> | <u>906,967</u> |
| The effective interest rate on cash at bank was 5.7%. | | | | |
| 6. TRADE AND OTHER RECEIVABLES – CURRENT | | | | |
| Trade receivables | 27,360 | 54,407 | 27,360 | 9,845 |
| Term deposits | 38,029 | 40,279 | – | – |
| Other debtors | 103,695 | 47,196 | 25,104 | 12,742 |
| Loans receivable from other entities | 75,645 | 141,414 | 75,645 | 141,414 |
| Loans and advances – controlled entities | – | – | 2,180,797 | 2,035,216 |
| | <u>244,729</u> | <u>283,296</u> | <u>2,308,906</u> | <u>2,199,217</u> |
| Refer to Note 25 for details of interest rates earned on receivables. | | | | |
| 7. FINANCIAL ASSETS – CURRENT | | | | |
| Available for sale financial assets | | | | |
| Investments in companies listed on a recognised stock exchange – shares at fair value | 613,574 | 238,966 | 613,574 | 238,966 |
| Total available for sale investments in companies listed on a recognised stock exchange | <u>613,574</u> | <u>238,966</u> | <u>613,574</u> | <u>238,966</u> |
| Available for sale investment in companies not listed on a recognised stock exchanges – at cost | 50,000 | 226,443 | 50,000 | 226,443 |
| Total Financial Assets – Current | <u>663,574</u> | <u>465,409</u> | <u>663,574</u> | <u>465,409</u> |
| Available for sale financial assets comprise investments in the ordinary share capital of various entities. There are no fixed returns or fixed maturity date attached to these investments. | | | | |
| 8. OTHER – CURRENT | | | | |
| Prepayments | 19,640 | 12,889 | 19,640 | 12,889 |

Notes to the Financial Statements (continued)

| | Consolidated | | Company | |
|---|--------------|------------|------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 9. PROPERTY, PLANT AND EQUIPMENT | | | | |
| Plant and office equipment – at cost | 2,630,835 | 126,445 | 2,617,511 | 113,533 |
| Accumulated depreciation | (86,392) | (73,620) | (75,340) | (66,303) |
| Total property, plant and equipment | 2,544,443 | 52,825 | 2,542,171 | 47,230 |
| Reconciliation of the carrying amount of plant & equipment at the beginning and end of the current and previous financial year. | | | | |
| Plant and office equipment | | | | |
| Carrying amount at beginning of year | 52,825 | 99,687 | 47,230 | 62,442 |
| Additions | 2,521,440 | 8,044 | 2,521,028 | 57,012 |
| Disposal | (3,864) | - | (3,864) | - |
| Impairment | - | - | - | (49,244) |
| Depreciation | (25,958) | (54,906) | (22,223) | (22,980) |
| Carrying amount at end of year | 2,544,443 | 52,825 | 2,542,171 | 47,230 |
| 10. EXPLORATION & DEVELOPMENT EXPENDITURE | | | | |
| Exploration expenditure – costs carried forward in respect of areas of interest in: | | | | |
| Exploration and evaluation phases | 8,863,985 | 7,749,010 | 42,256 | - |
| Total exploration and development expenditure | 8,863,985 | 7,749,010 | 42,256 | - |
| Reconciliation of the carrying amount of mining tenements at the beginning and end of the current and the previous financial year | | | | |
| Carrying amount at beginning of year | 7,749,010 | 7,305,511 | - | 781,947 |
| Expenditure outlaid in cash | 905,016 | 760,342 | 42,256 | 103,556 |
| Expenditure outlaid other than in cash | 1,499,244 | 544,792 | - | - |
| Costs of project transferred to controlled entity | - | - | - | (450,227) |
| Cost of project disposed in period | - | (105,077) | - | - |
| Costs of project transferred to investment in unlisted entity | - | (226,443) | - | (226,443) |
| Foreign exchange translation reserve | (1,289,285) | (263,632) | - | - |
| Write off discontinued projects | - | (266,483) | - | (208,833) |
| Carrying amount at end of year | 8,863,985 | 7,749,010 | 42,256 | - |

Recoupment of carried forward exploration and development expenditure is dependent upon the successful development and commercial exploitation of each area of interest, or otherwise by their sale at an amount not less than the carrying value.

Notes to the Financial Statements (continued)

| | Consolidated | | Company | | |
|---|-------------------------|--------------------|------------------|-------------------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 | |
| | \$ | \$ | \$ | \$ | |
| 11(a) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD. | | | | | |
| Investment in companies accounted for using the equity method – at cost | 4,601,667 | 4,028,141 | 4,601,667 | 4,028,141 | |
| Equity accounting adjustments | (977,679) | (809,909) | – | – | |
| | <u>3,623,988</u> | <u>3,218,232</u> | <u>4,601,667</u> | <u>4,028,141</u> | |
| Interests are held in the following associated companies: | | | | | |
| Name | Principal activity | Ownership Interest | | Carrying amount of Investment | |
| | | 2006 | 2005 | 2006 | 2005 |
| | | % | % | | |
| Listed | | | | | |
| Allied Gold Ltd | Mineral exploration Ord | 7.15% | 14.7% | 3,549,814 | 3,218,232 |
| Unlisted | | | | | |
| Leonaust Mining Company Ltd | Mineral exploration Ord | 50.0% | – | 74,174 | – |
| | | | | <u>3,623,988</u> | <u>3,218,232</u> |
| Movements during the year in Equity Accounted investments in Associated Companies | | | | | |
| Carrying amount at beginning of year | | | | 3,218,232 | 1,813,430 |
| Investments in associates acquired during the year, at cost | | | | 573,526 | 1,828,514 |
| Share of associate's net loss | | | | (167,770) | (393,340) |
| Goodwill amortisation arising from equity accounting | | | | – | (30,372) |
| Carrying amount at end of year | | | | <u>3,623,988</u> | <u>3,218,232</u> |
| Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates | | | | | |
| | | | | 2006 | 2005 |
| | | | | \$ | \$ |
| Current assets | | | | 2,415,465 | 409,557 |
| Non current assets | | | | 4,026,093 | 3,034,916 |
| Total assets | | | | <u>6,441,558</u> | <u>3,444,473</u> |
| Current liabilities | | | | 399,908 | 185,940 |
| Non current liabilities | | | | – | – |
| Total liabilities | | | | <u>399,908</u> | <u>185,940</u> |
| Net assets as reported by associates | | | | <u>6,041,650</u> | <u>3,258,533</u> |
| Share of net (loss) profit from ordinary activities after income tax as reported by the associate | | | | (167,770) | (393,340) |

Notes to the Financial Statements (continued)

11(a) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Although Mineral Commodities Limited owns less than 20% of Allied Gold Limited it is in a position of significant influence because it is one of the largest shareholders of Allied Gold Limited and two of the Mineral Commodities Limited directors are also directors of Allied Gold, amounting to 50% Board representation throughout the relevant period.

Capital Commitments of Allied Gold Ltd at balance date were \$44.6 million, Mineral Commodities share of this amounts to \$3.185 million.

Fair Value of Investments in Associates

The market value of this investment in Allied Gold at balance date was \$7,554,828 based on a price per share of 36 cents and an option price of 18 cents

On 23 May 2006, the Company acquired 50% of Leonaust Mining Pty Ltd by converting a previous loan of \$74,174 into equity. The company was dormant from the date of acquisition to the reporting date and therefore the Company's share of its profits and losses for this period was Nil. During the period under review, the Company entered into an agreement with Mohagib Enterprises Limited (Mohagib) and Leonaust Mining Company Limited (Leonaust) to acquire Monagib's 50% interest in Leonaust. The acquisition is subject to certain conditions. Once completed, this transaction will result in Leonaust becoming a 100% owned subsidiary of Mineral Commodities Limited.

| Consolidated | | Company | |
|--------------|------|---------|------|
| 2006 | 2005 | 2006 | 2005 |
| \$ | \$ | \$ | \$ |

11(b) INVESTMENT IN CONTROLLED ENTITIES

Unquoted investments – at cost

| | | | | |
|-------------------------------|-----------|---|-----------|---------|
| Shares in controlled entities | 2,296,935 | - | 3,846,940 | 100,003 |
| | 2,296,935 | - | 3,846,940 | 100,003 |

| Controlled entities | Class of share | Place of Incorporation | Equity Holding | | Cost to Company | |
|-----------------------------|----------------|------------------------|----------------|-----------|-----------------|-------------|
| | | | 2006 % | 2005 % | 2006 \$ | 2005 \$ |
| Parent Entity | | | | | | |
| Mineral Commodities Limited | | Australia | - | - | - | - |
| Controlled Entities | | | | | | |
| Rexelle Pty Ltd | Ord | Australia | 100 | 100 | 1,450,001 | 1 |
| Queensland Minex NL | Ord | Australia | 100 | 100 | 4,718,302 | 4,718,302 |
| Q Smelt Pty Ltd | Ord | Australia | 90 | 100 | - | - |
| Mincom Waste Pty Ltd | Ord | Australia | 100 | 100 | 2 | 2 |
| MRC Resources (Pty) Ltd | Ord | South Africa | 100 | 100 | - | - |
| MRC Africa Pty Ltd | Ord | Australia | 100 | - | 2 | - |
| Erebus Plc | Ord | United Kingdom | 100 | - | 2,296,935 | - |
| Kariba Kono (S.L.) Ltd | Ord | Sierra Leone | 100 | - | - | - |
| Blackhawk Oil & Gas Ltd | Ord | Australia | 100 | 100 | 100,000 | 100,000 |
| | | | | | 8,565,242 | 4,818,305 |
| Less impairment | | | | | (4,718,302) | (4,718,302) |
| | | | | | 3,846,940 | 100,003 |

Notes to the Financial Statements (continued)

11(b) INVESTMENT IN CONTROLLED ENTITIES (continued)

| Controlled entities of MRC Resources (Pty) Ltd | Class of share | Place of Incorporation | Equity Holding | | Cost to Company | |
|--|-------------------|---------------------------|-------------------|-----------|--------------------|------------|
| | | | 2006 % | 2005 % | 2006 \$ | 2005 \$ |
| Transworld Energy & Minerals Resources (SA) (Pty) Limited | Ord | South Africa | 75 | 75 | 2,500,000 | 2,500,000 |
| Mineral Sands Resources (Pty) Ltd | Ord | South Africa | 100 | 100 | - | - |
| Nyati Titanium Eastern Cape (Pty) Ltd | Ord | South Africa | 100 | 100 | - | - |
| MRC Metals (Pty) Ltd | Ord | South Africa | 100 | 100 | - | - |
| Skeleton Coast Resources (Pty) Ltd | Ord | Namibia | 100 | 100 | - | - |

Please refer to note 1 (b) in respect to Erebus PLC and Kariba Kono Pty Ltd.

Business combination

On 23 June 2006, Mineral Commodities Limited acquired all the issued shares in Erebus PLC that it did not already own. The consideration comprised the issue of 9,406,878 shares and 3,135,626 unlisted options with a total consideration value of \$2,297,935. As stated in Note 1(b) to the financial statements, Mineral Commodities Limited has not consolidated Erebus Plc, therefore the details of the assets and liabilities arising from the acquisition have not been disclosed.

During the year a loan payable by Q Smelt Pty Ltd was converted into equity resulting in a dilution in the Group's holding to 90%.

| Consolidated | |
|--------------|------|
| 2006 | 2005 |
| \$ | \$ |

12. OUTSIDE EQUITY INTERESTS

Outside equity interests in controlled entities comprise:

| | | |
|---|---------|----------|
| Interest in retained profits at the beginning of the financial year after adjusting for outside equity interests in the entities acquired during the financial year | - | (15,624) |
| Interest in operating loss and extraordinary items after tax | - | 15,624 |
| Interest in share capital | 54,710 | 54,710 |
| Interest in reserves | 79,630 | 79,630 |
| Total outside equity interests | 134,340 | 134,340 |

Notes to the Financial Statements (continued)

| | Consolidated | | Company | |
|--|------------------|------------|------------------|------------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 13. TRADE AND OTHER RECEIVABLES – NON-CURRENT | | | | |
| Loans and advances – controlled entities | 2,261,727 | - | 7,081,098 | 3,622,586 |
| Less provision for impairment | - | - | (161,566) | (161,566) |
| | <u>2,261,727</u> | <u>-</u> | <u>6,919,532</u> | <u>3,461,020</u> |

Recovery of the loans to controlled entities is dependent upon the commercial exploitation of mining tenements held by the controlled entities.

Please refer to note 1 (b) in respect to loans to Erebus Plc and Kariba Kono (S.L.) Ltd.

| | | | | |
|---|----------------|----------------|----------------|----------------|
| 14. TRADE AND OTHER PAYABLES – CURRENT | | | | |
| Trade payables – unsecured | 275,524 | 149,855 | 91,840 | 90,439 |
| Other payables and accruals – unsecured | 57,584 | 41,722 | 55,600 | 89,108 |
| | <u>333,108</u> | <u>191,577</u> | <u>147,440</u> | <u>179,547</u> |

Refer to Note 25 for details of interest rates incurred on payables.

| | | | | |
|---|---------------|---------------|---------------|---------------|
| 15. PROVISIONS – CURRENT | | | | |
| Provision for employee entitlements | | | | |
| Opening balance | 25,361 | 18,957 | 25,361 | 18,957 |
| Movement for the period | 14,559 | 6,404 | 14,559 | 6,404 |
| Closing balance | <u>39,920</u> | <u>25,361</u> | <u>39,920</u> | <u>25,361</u> |
| Average number of employees during the financial year | 4 | 4 | 3 | 3 |

Employee entitlements represent unused annual and long service leave.

| | | | | |
|--|----------|---------------|----------|----------|
| 15. PROVISIONS – NON-CURRENT | | | | |
| Deferred tax liability | | | | |
| Opening balance | 89,488 | 93,760 | - | - |
| Movement – effect of change in exchange rate used in translating accounts of foreign controlled entities | (89,488) | (4,272) | - | - |
| Provision for deferred income tax | <u>-</u> | <u>89,488</u> | <u>-</u> | <u>-</u> |

The deferred tax liability arises as a result of an unrealised foreign exchange gain in the accounts of a foreign controlled entity.

Notes to the Financial Statements (continued)

| | 2006 Number of Shares | 2005 Number of Shares | 2006 \$ | 2005 \$ |
|--|-----------------------------|-----------------------------|------------|------------|
| 16. CONTRIBUTED EQUITY | | | | |
| (a) Ordinary shares fully paid | | | | |
| Balance at beginning of financial year | 62,029,124 | 54,029,124 | 23,001,718 | 22,041,718 |
| Placement of shares, November 2005 | - | 8,000,000 | - | 960,000 |
| Placement of shares, May 2006 | 5,000,000 | - | 1,450,000 | - |
| Placement of shares, May 2006 | 30,000,000 | - | 9,000,000 | - |
| Placement of shares June 2006 | 9,406,878 | - | 2,163,582 | - |
| Placement of options | - | - | 34,244 | - |
| Costs of capital raising | - | - | (562,502) | - |
| Balance at end of financial year | 106,436,002 | 62,029,124 | 35,087,042 | 23,001,718 |

Fully paid ordinary shares entitle the holder to participate in dividends and to one vote.

- On 22 May 2006, the company placed 5,000,000 shares to the South African Development Fund to acquire the remaining interest in Mineral Sand Resources (Pty) (Ltd).
- On 26 May 2006, the company placed 30,000,000 shares at \$0.30 to institutional clients of UK Broker Mirabaud Securities Limited.
- On 23 June 2006, the company issued 9,406,878 shares and 3,135,626 options to acquire the remaining shares in Erebus PLC. The options have an exercise price of \$0.40 and expire on 30 June 2007.

| | Consolidated | | Company | |
|--|--------------|------------|------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 17. RESERVES | | | | |
| General reserve | 2,551,100 | 2,551,100 | - | - |
| Financial assets reserve | 514,028 | - | 514,028 | - |
| Foreign currency translation reserve | (588,456) | 192,493 | - | - |
| | 2,476,672 | 2,743,593 | 514,028 | - |
| General Reserve | | | | |
| Balance at the beginning of year | 2,551,100 | 2,242,034 | - | - |
| Movement in period; acquisition of residual 10% minority interest in controlled entity | - | 309,066 | - | - |
| Balance at end of year | 2,551,100 | 2,551,100 | - | - |

Notes to the Financial Statements (continued)

| | Consolidated | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 17. RESERVES (continued) | | | | |
| Financial assets | | | | |
| Balance at the beginning of year | - | - | - | - |
| Revaluation of options in Associated Company | 514,028 | - | 514,028 | - |
| Balance at end of year | 514,028 | - | 514,028 | - |
| Foreign currency translation | | | | |
| Balance at the beginning of year | 192,493 | 371,617 | - | - |
| Exchange difference on net investment in foreign operations | (780,949) | (179,124) | - | - |
| Balance at end of year | (588,456) | 192,493 | - | - |
| Nature and purpose of reserves | | | | |
| General Reserve | | | | |
| The General Reserve arose from the issue of shares in MRC Resources Pty Ltd to an entity outside the economic entity. This entity's holding gives rise to an outside equity interest. | | | | |
| Financial assets | | | | |
| The financial asset reserve arises from adjusting the value of options held for trading. | | | | |
| Foreign Currency | | | | |
| The foreign currency translation reserve records the unrealised foreign currency differences arising from the translation of self sustaining foreign operations and the translation of foreign currency monetary items forming part of the net investment in a self sustaining operation. Refer to accounting policy note 1 (e). | | | | |
| 18. ACCUMULATED LOSSES | | | | |
| Accumulated losses at beginning of the year | (13,467,155) | (12,848,742) | (11,985,750) | (12,585,315) |
| Net profit (loss) attributable to members | (1,523,542) | (618,413) | (417,277) | 599,565 |
| Accumulated losses at end of the year | (14,990,697) | (13,467,155) | (12,403,027) | (11,985,750) |

Notes to the Financial Statements (continued)

| | Consolidated | |
|--|--------------|------------|
| | 2006 | 2005 |
| | \$ | \$ |
| 19. EARNINGS (LOSS) PER SHARE | | |
| Basic earnings per share (cents per share) | (1.7) | (1.1) |
| Diluted earnings per share (cents per share) | n/a | n/a |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share | 87,595,463 | 54,905,836 |
| Weighted average number of options outstanding | 18,008,607 | 18,008,607 |
| Weighted average number of ordinary shares on issue used in calculation of diluted earnings (loss) per share | n/a | n/a |
| Net profit/(loss) used in the calculation of basic and diluted earnings per share | (1,523,542) | (618,413) |

There are 18,008,607 options with an exercise price of 30 cents and an expiry date 30 June 2007 on issue as at 31 December 2006. These have not been classified as potential ordinary shares and are not included in determination of dilutive earnings per share.

Notes to the Financial Statements (continued)

20. SEGMENT INFORMATION

Geographical Segments

The consolidated entity has two geographical segments, Australia and South Africa.

| (a) Geographical | Australia | | South Africa | | Total | |
|---|------------|------------|--------------|------------|-------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Revenue | | | | | | |
| External segment revenue | 333,811 | 1,395,889 | - | - | 333,811 | 1,395,889 |
| Total segment revenue | 333,811 | 1,395,889 | - | - | 333,811 | 1,395,889 |
| Total Revenue | | | | | 333,811 | 1,395,889 |
| Result | | | | | | |
| Segment result | (995,211) | (256,667) | (611,795) | (346,122) | (1,607,006) | (602,789) |
| Income Tax | - | - | 83,464 | - | 83,464 | - |
| Loss after tax | (995,211) | (256,667) | (528,331) | (346,122) | (1,523,542) | (602,789) |
| Outside equity interest in result for year | - | - | - | (15,624) | - | (15,624) |
| Net Profit | (995,211) | (256,667) | (528,331) | (361,746) | (1,523,542) | (618,413) |
| Assets | | | | | | |
| Segment assets | 20,145,154 | 9,669,467 | 2,935,231 | 3,049,455 | 23,080,385 | 12,718,922 |
| Segment liabilities | 187,378 | 157,693 | 185,650 | 148,733 | 373,028 | 306,426 |
| Net segment assets | 19,957,776 | 9,511,774 | 2,749,581 | 2,900,722 | 22,707,357 | 12,412,496 |
| Net entity assets | | | | | 22,707,357 | 12,412,496 |
| Investment in equity method associates included in segment assets | 3,623,988 | 3,218,232 | - | - | 3,623,988 | 3,218,232 |
| Share of net loss of associate | 167,770 | 393,340 | - | - | 167,770 | 393,340 |
| Acquisition of property plant & equipment | 2,521,028 | 7,768 | 412 | 276 | 2,521,440 | 8,044 |
| Depreciation | 22,223 | 22,980 | 3,735 | 31,926 | 25,958 | 54,906 |

Notes to the Financial Statements (continued)

20. SEGMENT INFORMATION (continued)

Secondary reporting

Business segments

The consolidated entity principally operates in the field of exploration for gold and other mineral resources. The Company has also participated in the trading of listed securities.

| (b) Industry | Mineral Exploration & Development | | Investment | | Total | |
|---|--------------------------------------|------------|------------|---------|------------|------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenue | | | | | | |
| External segment revenue | 101,055 | 911,660 | 232,756 | 484,229 | 333,811 | 1,395,889 |
| Total segment revenue | 101,055 | 911,660 | 232,756 | 484,229 | 333,811 | 1,395,889 |
| Total Revenue | | | | | 333,811 | 1,395,889 |
| Assets | | | | | | |
| Segment assets | 22,416,812 | 12,253,513 | 663,574 | 465,409 | 23,080,386 | 12,718,922 |
| Total entity assets | | | | | 23,080,386 | 12,718,922 |
| Acquisition of property, plant & equipment | 2,521,440 | 8,044 | - | - | 2,521,440 | 8,044 |

21. AUDITORS' REMUNERATION

Amounts received or due and receivable by auditors for:

| | | | | | | |
|---------------------------------|--|--|--------|--------|--------|--------|
| Auditors of the parent entity | | | | | | |
| Auditing – the financial report | | | 33,500 | 26,295 | 33,500 | 26,295 |
| Other auditors of subsidiaries | | | | | | |
| Auditing – the financial report | | | 5,859 | 14,781 | - | - |
| | | | 39,359 | 41,076 | 33,500 | 26,295 |

22. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel

Mr Mark Victor Caruso : Managing Director
 Mr Joseph Caruso: Non-Executive Chairman
 Mr Gregory Hugh Steemson : Non Executive director

There were no changes to key management personnel between the reporting date and the date the financial report was authorised for issue.

Notes to the Financial Statements (continued)

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Key Management Personnel Compensation

The Company has applied the exemption under Corporations Amendments Regulation 2006 (no 4) which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the Remuneration Report of the Directors' Report designated as audited.

Remuneration by category

| | Economic Entity | | Parent Entity | |
|---------------------------------|-----------------|----------------|----------------|----------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| <i>Key Management Personnel</i> | | | | |
| Short-term | 121,000 | 100,750 | 121,000 | 100,750 |
| Post-employment | 2,700 | 4,725 | 2,700 | 4,725 |
| Share-based payment | - | - | - | - |
| | <u>123,700</u> | <u>105,475</u> | <u>123,700</u> | <u>105,475</u> |

(c) Option holdings of key management personnel

2006

| Key Management Personnel | Balance at 1 January '06 | Granted as remuneration | Options exercised | Balance at 31 Dec '06 | Total vested 31 Dec '06 | Total exercisable 31 Dec '06 |
|--------------------------|--------------------------|-------------------------|-------------------|-----------------------|-------------------------|------------------------------|
| Mark Caruso | 3,089,547 | - | - | 3,089,547 | 3,089,547 | 3,089,547 |
| Joseph Caruso | 3,085,338 | - | - | 3,085,338 | 3,085,338 | 3,085,338 |
| Greg Steemson | 53,333 | - | - | 53,333 | 53,333 | 53,333 |

2005

| Key Management Personnel | Balance at 1 January '05 | Granted as remuneration | Options exercised | Balance at 31 Dec '05 | Total vested 31 Dec '05 | Total exercisable 31 Dec '05 |
|--------------------------|--------------------------|-------------------------|-------------------|-----------------------|-------------------------|------------------------------|
| Mark Caruso | 3,089,547 | - | - | 3,089,547 | 3,089,547 | 3,089,547 |
| Joseph Caruso | 3,085,338 | - | - | 3,085,338 | 3,085,338 | 3,085,338 |
| Greg Steemson | 53,333 | - | - | 53,333 | 53,333 | 53,333 |

Notes to the Financial Statements (continued)

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Shareholdings of key management personnel

2006

| Director | Balance at 1 January '05 | Received as remuneration | Options exercised | Net change other | Balance 31 Dec '06 |
|---------------|-----------------------------|-----------------------------|----------------------|---------------------|-----------------------|
| Mark Caruso | 9,268,642 | - | - | 1,000,000 | 10,268,642 |
| Joseph Caruso | 9,256,015 | - | - | 1,000,000 | 10,256,015 |
| Greg Steemson | 210,000 | - | - | - | 210,000 |

2005

| Director | Balance at 1 January '05 | Received as remuneration | Options exercised | Net change other | Balance 31 Dec '05 |
|---------------|-----------------------------|-----------------------------|----------------------|---------------------|-----------------------|
| Mark Caruso | 9,268,642 | - | - | - | 9,268,642 |
| Joseph Caruso | 9,256,015 | - | - | - | 9,256,015 |
| Greg Steemson | 210,000 | - | - | - | 210,000 |

Joseph and Mark Caruso are both directors of Zurich Bay Holdings Pty Ltd which has a relevant interest in 10,256,015 shares and 3,085,338 options.

All equity transactions with key management personnel, other than those arising from the exercise of remuneration options, have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(e) Loans to key management personnel

There were no loans to key management personnel during the period.

(f) Other transactions and balances with key management personnel

There were no transactions or balances with key personnel other than those disclosed in the remuneration report of the Director's Report.

23. RELATED PARTY TRANSACTIONS

There were no transactions with directors or director related entities during the financial period other than the payment of directors' remuneration as is disclosed on note 22.

Mineral Commodities Limited is a shareholder in Allied Gold Limited owning 19,436,886 shares or 7.14% of the Allied Gold's issued capital at balance date, and 19,436,886 shares or 7.14% at the date of this financial report. Mineral Commodities Limited has supported Allied Gold throughout the financial period by entering into the following transactions, which have been conducted on an arms length basis. Mark Caruso and Greg Steemson are also directors of Allied Gold Limited.

- Pursuant to a services agreement the Company has agreed to provide Allied with services including, accounting, clerical, secretarial and fully serviced office accommodation for a fixed monthly fee of \$11,000. This agreement has no fixed term. The total amount charged for the period was \$132,000.

Directors' remuneration is reported in note 22.

Notes to the Financial Statements (continued)

23. RELATED PARTY TRANSACTIONS (CONTINUED)

Wholly owned group

The group consists of Mineral Commodities Limited and its wholly owned controlled entities. Details of entities in the wholly owned group are set out in Note 11.

Transactions between Mineral Commodities Limited and other entities in the wholly owned group during the years ended 31 December 2006 and 31 December 2005 consisted of loans advanced and payments received and made on intercompany accounts. These transactions were made on normal commercial terms and conditions and at market rates.

During the financial year, the Company provided management, accounting and administration services to other entities in the wholly-owned group.

24.(a) RECONCILIATION OF OPERATING PROFIT/(LOSS) FROM ORDINARY ACTIVITIES TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | Consolidated | | Company | |
|--|--------------------|--------------------|------------------|------------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Operating profit/(loss) before income tax and outside equity interest | (1,523,542) | (602,789) | (417,277) | 599,565 |
| Depreciation | 25,958 | 54,906 | 22,223 | 22,980 |
| Unrealised foreign exchange loss/(gain) | 570,114 | 132,107 | 219,614 | 49,946 |
| Non bank interest income not in cash | - | - | (239,241) | (181,023) |
| Reversal of provision for impairment of loan receivable from controlled entity | - | - | - | (842,130) |
| (Profit) on disposal of mining project | - | (754,924) | - | - |
| (Profit)/loss on sale of investment in listed companies | (49,466) | (440,549) | (49,466) | (440,549) |
| Provision for impairment of investments in listed companies | (17,000) | (43,804) | (17,000) | (43,804) |
| Loss on Sales of fixed assets | 3,864 | - | 3,864 | - |
| Provision – employee entitlements | 14,559 | 6,404 | 14,559 | 6,404 |
| Equity accounting adjustments | 167,770 | 423,712 | - | - |
| Exploration expenditure written off | - | 266,483 | - | 208,833 |
| Exploration expenditure capitalised | (905,016) | (760,342) | (42,256) | (103,556) |
| Other non-cash items | (21,963) | - | 24,815 | - |
| Changes in assets and liabilities during the year: | | | | |
| Increase (decrease) in trade payables and other liabilities | 141,531 | (23,760) | (32,107) | 56,724 |
| (Increase) decrease in trade and other receivables | (26,205) | (31,067) | (29,877) | 19,962 |
| (Increase) decrease in prepayments | (6,751) | 56,055 | (6,751) | 56,055 |
| Net cash generated by (outflow) from operating activities | (1,626,147) | (1,717,568) | (548,900) | (590,593) |

Notes to the Financial Statements (continued)

24.(B) OTHER FINANCING DISCLOSURES

The group has no available finance facilities as at balance date.

During the year the Company acquired Erebus PLC. The consideration comprised of 9,406,878 shares and 3,135,626 unlisted options. As set out in Note 1(b), the Company has not consolidated Erebus PLC.

25. FINANCIAL INSTRUMENTS

Financial risk management

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable and loans to controlled entities. The main risks the group is exposed to through its financial instruments are credit risk and interest rate risk.

(a) Credit Risk Exposures

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Consolidated Entity measures credit risk on a fair value basis.

The Consolidated Entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

(b) Interest Rate Risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

| 2006 Financial Assets Australia | Weighted Average interest rate % | Floating interest rate \$ | Fixed interest maturing in 1 year or less \$ | Non-interest bearing \$ | Total \$ |
|---------------------------------------|---|---------------------------------|---|-------------------------------|-------------|
| Cash | 5.70 | 2,440,717 | - | 3,828 | 2,444,545 |
| Receivables | - | - | 23,000 | 2,410,298 | 2,433,298 |
| Listed Shares | - | - | - | 613,574 | 613,574 |
| Unlisted Shares | - | - | - | 50,000 | 50,000 |
| Equity accounted investment | - | - | - | 3,623,988 | 3,623,988 |
| | | 2,440,717 | 23,000 | 6,701,688 | 9,165,405 |
| Financial Liabilities | | | | | |
| Payables | | - | - | 187,378 | 187,378 |
| | | 2,440,717 | 23,000 | 6,514,310 | 8,978,027 |

Notes to the Financial Statements (continued)

25. FINANCIAL INSTRUMENTS (continued)

| 2006 Financial Assets South Africa | Weighted Average interest rate % | Floating interest rate \$ | Fixed interest maturing in 1 year or less \$ | Non-interest bearing \$ | Total \$ |
|---|---|---------------------------------|---|-------------------------------|-------------------|
| Cash | 4.25 | 116,819 | - | - | 116,819 |
| Receivables | | | | 92,797 | 92,797 |
| | | 116,819 | - | 92,797 | 209,616 |
| Financial Liabilities | | | | | |
| Payables | | - | - | 185,650 | 185,650 |
| Net financial assets | | 116,819 | - | (92,853) | 23,966 |
| Combined Australian and South African net financial assets | | | | | <u>9,001,993</u> |
| Reconciliation of Net Financial Assets to Net Assets | | | | 2006 | 2005 |
| | | | | \$ | \$ |
| Net financial assets as above | | | | 9,001,993 | 4,700,149 |
| Non financial assets and liabilities | | | | | |
| Property, plant and equipment | | | | 2,544,443 | 52,825 |
| Other investments | | | | 2,296,936 | - |
| Exploration & development | | | | 8,863,985 | 7,749,010 |
| Provisions (89,488) | | | | - | |
| Net assets per Balance Sheet | | | | <u>22,707,357</u> | <u>12,412,496</u> |

Notes to the Financial Statements (continued)

25. FINANCIAL INSTRUMENTS (continued)

| 2005 Financial Assets Australia | Weighted Average interest rate % | Floating interest rate \$ | Fixed interest maturing in 1 year or less \$ | Non-interest bearing \$ | Total \$ |
|---|---|------------------------------------|---|-------------------------------|------------------|
| Cash | 4.5% | 929,398 | - | - | 929,398 |
| Receivables | 4.5% | - | 23,000 | 178,947 | 201,947 |
| Listed Shares | | - | - | 465,409 | 465,409 |
| Equity accounted investment | | - | - | 3,218,232 | 3,218,232 |
| | | 929,298 | 23,000 | 3,862,588 | 4,814,986 |
| Financial Liabilities | | | | | |
| Payables | | - | - | 157,693 | 157,693 |
| Net financial assets | | 929,298 | 23,000 | 3,704,895 | 4,657,293 |
| 2005 Financial Assets South Africa | Weighted Average interest rate % | Floating interest rate \$ | Fixed interest maturing in 1 year or less \$ | Non-interest bearing \$ | Total \$ |
| Cash | 4.5% | 7,863 | - | - | 7,863 |
| Receivables | | - | - | 94,238 | 94,238 |
| | | 7,863 | - | 94,238 | 102,101 |
| Financial Liabilities | | | | | |
| Payables | | - | - | 59,245 | 59,245 |
| Net financial assets | | 7,863 | - | 34,993 | 42,856 |
| Combined Australian and South African net financial assets | | | | | 4,700,149 |

Notes to the Financial Statements (continued)

25. FINANCIAL INSTRUMENTS (continued)

(c) Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

(d) Unrecognised financial instruments

The Company and controlled entities do not have any unrecognised financial instruments.

26. COMMITMENTS

(a) Leasing Commitments

Operating leases

| | Consolidated | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Office premises due within 1 year | 59,400 | 41,658 | 59,400 | 41,658 |
| Office premises due greater than 1 year and less than 5 | 5,040 | 45,461 | 5,040 | 45,461 |
| Total | 64,440 | 87,119 | 64,440 | 87,119 |

The operating lease is a rental agreement for the Company's office premises in Welshpool. The lease is for a 3 year term expiring on 15 February 2008 with an option to renew for a further 3 years. The lease provides for annual rent reviews to the higher of CPI or market.

(b) Exploration Tenement Leases – Commitments for Expenditure.

In order to maintain current rights of tenure to exploration tenements, the Company and consolidated entity is required to outlay lease rentals and to meet the minimum expenditure requirements of an estimated \$218,000 over the next financial year (2005: \$10,000). Financial commitments for subsequent periods are contingent upon future exploration results and cannot be estimated. These obligations are subject to renegotiation upon expiry of the exploration leases or when application for a mining licence is made and have not been provided for in the accounts.

27. CONTINGENT LIABILITIES

In October 2002, the Company engaged contractors to conduct exploration drilling near Kalgoorlie, Western Australia. In turn these contractors engaged Marathon Tyers (WA) Pty Ltd to conduct repairs to some equipment at the exploration drilling site.

On 5 November 2002 a train operated by Pacific National (ACT) Ltd ("Pacific National") collided with a vehicle operated by Marathon which had become disabled whilst attempting to traverse the railway line.

As a result of the collision the train was derailed, Marathon's vehicle was destroyed and railway infrastructure was damaged. The Company subsequently announced that it was being sued by the operator of the railway line ("ARTC") for damages in the sum of \$160,000 together with interests and costs and by Marathon for damages in the sum of \$285,000 together with interests and costs. The Company also announced the possibility of a further claim being made against the Company by Pacific National.

Pacific National duly made a claim against the Company and the other parties claiming damages in the sum of \$2.4 million together with interest and costs.

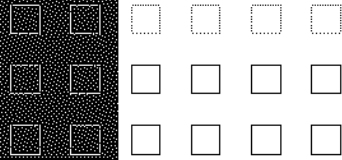
Notes to the Financial Statements (continued)

27. CONTINGENT LIABILITIES (continued)

A mediation of all parties was held in December 2006 and as a result of further negotiations following the mediation the claim has been resolved in principle subject to confirmation of some administrative matters and subject to satisfactory orders being made. The Company's insurers have agreed to meet the negotiated settlement payment on the Company's behalf. The Board anticipates that final orders resolving the matter will be made within the next 3 months. Subject to final acceptance of the terms of settlement (which is anticipated shortly), the Company itself will make no substantial contribution to settlement.

28. SUBSEQUENT EVENTS

No event or transaction has arisen in the interval between the end of the financial year and the date of this report of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company or the Consolidated Entity, the results of those operations or the state of affairs of the Company or the Consolidated Entity in future financial years.



Directors' Declaration

The Directors of the Company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001 and;
 - a. comply with Australian Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 31 December 2006 and of the performance for the year ended on that date of the Company and the consolidated entity except for the fact that Erebus PLC and its subsidiary have not been consolidated for the reasons set out in Note 1 to the Financial Statements.
2. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

Signed in accordance with a resolution of the Directors:

Mark V Caruso
Managing Director

Dated at Perth, Western Australia this 30th day of March 2007



Chartered Accountants
& Advisers

Level 3, 756 St George's Terrace Perth WA 6000
PO Box 1426 Cloisters Square Perth WA 6001
Tel: (61-8) 9399 4200
Fax: (61-8) 9481 2524
Email: bdo@bdo.com.au
www.bdo.com.au

30 March 2007

The Directors
Mineral Commodities Ltd
PO Box 235
WELSHPOOL WA 6986

Dear Sirs,

**DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF MINERAL
COMMODITIES LIMITED**

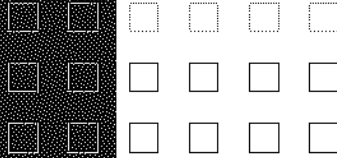
To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit

Yours faithfully
BDO
Chartered Accountants

M Shafiqadeh
Partner





Chartered Accountants
G Advisers

Level 8, 150 St George's Terrace Perth WA 6000
PO Box 1476 Claremont Square Perth WA 6001
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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MINERAL COMMODITIES LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Mineral Commodities Limited (the company) and the consolidated entity, for the year ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the compensation of key management personnel ("compensation disclosure"), as required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" in pages 14 to 16 of the directors' report and not in the financial report.

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

Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the compensation disclosure in the directors' report comply with Accounting Standard AASB 124. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows and whether the compensation disclosures in the directors' report comply with Accounting Standard AASB 124.



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

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

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

Independence

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

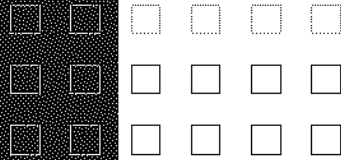
The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

Qualification

As noted within the Directors Report and Note 1 to the financial report, the Company has not consolidated two subsidiaries being Erebus Pte and Kariba Kono (S.L.) Ltd into the income statement, balance sheet, cash flow statement, statement of changes in equity or notes to the financial report as at 31 December 2006 due to the fact that the financial information is not considered reliable by the Board of Directors and ourselves.

As Erebus Pte and Kariba Kono (S.L.) Ltd are controlled by Mineral Commodities Ltd at the 31 December 2006, all assets and liabilities of these subsidiaries should have been recorded within the consolidated balance sheet of Mineral Commodities Ltd. These assets and liabilities should have been recorded at their fair value at the date of acquisition, with any excess of consideration over the net assets acquired being recorded as goodwill. In addition the results of these subsidiaries from the date of acquisition (31 June 2006) should have been included in the consolidated income statement and the cash flows since acquisition should have been included within Mineral Commodities Ltd's consolidated cash flow statement. The investment and loan receivable balances recorded within Mineral Commodities Ltd relevant to Erebus Pte and Kariba Kono (S.L.) Ltd should have been eliminated.

The parent entity has an investment in Erebus Pte of \$2,296,915 and loans receivable from Erebus Pte and Kariba Kono (S.L.) Ltd of \$2,291,727 as at 31 December 2006. Due to the financial information of the subsidiaries being unreliable we are unable to determine the recoverability of the above investment and loan receivable balances.



Qualified Audit Opinion

In our opinion, except for the effects on the financial report of the matters referred to in the qualification paragraph, the financial report of Mineral Commodities Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2006 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia

BDO
Chartered Accountants

M. Shafiqzadeh
Partner

Perth, Western Australia
Dated this 30th day of March 2007.

Statement of Corporate Governance

The Board of Directors of Mineral Commodities Limited has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of the shareholders and were in place throughout the financial year.

THE BOARD OF DIRECTORS

Role of the Board

The Board of Directors is responsible for setting the strategic direction and establishing the policies of Mineral Commodities Limited and the consolidated entity. It is responsible for overseeing the financial position, and for monitoring the business and affairs of the Company and the consolidated entity on behalf of the shareholders, by whom the directors are elected and to whom they are accountable. It also addresses issues related to internal controls and approaches to risk management.

Composition of the Board

The directors' report contains details of the directors' qualifications, experience and special responsibilities.

Under the Constitution the minimum number of directors is three and the maximum is ten. Directors are not appointed for a fixed term. At each annual general meeting one third of the directors other than the Managing Director must resign by rotation, with those serving the longest resigning first. Resigning directors may stand for re-election.

As a general principle the Company considers that the number of non-executive directors must exceed the number of executive directors. This has been the case throughout this financial year. The Board considers Mr Gregory Steemson to be an independent director in accordance with the definition used in ASX Principles of Good Corporate Governance.

Details of directors' shareholdings are disclosed in the directors' report and financial report. There are no retirement schemes other than the payment of statutory superannuation contributions.

Any equity based compensation of directors is required to be approved in advance by shareholders.

CHAIR AND MANAGING DIRECTOR

The Company maintains that there must be a separation between the roles of Chairman and the Managing Director.

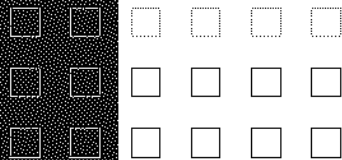
The Chairman is an independent person who is not involved in any executive management. The Managing Director is responsible for day to day operations and supervising the management of the business as designated by the Board. This ensures the appropriate independent functioning of the Board and management.

INDEPENDENT PROFESSIONAL ADVICE

The Company has procedures enabling any director or committee of the Board to seek external professional advice as considered necessary, at the Company's expense subject to prior consultation with the Chairman. A copy of any advice sought by a director would be made available to all directors.

CONFLICT OF INTEREST

In the event that a potential conflict of interest may arise, involved directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over other Board members.



Statement of Corporate Governance (continued)

TRADING IN THE COMPANY'S SECURITIES

The Company has adopted a policy that imposes certain restrictions on directors and employees trading in the securities of the Company. Key aspects of the policy are:

- All directors and employees are to formally notify the Company Secretary of their beneficial shareholdings in the Company and any changes to this within 2 days of such change occurring. The Company Secretary maintains a register of interests in the Company held by directors.
- No director or employee or any entities controlled by them is allowed to trade in the securities of the Company without notifying the Chairman.
- No director or employee or any entity controlled by them is allowed to engage in the business of active dealing in the Company's securities.
- A director or employee or any entities controlled by them must not trade at any time when he or she is in possession of information which if generally available would materially affect the price or value of the Company's securities.

SHAREHOLDERS RELATIONS AND COMMUNICATIONS

The Company's shareholders are responsible for voting on the appointment of directors. The Board informs shareholders of all major developments affecting the Company by:

- Preparing half yearly and annual financial reports and making these available to all shareholders.
- Advising the market of matters requiring disclosure under Australian Stock Exchange Continuous Disclosure Rules.
- Maintaining a record of significant ASX announcements on the Company's website.
- Submitting proposed major changes in the Company's affairs to a vote of shareholders, as required by the Corporations Law.
- Reporting to shareholders at annual general meetings on the Company's activities during the year. All shareholders that are unable to attend these meeting are encouraged to communicate issues or ask questions by writing to the Company.

BOARD COMMITTEES

The entire Board undertakes the function of an Audit Committee. The duties of this committee include:

- to be the focal point of communication between the Board, management and the external auditor;
- to recommend and supervise the engagement of the external auditor and monitor auditor performance;
- review the effectiveness of management information and other systems of internal control;
- review all areas of significant financial risk and arrangements in place to contain those to acceptable levels;
- review significant transactions that are not a normal part of the Company's business;
- review the year end and interim financial information and ASX reporting statements;
- to monitor the internal controls and accounting compliance with the Corporations Act, ASX Listing Rules, external audit reports and ensure prompt remedial action where required; and
- review the Company's financial statements and accounting procedures.

The Company's auditor is invited to attend the annual general meeting and the Company supports the principle of the auditor being available to answer questions on the conduct of the audit and the content of the audit report.

The Board has not formally constituted a Nomination Committee or a Remuneration Committee. The whole Board conducts the functions of a Nomination Committee and Remuneration Committee.

Statement of Corporate Governance (continued)

INTERNAL CONTROL FRAMEWORK AND BUSINESS RISK MANAGEMENT

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility the Board has instigated an internal control framework that includes the following.

- Financial reporting - there is a comprehensive budgeting and forecasting system with updates provided to the Board at each Board meeting. Periodic reports are provided to the Board. Quarterly, half yearly and annual reports are prepared in accordance with the Corporations Act and ASX Listing Rules.
- The Managing Director and the Company Secretary are required to confirm in writing that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.
- The Company has written policies covering health, safety and the environment.

ETHICAL STANDARDS

The Board adopts a proactive approach to promoting the practice of high ethical standards. All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company, in the following areas;

- professional conduct,
- dealings with suppliers, advisers and regulators,
- dealings with the community and specifically in dealings with traditional landowners, and
- dealings with other employees.

PRIVACY

The company has resolved to comply with the National Privacy Principles contained in the Privacy Act 1988, to the extent required for a company the size and nature of Mineral Commodities Limited.

ASX GUIDELINES ON CORPORATE GOVERNANCE

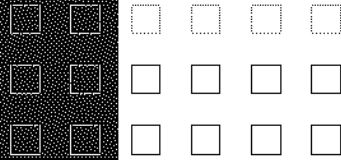
Pursuant to ASX Listing Rules the Company must provide a statement disclosing the extent to which the ASX best practice recommendations have been not been followed in the reporting period. Below the Company provides an explanation of any areas where Mineral Commodities Limited does not presently comply with ASX best practice recommendations.

A majority of the Board of directors is not comprised of independent directors under the ASX definition of independent, and the Chairman is not an independent director.

Mr Joseph Caruso and Mr Mark Caruso both have a relevant interest in Zurich Bay Holdings Pty Ltd a company that controls directly and indirectly 9.63% of the issued shares of the Company. ASX considers that a person with an interest in a company with a substantial shareholding in the reporting company is not independent.

Each individual member of the Board is satisfied that whilst the Company may not comply with this particular best practice recommendation, the Board always acts with independence and in accordance with the Statement of Corporate Governance.

The ASX guidelines also prescribe that the Company should maintain a dedicated corporate governance information section on its website. Such a dedicated information section is not presently available on the Company's website, although the annual financial report will be posted to the website and the Statement of Corporate Governance can be viewed there.



Shareholder Information

Additional information required by the Australian Stock Exchange Ltd Listing Rules and not disclosed elsewhere in this report. This information is current as at 04 April 2007

TWENTY LARGEST SHAREHOLDERS

| Name | Number of ordinary shares | Percentage of issued shares |
|-----------------------------------|---------------------------|-----------------------------|
| HSBC Custody Nom Aust Ltd | 13,514,600 | 12.70% |
| HSBC Custody Nom Aust Ltd | 9,146,410 | 8.59% |
| ANZ Nom Ltd | 7,625,798 | 7.16% |
| Zurich Bay Holdings Pty Ltd | 6,142,231 | 5.77% |
| National Nom Ltd | 4,316,282 | 4.06% |
| Scarp Holdings Pty Ltd | 3,085,338 | 2.90% |
| Broughton Ltd | 2,100,000 | 1.97% |
| Robert Cameron Galbraith | 1,945,560 | 1.83% |
| Hassanatu Jalloh HHa | 1,817,605 | 1.71% |
| Kathryn Yule | 1,647,500 | 1.55% |
| Bulldog Investments Pte Ltd | 1,500,000 | 1.41% |
| International Mining Services Ltd | 1,500,000 | 1.41% |
| IEC Investments Pty Ltd | 1,201,675 | 1.13% |
| Keng Heng Goh | 1,175,000 | 1.10% |
| C3D Holdings Pty Ltd | 1,115,000 | 1.05% |
| Kevin Anthony Leo and Leticia Leo | 1,057,223 | 0.99% |
| Scarp Holdings Pty Ltd | 1,028,446 | 0.97% |
| Kingarth Pty Ltd | 1,000,000 | 0.94% |
| Nathan Strickland | 1,000,000 | 0.94% |
| Horizon Corp Ltd | 851,973 | 0.80% |
| | 62,770,641 | 58.98% |

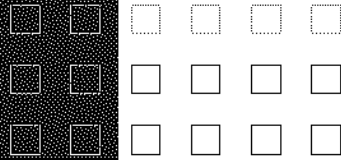
Shareholder Information (continued)

TWENTY LARGEST OPTION HOLDERS

| Name | Number of options | Percentage of issued options |
|--|-------------------|------------------------------|
| Zurich Bay Holdings Pty Ltd | 3,085,338 | 17.13% |
| Kathryn Yule | 772,500 | 4.29% |
| Robert Cameron Galbraith | 730,803 | 4.06% |
| John Robert Leo | 359,009 | 1.99% |
| Joseph M Cervelli and Deborah B Cervelli | 338,000 | 1.88% |
| Weili Yang | 310,510 | 1.72% |
| OHS Global Pty Ltd | 297,331 | 1.65% |
| Andrew Roles & Associates Pty Ltd | 287,422 | 1.60% |
| Kevin Anthony Leo and Leticia Leo | 282,505 | 1.57% |
| Bradley Nicholson | 254,664 | 1.41% |
| Warriedar Pty Ltd | 250,000 | 1.39% |
| Bateman International BV | 247,736 | 1.38% |
| Peter Massey | 240,000 | 1.33% |
| Keng Heng Goh | 223,333 | 1.24% |
| Nicholas C Richards | 203,835 | 1.13% |
| Gerald Magree | 200,000 | 1.11% |
| Sidika Tekeli | 200,000 | 1.11% |
| Patrick Francis Caruso | 191,666 | 1.06% |
| Mark Nevill | 168,768 | 0.94% |
| Jodie McAuliffe | 168,021 | 0.93% |
| | 8,811,441 | 48.92% |

DISTRIBUTION OF SHAREHOLDERS AND OPTIONHOLDERS

| Range of holdings | Number of shareholders | Number of shares | Number of optionholders | Number of options |
|----------------------|------------------------|--------------------|-------------------------|-------------------|
| 1 - 1,000 | 128 | 44,195 | 372 | 211,869 |
| 1,001 - 5,000 | 457 | 1,631,210 | 653 | 1,607,973 |
| 5,001 - 10,000 | 215 | 1,818,429 | 147 | 1,109,148 |
| 10,001 - 100,000 | 467 | 17,565,137 | 161 | 5,523,190 |
| 100,001 - and over | 102 | 85,377,031 | 25 | 9,556,427 |
| Total holders | 1,369 | 106,436,002 | 1,358 | 18,008,607 |



Shareholder Information (continued)

MARKETABLE PARCELS

Number of shareholders holding less than a marketable parcel of ordinary shares is 164.

VOTING RIGHTS

Every ordinary shareholder present in person or by proxy at meetings of shareholders shall have one vote for every share held.

Option holders have the right to attend meetings but have no voting rights until the options are exercised.

SUBSTANTIAL SHAREHOLDERS

The following shareholders are considered substantial shareholders:

- WF Asian Reconnaissance Fund Limited holding 12.18% of the issued ordinary shares.
- RAB Special Situations (Master) Fund Limited holding 6.64% of the issued ordinary shares.
- Zurich Bay Holdings Pty Ltd holding 9.63 % (both direct and indirect) of the issued ordinary shares.

RESTRICTED SECURITIES

There are no restricted securities.

SHARE BUY BACKS

There is no current on market share buy back.

