



ANNUAL REPORT

2006





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THE COMPANY

Stellar Resources Limited is an exploration and discovery company searching for diversified minerals including uranium, base metals, gold and iron. Stellar's objective is to enhance shareholder returns via the discovery of viable mineral deposits.

Stellar was formed in 2004 when ASX-listed Gravity Capital Limited (now Gravity Diamonds Limited) initiated an in-specie distribution of shares in its non-diamond exploration subsidiary, Stellar Resources Limited.

The Company holds a carefully selected and diverse portfolio of projects, many of which lie within terrains which have produced - and are thus prospective for - world class orebodies. These include the west coast of Tasmania, the Broken Hill region in NSW, the Gawler Craton in SA and the Bendigo region in Victoria. This diverse mix of terrains and commodities maximises Stellar's opportunity to make an economic discovery.

Several of Stellar's projects have targets selected using the innovative FALCON® airborne gravity technology. This technology, created originally by the U.S. Military, has been developed for mineral exploration by BHP Billiton Limited. Gravity technology is a proven geophysical tool and the FALCON® airborne gravity system represents a major advance in data collection and application of this science. Stellar's involvement with the FALCON® system has given it new and special capabilities in exploration in a range of geological terrains.

In addition to being highly geologically prospective, Stellar's exploration project areas have favourable logistics. Land access is reasonable and exploration, delineation and development of any discovered orebodies should be able to be carried out in a timely and cost effective manner. In order to capitalise on these attributes, Stellar has an ambitious and exciting drilling program planned for the next twelve months.

Stellar management is focused, cost conscious and success driven, with a mix of skills and experience appropriate for achieving its objective:

“enhancing shareholder wealth, through mineral discovery.”

CHAIRMAN'S REVIEW





Stellar Resources is focused on adding shareholder value in a way that respects the environment and communities in which we operate.

Stellar has enjoyed a very active year in a buoyant resources sector. Continuing strong worldwide demand for resources – coupled with the long lead times required to bring on new or expanded production – has led to demand exceeding supply. This has caused a severe rundown in metal inventories resulting in strong upward pressure on prices. Indeed, many commodity prices are at or near all time record levels.

During the year, Stellar expanded its focus on uranium, as the world wide appetite for this non-greenhouse gas generating fuel accelerated and environmental fears moderated.

We acquired the Warrior uranium project in central South Australia to add to our existing uranium palaeochannel opportunity.

In early 2006, we received exciting news from our Alpine copper project in Tasmania where drilling, coupled with subsequent follow up drilling, showed a modest grade but new style of copper deposit for Tasmania. It is early days at Alpine, but there is scope for increased tonnage in a favourable logistical setting.

We were also active in drilling at eight of our other project areas, including the Goldfinger zinc project near Broken Hill.

The company is well funded with some \$5.6 million of cash resources at balance date and we are mindful that these funds be used expeditiously on well prepared exploration plays. The accounting loss of some \$1.18 million reflects the write down of exploration projects of \$0.57 million and the expensing of administration costs.

Stellar Resources is focused on adding shareholder value in a way that respects the environment and communities in which we operate. We see our way ahead in this regard by making discoveries on our existing licences, pegging new prospects on which we feel discoveries may be made and acquiring resources in very advanced projects which would be capable of making a good return.

Your Board is always conscious of the inherent risks with exploration activities and is therefore receptive to techniques which may reduce risk whilst still leaving the Company with a meaningful upside exposure to any discovery success.

Over the last 12 months Stellar has received a number of approaches from other companies wishing to joint venture into our tenements. We believe this reflects both the prospective nature of our ground – which reflects positively on our target selection – and the buoyant nature of the market.



CHAIRMAN'S REVIEW CONTINUED...

In May 2006, Stellar placed 7.5 million new fully paid ordinary shares at \$0.45 per share to clients of Bell Potter Securities Limited, raising over \$3 million. This will enable Stellar to continue with its aggressive exploration activities – with the objective of making value adding discoveries.

Late last year, the Company completed a program enabling shareholders with unmarketable-parcels to sell their shares. Some 571,000 shares were sold, which reduced the number of shareholders to approx 1,900, resulting in annual savings of approx \$20,000. Nearly 300 shareholders, holding an unmarketable parcel of shares, elected to retain their holdings.

Rising environmental concerns about the impact of the “greenhouse gases” and the fact that carbon burning power stations flood the atmosphere with CO₂ were the main drivers. The nuclear debate has reopened – with uranium featuring as a potentially environmentally benign power source. Over the past 20 years, nuclear power plant technology has improved, which has enabled community confidence to increase to a point where nuclear power may be viewed as a viable “clean” source of electricity in the context of global climate change.

Since year end, Stellar has entered into two joint ventures over our palaeochannel uranium ground in South Australia. Both arrangements remove financial risk whilst retaining very meaningful involvement and upside to exploration success.

Following approaches from a number of exploration companies in the uranium industry, we elected to accept the partnership offer from Toro Energy Limited, our neighbour in the Warrior palaeochannel systems, hosting the known Warrior deposits. Our JV deal with Toro gives Stellar many specific advantages:

- a) it allows us to be very exposed to the upside of a discovery;
- b) it significantly reduces our financial risk; and
- c) it introduces an alliance with an expert partner who has specific uranium expertise and focus.

Our other uranium joint venture is with UraniumSA Limited and covers the balance of our palaeochannel prospective tenements in the Tarcoola region. Following a successful IPO, Stellar will own more than 16 percent of UraniumSA Limited.

Importantly the structure of these joint ventures ensures that Stellar retains a high leverage to any discovery.

Tasmania

Our Tasmanian ground was selected some three years ago, when excellent ground was available and was acquired on favourable terms at the time of Stellar's IPO. Whilst our initial conceptual target was nickel – inspired by the Avebury nickel discovery – we have been very pleasantly surprised at the number and quality of base metal targets presented to us on our tenements. Tasmania's west coast has a fabulous mining heritage and pro-mining culture, in a very fertile geological environment hosting world class orebodies.

We are fortunate to hold projects and prospects where past explorers have conducted extensive work, but with little follow up drilling. As such, worthwhile drill targets are readily available to us. We have been actively drilling now since February, with a plan to continue through the coming summer.

Alpine has become a project of major significance to us. From an initial literature search of an ex CRAE project, it has evolved into a leading project. Four of our drill holes show copper mineralisation over wide zones and a substantial area. Importantly, we have not fully tested the magnetic zone, which appears to play host to the copper mineralisation.

To date we have intersected one higher grade zone – of 22m @ 1.23% Cu – within a longer intersection of 95m @ 0.45% Cu. Three further holes have shown the presence of widespread copper. This project is still evolving and more drilling is required to adequately test it in every dimension, including testing scope for higher grade zones and other metal credits.



Importantly, the regional potential remains wide open and we are now moving in parallel in this direction.

Elsewhere on our Heemskirk licence we have targets for nickel, copper and tin – a number of which are being advanced towards drill readiness.

On the Ramsay EL, near Waratah, we hold ground in a very prospective setting. Since year end we have commenced diamond drilling on zinc and copper targets, with conceptual nickel targets being scoped for drill testing in the near future.

Goldfinger, Broken Hill, NSW

The Broken Hill region, in NSW, continues to be a high priority for us, with the Goldfinger zinc prospect our continuing focus. Work over the past year has confirmed our enthusiasm for the prospect and, whilst drilling did not return economic intersections, it did demonstrate the presence of zinc in this large system. New inversion interpretation of geophysical data continues to improve our understanding of the possible “lode” distributions. Our forward program is to conduct a comprehensive IP survey prior to the next round of drilling.

We also plan to explore on the adjacent Galena Hill area of known base metal mineralisation. The Copper Blow trend of historical copper workings, located immediately to the east of the Goldfinger project area, was RC drilled after year end.

Stellar has earned its 51% interest in this JV.

South Australia and Victoria

Our South Australian ground holdings are highly prospective for “IOCG” or Prominent Hill style copper-gold discoveries. These include the Robins Rise and the more recently acquired Lake Woorong and Pernatty projects. The 2005 discovery of Carapateena has raised awareness within the industry that further discoveries in this province are likely to be made by drilling previously untested gravity anomalies.

Reconnaissance drilling was also continued during the year on a number of our other projects. Our drilling around Tarcoola showed mixed results, with follow up required in some areas. The iron ore potential at Coolybring and Wilgena Hill has been shown to occur largely as magnetite, rather than haematite but with potential for size. Expressions of interest from industry are being sought to assess the economics of a magnetite based project.

At the North Bendigo JV, in Victoria, an aircore program outlined some significant gold and arsenic anomalies beneath the Murray Basin cover sediments, which will require further evaluation.

Stellar is a dynamic company and as such is always acquiring new ground and, having tested various prospects, may then relinquish title, as happened this year. This frees management time and resources for projects assessed as having greater upside potential.

Stellar values health and safety in our workforce and places a high priority on safe and healthy outcomes. We remain determined to ensure that our activities – including drilling – are carried out to the highest standard, with occupational and

safety issues paramount. We are pleased to report no lost time injuries during the year. We also continue to uphold high standards of care in the communities and environments in which we operate.

Acknowledgements

On behalf of the Board I wish to express thanks to our loyal staff, consultants and contractors who work tirelessly in advancing our prospects. It is a very busy time and longer hours, with high and higher expectations, seem to be the “norm”.

Of course, there is no activity without the ongoing support from shareholders, which is highly valued and personally appreciated. I feel confident that with the application of good science, sound exploration practices, careful financial management and a measure of good luck, the year ahead should prove an exciting one for management and shareholders alike.

T J Burrowes
Executive Chairman

REVIEW OF EXPLORATION ACTIVITIES

The 2005/06 year was another active year for our Company. This, in large measure, reflects the success that Stellar has had in identifying good exploration prospects and, with the application of good grass roots exploration techniques, turning them into viable drilling targets.

Drilling activity was recorded in all four of the States where Stellar is active: In Tasmania, diamond drilling was carried out at Alpine for copper, where significant copper has been outlined, and with one hole at East Granville for tin. In NSW, at Goldfinger, drilling was carried out for Broken Hill style mineralisation and a second round of drilling confirmed its high prospectivity. In Victoria, the search for a repeat of the Bendigo gold system under cover was delayed until an aircore program and one diamond hole were drilled in autumn 2006. In South Australia, work was carried out at Warrior for uranium and other prospects tested included Coolybring/Wilgena for iron ore, Shudda for copper, Soyuz, Uno and Wondergraph for gold.

Project areas are described in more detail as follows.

Tasmania (Stellar 100%)

Alpine Copper

The **Alpine** prospect is favourably located on the mineral rich west coast of Tasmania, some 35 kilometres from Zeehan. It lies adjacent to a sealed road and a power line. Substantial existing mining and processing facilities are located within a 100 kilometres radius of Alpine, which will assist in any potential development.

The importance of Alpine was elevated during the year as a result of the encouraging results obtained from the six diamond drill holes so far completed. Previous work by CRAE Exploration (CRAE) had outlined anomalous copper mineralisation within a geophysical target zone of 1 kilometre length, with additional strike potential to the west across an inferred fault. Previous shallow drilling by CRAE intersected 27m @ 0.53% Cu in its second and last hole, AP02.

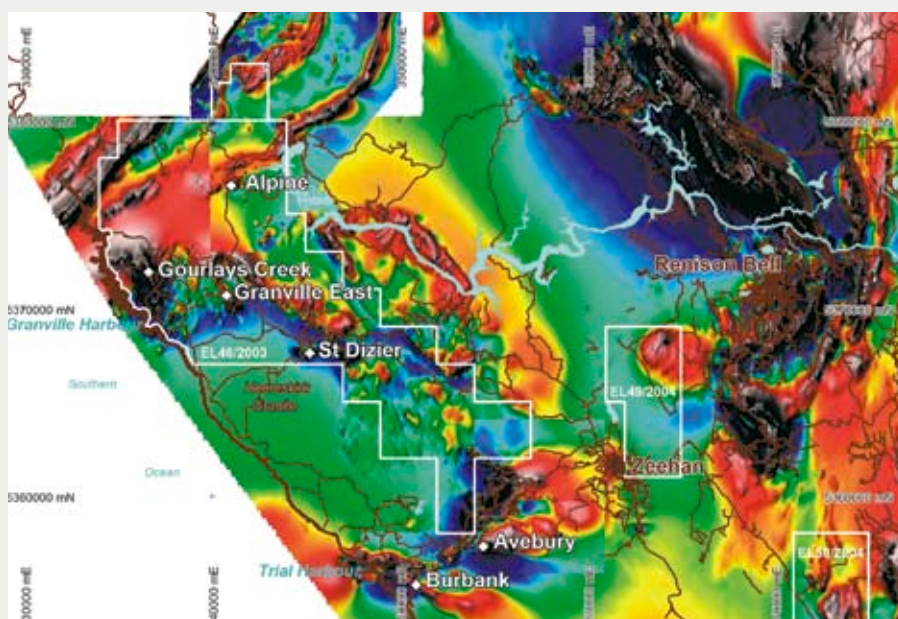
Alpine may represent a style of mineral deposit not previously recognised in Tasmania.

A significant intersection of copper of 22.25m @ 1.23% Cu at shallow depth was reported by Stellar from diamond drill hole, AP04, in April 2006. In August 2006, 3 diamond drill holes were completed and returned mineralisation of a similar tenor, from shallow depth.

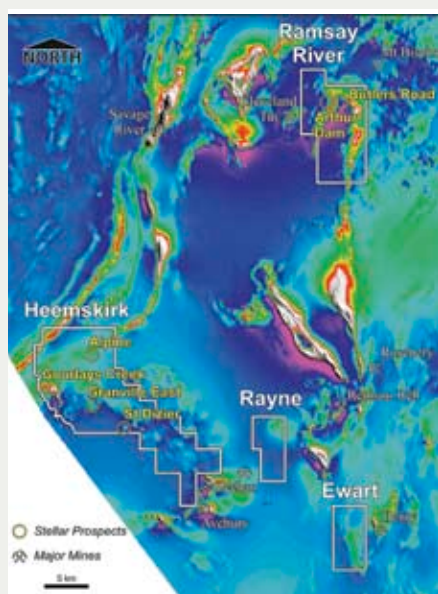
Geophysical modelling of the aeromagnetic anomaly implies a strike dimension of approximately 500 metres for the main inferred magnetite bearing zone at Alpine. Petrology is indicating hydrothermally introduced fluids, with possibly two mineralising events. One may be a pyrite (iron sulphide) event only, whilst a separate event indicates the introduction of copper sulphide mineralisation. Alpine may represent a style of mineral deposit not previously recognised in Tasmania.

At **North Alpine** the magnetic image indicates a slightly greater strike length, but narrower width than at Alpine itself. Two diamond drill holes were drilled at the beginning of 2006/07.

The **West Alpine** area also has a promising aeromagnetic signature which has not yet been targeted. Further analysis of the data should allow an exploration program to be generated to test this exciting geophysical anomaly.



Magnetic Image of Heemskirk EL showing major prospects



Tasmanian project areas on magnetic image

Ramsay (EL1/2004)

Stellar holds some 12 strike kilometres of elevated magnetic signatures which are interpreted in part to indicate an ultramafic belt, the eastern part of which lies under basalt cover. The area is near a sealed highway and is within easy trucking distance of the existing concentrator at Hellyer.

Early in 2005/06 a further review of the geophysical data from the airborne EM and magnetic data from the MRT 2002 regional aerial survey was carried out. Detailed geological mapping has been conducted over part of the exposed western magnetic arc and indicates that magnetic highs partly represent the metamorphic aureole of the Meredith granite and partly represent outcropping ultramafic rocks.

An initial drilling program at **Arthur Dam** which focussed on zinc and copper targets, started after the end of the year. An ultramafic unit has been traced and this will be partially tested by drilling. Geophysical targets on the eastern side of the licence, where ultramafics are inferred to lie under shallow cover of Tertiary basalt, are being prioritised for drill testing.

The Heemskirk licence also holds tin and nickel targets. An initial hole was drilled into the **East Granville** trend, on a magnetic target immediately north of a small tin open pit. Assays reveal some anomalous tin values and interestingly, a low order gold intersection. Targets along strike – with elevated magnetic signatures – are being assessed for drill testing. A nickel target in the southern portion of the licence is being assessed.

Gourlays Creek geophysical interpretation work was carried out during the year re-interpreting magnetic survey data which was generated from two previous aeromagnetic surveys. Prior drilling indicates a tin/copper target, which is being readied for drilling.

REVIEW OF EXPLORATION ACTIVITIES

New South Wales

Goldfinger – Zinc, Lead, Silver (Stellar 51%, option to 60%)

In late 2003, Stellar's founding company Gravity Capital Limited negotiated a series of Joint Venture agreements with tenement holders surrounding the Broken Hill, NSW, zinc-silver-lead ore-bodies and, in conjunction with the NSW Department of Mineral Resources and the Co-operative Research Centre for Predictive Mineral Discovery (CRC*PMD), flew a FALCON® gravity survey over a target area surrounding the ore-bodies. During early 2004, a reconnaissance RC drilling program to test the sources for a number of first order gravity highs defined within this survey was carried out.

At the Goldfinger prospect, situated 20 kilometres south of Broken Hill, this reconnaissance RC drilling program defined a previously unknown sequence of Broken Hill style "lode" host rocks over at least 1 kilometre of strike, with multiple intervals of anomalous lead and zinc geochemistry. Subsequent RAB drilling (65 holes on 200 metre spaced lines at 50 metre intervals) defined a zone of anomalous geochemistry in end-of-hole samples along the 3 kilometre strike of the gravity target zone. This included two adjacent 50 metre spaced holes which returned 0.2% combined lead/zinc over 4 metres to the end of hole.

Following a 3D inversion interpretation of the gravity data in mid 2004, a deep diamond drill hole (GFDDH02) was drilled to test the core of the density target near its eastern end, beneath the existing RC drilling. The drill-hole intersected a wide zone of garnet bearing metasediments showing the presence of alteration and sulphide mineralisation. An interval of anomalous zinc of 59m @ 0.25% Zn was recorded from 230 metres downhole, including a narrow intercept of 0.7m @ 5.6% Zn, from 280.7 metres.

Re-processing and inversion of the gravity data, and deep penetrating IP surveys indicated potential for density and sulphide accumulations respectively, at depth some 600 - 700 metres west of GFDDH02. Drill tests of these, and a local magnetic feature immediately south of the gravity target have all returned significant alteration zones and strong base metal geochemistry. Structural logging and interpretation of diamond drill core indicates potential targets for local ore-grade development within the Goldfinger BHT zone.



*Goldfinger – High grade Sphalerite
(Zinc sulphide) in GFDDH03*

The core of the FALCON® gravity anomaly, where drilled to date in GFDDH02 and GFDDH03, corresponds to increased garnet alteration, a lode zone and thick amphibolite. The current structural interpretation between holes GFDDH02 and GFDDH03 suggest the presence of at least three separate lode horizons in the system.

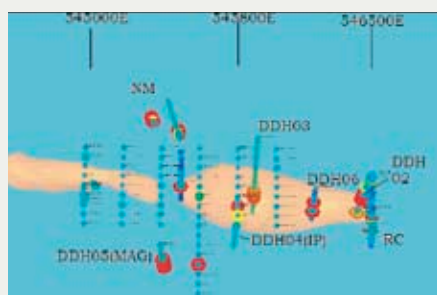
Two additional diamond cored holes GFDDH05 and GFDDH06 were sited to test an aeromagnetic anomaly immediately south of the Goldfinger gravity feature and the gravity axis between holes GFDDH02 and GFDDH03 respectively. Both holes intercepted mineralised lode sequence rocks similar to that present in earlier holes.

The Goldfinger gravity anomaly has only been partially tested over some 600 metres of its 3 kilometre strike length. The long intercepts of anomalous base metals support the interpretation that the Goldfinger gravity anomaly reflects a significant zone of Broken Hill style host stratigraphy and alteration as part of a very large mineralised system.

This level of geochemical anomalism continues to confirm that Goldfinger represents a major mineralised system.

Intervals of elevated base metal mineralisation were also analysed for BHP Billiton's proprietary alteration index guide for proximity to economic BHT ore, and returned very high order indices. A further technical review was held at Broken Hill in May 2006 and the existing core was examined and details of the latest BHP Billiton advanced inversion modelling studied. This work raised the profile of the western portion of the Goldfinger gravity anomaly which currently has no deep drill test.

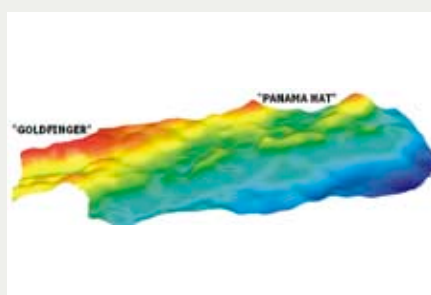
A comprehensive IP survey over the entire 3 kilometre strike length of the project is planned prior to the next program drilling. This level of geochemical anomalism continues to confirm that Goldfinger represents a major mineralised system.



Goldfinger Gravity models and zinc levels in existing drill holes (red indicating >0.1%Zn)

Panama Hat (Stellar 100%)

EL 6556 was granted over the Panama Hat area, located some 20 kilometres south of Broken Hill, and immediately to the east of the Goldfinger area. A ground-based gravity survey was completed during the year and has defined two priority gravity anomalies (of up to 4 mGals magnitude) immediately west of the historical Panama Hat gold workings. Preliminary field assessment indicates that the anomaly areas are hosted within altered Broken Hill metasediments, consistent with a Broken Hill style target, comparable to Goldfinger and Galena Hill. Geochemical surveying and Induced Polarisation geophysical coverage of the gravity target area is planned, in conjunction with programs at Goldfinger, prior to siting drill tests of the gravity target zones.



Relief image of detailed gravity data

Copper Blow

(Stellar 51%, option to 60%)

The Copper Blow project area is located immediately east of Goldfinger, and is defined by a linear NE trending line of historic copper workings, over a strike length of approximately 500 metres. The known copper workings coincide with the south western end of an aeromagnetic trend of approximately 2 kilometres strike length, which appears to "curve" into the Goldfinger gravity anomaly.

Historical exploration drilling along this trend has returned narrow high grade copper and gold intercepts at depth, with only very limited drill testing of the main mineralised zone, particularly near surface. A reverse circulation drilling program of approximately 2000 metres was completed in the Copper Blow area in September 2006, to investigate the distribution of high grade near-surface copper-gold "lodes". Visually, a number of high magnetite sulphide intersections were observed. A comprehensive compilation and interpretation of the structural distribution of mineralisation along the Copper Blow line of workings will provide the basis for assessing the potential for economic tonnages, which may then warrant further systematic drilling.



Oxide copper minerals – Copper Blow

REVIEW OF EXPLORATION ACTIVITIES

South Australia

Robins Rise (Stellar 100%)

At the Robins Rise project, detailed gravity coverage of five selected areas targeted for Prominent Hill style IOCG mineralisation was completed during the September 2005 quarter and a number of gravity features adjacent to zones of low order magnetic relief were delineated. These anomalies were of sufficient interest for the South Australian Government under its PIRSA "PACE" funding scheme to grant \$88,500 for drilling costs associated with RC drill testing of four gravity targets. The first will target the Lonesome prospect which is interpreted to lie at a depth of some 170 metres. Slightly shallower target depths have been interpreted for geophysical targets in the Woorong, Robins and Georges target areas.

Drilling was scheduled to commence in the June 2006 quarter but was postponed due to the lack of suitable drilling rigs. Drilling is now scheduled to commence in the December 2006 quarter with a program of five holes, and further detailed gravity coverage of interpreted target areas will commence thereafter.

Two Exploration Licence Applications (ELAs) were lodged in the Coober Pedy area, immediately north of the Robins Rise IOCGU project area. Following an assessment of historical exploration drilling data, it is expected that target areas will be delineated for detailed gravity coverage, to define targets for IOCGU style mineralisation, comparable to the Prominent Hill deposit or Cairn Hill prospect haematite-magnetite-Cu-Au mineralisation.

Pernatty (Stellar 100%)

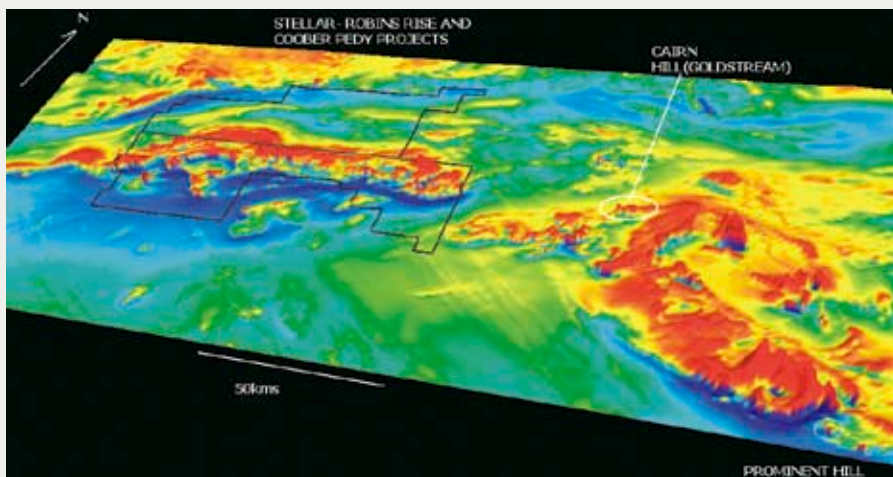
The Pernatty EL 3583, located near the historic Mt. Gunson copper mine and immediately west of the recent Carapateena IOCGU discovery in the Stuart Shelf region, south-east of Olympic Dam, was granted during the year. Assessment of detailed ground gravity and aeromagnetic survey data has delineated three target areas within the licence for Carrapateena style mineralisation at depth. Planning for drill tests of these targets early in the March 2007 quarter is in progress.

Tarcoola Basin Zinc (Stellar 100%)

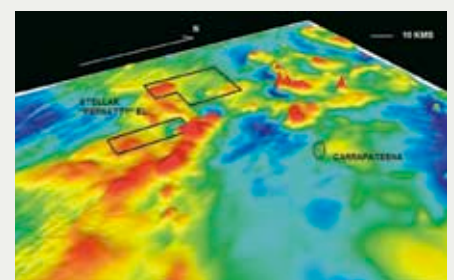
Notification of PIRSA "PACE" funding was received in the December 2005 quarter, for diamond drill testing of two targets for Proterozoic sediment hosted base metal mineralisation, west of the Ella prospect. This funding will contribute up to \$70,000 towards Stellar's direct drilling costs. Limited air-core drilling traverses were conducted to refine the interpreted basin margin position and diamond drilling is scheduled to start once a suitable rig can be sourced.

Shudda (Stellar 100%)

RAB drilling completed in 2005 defined an extensive zone of strongly anomalous copper mineralisation, immediately south of the Shudda aeromagnetic anomaly. A NW trending zone of mineralisation within weathered basement was defined by 10 RAB holes over an area of 200 metres by 60 metres, open to the east. Deeper RC drilling completed during December 2005 did not return any improvement in copper grades at depth and the potential for an economic resource has therefore diminished.



Robins Rise – relief view of regional aeromagnetic data



Pernatty – relief view of regional aeromagnetic data

Uranium

Warrior Uranium (JV Stellar 100% – Toro Energy Limited earning in)

Agreement was reached on 21 September 2005 for Stellar to purchase Hillment Pty Ltd. Hillment's sole asset was Exploration Licence 3372, containing the major portion of the Warrior uranium occurrence, located approximately 40 kilometres west of Tarcoola.

In late July 2006, and after a substantial amount of preliminary exploration work (see below), Stellar announced an agreement with Toro Energy Limited whereby Toro would farm into Stellar's EL 3372 and EL 3369W tenements under the following proposed joint venture terms:

- \$150,000 up-front access payment;
- \$1.5 million exploration expenditure by Toro over 2 years to earn 51% equity;
- Toro can then elect to spend a further \$1.75 million on exploration expenditure over the following 2 years to increase its equity to 70%;
- Stellar will retain a 30% equity after this \$3.25 million spend.

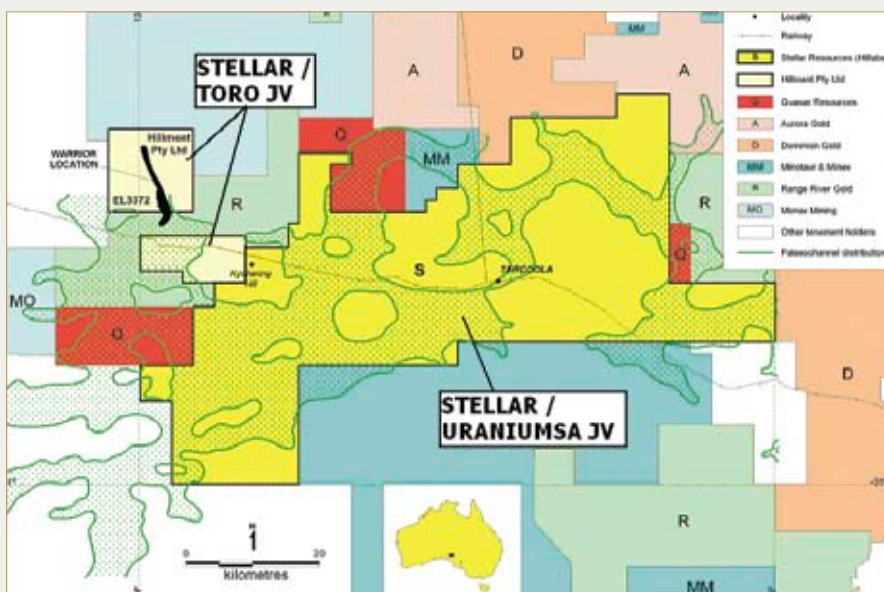
The Warrior palaeochannel was explored by PNC Exploration Australia Pty Ltd (PNC) in the 1970s. Uranium mineralisation was defined in 8 discrete zones over a total strike length of approximately 15 kilometres and is the largest known palaeochannel hosted uranium occurrence within the Gawler Craton.

Stellar compiled the historical geological data; digitised critical portions of the existing PNC drill database; reviewed the quality of PNC's geochemical and geophysical logging data. An airborne EM survey (HoistEM™) was completed during December 2005 on 500 metre spaced lines across the Warrior EL 3372, approximately 40 kilometres west of Tarcoola. HoistEM™ reconnaissance lines were also conducted on selected inferred channel positions across the Tarcoola licence area. The Warrior data showed clear delineation of palaeochannel geometry and defined immediate drilling positions for extensions of established roll-front uranium mineralised zones.

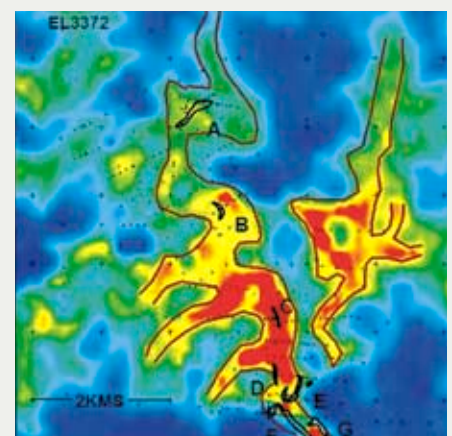
Results of the company's first aircore drilling program on the Warrior palaeochannel uranium project confirmed the widespread extent of uranium within the Warrior palaeochannel system, with the northern Zone 'A' offering immediate potential for delineation of further, higher-grade material. The uranium mineralisation was intercepted at relatively shallow depths and averaged some 30 metres depth in Zone 'A' and at 6 metres depth in drill line 26.

Furthermore, the presence of strongly anomalous rare earth element (REE) geochemistry in proximity to a large, and as yet untested magnetic anomaly, provided encouragement for the potential of a buried IOCGU target of the Prominent Hill style.

The joint venture with Toro will provide a more rapid and higher level of financial and exploration focus on the uranium potential of EL 3372 and EL 3369W than under Stellar's current project scheduling.



Kingoonya palaeochannel system showing joint venture areas



Warrior deposit HoistEM™ data and known U deposits

REVIEW OF EXPLORATION ACTIVITIES

The Toro partnership will allow Stellar's interest in Warrior to be significantly advanced while retaining valuable exposure to the project's upside.

Uranium continued...

Kingoonya Palaeochannel System (Stellar 100% - going to 30%)

The Company's work on Warrior uranium has provided strong encouragement for Stellar to assess the other 2,500km² of Stellar tenements, up to 30% of which contain prospective palaeochannels.

Consequently, in early August 2006, Stellar entered into a conditional Joint Venture with UraniumSA Limited, an unlisted public company, for uranium exploration on six of Stellar's exploration licences in the Kingoonya Palaeochannel System, in the Tarcoola region.

Under the JV terms, UraniumSA has a 70% equity and Stellar a 30% equity in any JORC compliant Mineral Resource of uranium, or mainly uranium, discovered by either party and Stellar is free carried by UraniumSA to the establishment of a JORC compliant Ore Reserve.

Tarcoola Region (Stellar 100%)

Iron Ore

A program of 8 RC holes for a total of 1,007 metres was completed during the September 2005 quarter at the Coolybring, Wiltabbie and Southwest Wilgena Hill geophysical target areas. The drilling was to test for extensions to known magnetite mineralisation and for further mineralisation associated with both gravity and magnetic targets. Drilling results confirmed a thick sequence of magnetite mineralisation within jaspilite, with consistent levels of iron. However, the gravity features tested for potential haematite development appear to be caused by a volcanic unit in the Tarcoola Formation, rather than haematite within the older basement. An independent consultant has been engaged to review the possibilities for upgrading the economic aspects of the Coolybring/Wilgena Hill magnetite occurrences.

Tarcoola Goldfield

A modest 12,000oz gold resource has been estimated at Perserverance but with substantial upside. The company is considering the possibility of treating a bulk sample through nearby treatment facilities.

Potential to expand near surface, high grade gold resources at the Wondergraph prospect were downgraded following limited drill testing on two target areas. Further opportunities will be assessed for these projects and other gold occurrences documented in the Tarcoola Goldfield.

Soyuz

Assay results received for the RAB/ RAB Hammer drilling program (71 holes totaling 2,840 metres) at Soyuz gold prospect west of Tarcoola defined anomalous gold intersections within a "Central Gold Zone" (CGZ) area of approximately 1,200 metres by 200 metres.

In March 2006, a slim line RC drill rig drilled a program of 18 holes, for a total of 1,360 metres. Drilling costs were partially subsidised by the SA Government under its "PACE" funding program. Drilling within the CGZ intersected narrow mineralised intervals (max 2m @ 4.4g/t Au) beneath previous high grade gold intercepts, and broader zones of weak mineralisation.

This drilling has defined an extensive gold system within a multiphase intrusive complex of highly mafic quartz monzonites and or quartz diorites, granite and possible granodiorites. Detailed geophysical surveys (magnetics and Induced Polarisation) are planned to assess the distribution of magnetite and sulphides, which have been shown to be spatially associated with gold.

Victoria

Uno (Stellar option to acquire 100%)

Stellar completed a total of 56 aircore drill holes for 4,012 metres to test three geochemical targets within the Uno prospect. The results from this drill program indicate that a large geochemical cell is present in the Uno project area. During the year, a PIRSA funded gravity survey covering the licence area at 2 kilometres centres was carried out. Results from this survey have delineated a major gravity high immediately south of the Uno licence, with associated positive gravity trends into the licence. The possibility of extending the option period over the tenement is currently being assessed.

Cedric Bore and Padthaway (Stellar option to acquire 100%)

At Cedric Bore, assay results from the RAB drilling program across selected gravity and magnetic IOCG targets indicated that pervasive IOCG style alteration is unlikely to be present in the project area. Stellar has elected to not exercise this option.

Stellar completed two drill holes at Padthaway. Subsequent to a review of all work, the Company has elected to not proceed with options to acquire these areas.

North Bendigo JV (Stellar 50%)

Subsequent to a flight of the FALCON® in May 2004, Gravity Capital earned a 50% interest in the survey area which was novated to Stellar prior to the IPO. This area, north of Bendigo, is under cover and is considered prospective for previously undiscovered gold deposits. Aircore drilling was conducted last year (Jan 2005) but serious delays were experienced in obtaining drill rigs for follow up.

One diamond hole was drilled in April 2006 on a gravity anomaly located east of the inferred Sebastian Fault under cover. This angled hole was designed to test the depth to the basement and stratigraphy, postulated to be some 50 kilometres NNW along strike of Bendigo under cover. The hole was stopped short of the Ordovician basement target due to drilling issues, but remains partly cased and open for re-entry later in 2006/07.

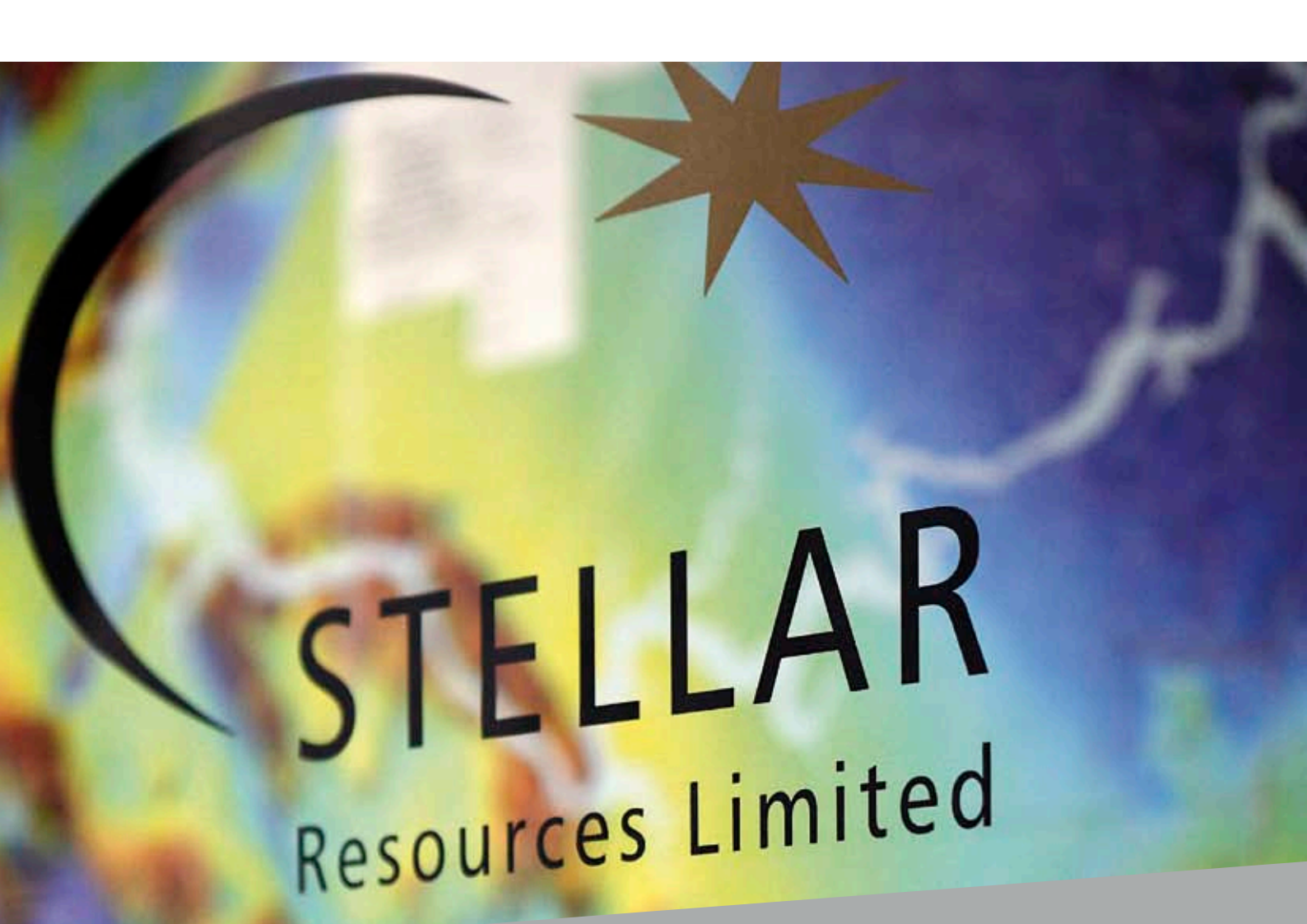
27 holes aircore holes, for some 2,400 metres, were drilled on shallower southern ground towards the end of the financial year. Assays from a number of samples indicate the presence of anomalous gold and arsenic and quartz. This area will be further assessed for follow up by closer spaced drilling.

OIL & GAS – Gippsland, Victoria

Early in the financial year the drilling of two targets in VIC P47 was completed. The offshore Gilbert-1A well reported hydrocarbon shows, but was water bearing, however, fluorescence shows were encountered over the Gurnard Formation

Gippsland Offshore Petroleum Limited (GOP) has now earned its 51% interest in the onshore Gippsland Basin block of PEP-155 and on the adjacent near shore block VIC-P-40. Following the farm-in, Stellar holds a 3% and 9.8% contributing interest in PEP-155 and VIC-P-40 respectively.

Stellar holds 6.67 million unlisted options in GOP.



STELLAR

Resources Limited

FINANCIAL REPORT

For the year ended 30 June 2006

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CORPORATE GOVERNANCE STATEMENT

The Board seeks, where appropriate, to adopt without modification the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. The following briefly outlines the main Corporate Governance practices of Stellar.

Role of the Board and Management

The primary responsibility of the Board is to protect and advance the interests of Shareholders. To fulfil this role, the Board has overall responsibility for the Corporate Governance of the Company including matters such as strategic direction, setting of management goals and monitoring management performance against the set goals. The primary responsibilities of the Board include:

- Formulation, review and approval of the Company's strategic direction and operational policies;
- Establishing management goals and monitoring management performance;
- Review and approval of the Company's Business Plan;
- Monitoring the performance and review remuneration of Executive Directors and key staff;
- Approve all significant business transactions including acquisitions, divestments and corporate restructures;
- Monitoring business risk exposures and risk management systems;
- Review and approve financial and other reporting, including continuous disclosure reporting; and
- Reporting to Shareholders.

Board Composition

The Board presently has one Non-executive Director, who is considered by the Board to be independent and three Executive Directors. Details of the qualifications and experience of each Director is set out in the Director's Report section of the annual accounts.

Although the Guidelines recommend that the majority of the board should be independent directors, and the Board endorses the position that boards need to exercise independence of judgement, it also recognises (as does ASX Corporate Governance Council Principle 2) that the need for independence is to be balanced with the need for skills, commitment and workable board size. The composition of the Board is balanced with directors bringing a range of complementary skills and experiences to the Board.

Ethical and Responsible Decision-making

It is the policy of the Company for directors, officers and employees to observe high standards of conduct and ethical behaviour in all of the Company's activities. This includes dealings with suppliers, business partners, public servants and the general communities in which it operates.

Share Trading Policy

Directors and employees are required to advise the Company Secretary prior to buying or selling securities in the Company. The current policy prohibits Board members, employees and contractors to trade shares in the Company in the month preceding the announcement of half yearly or annual results, publication of a quarterly report, or at any other time whilst in possession of price sensitive information.

It is the individual responsibility of each Director and employee in possession of market sensitive information to ensure that they comply with the spirit and the letter of insider trading laws.

Rights of Shareholders

The Board seeks to empower shareholders through effective communication by providing balanced and understandable information and encouraging participation at AGM. Similarly the Board request the external auditors to attend the AGM and be prepared to answer shareholders questions pertaining to conduct of audit and preparation and contents of the auditor's report.

Integrity of Financial Reporting

It is an established requirement that the chief executive officer (or equivalent) and chief financial officer (or equivalent) appointed will state in writing to the Board that to the best of their knowledge the Company's financial reports presents a true and fair view, in all material respects, of the Company's financial condition and operational results are in accordance with relevant accounting standards.

Continuous Disclosure to ASX

The Board is responsible for monitoring compliance with ASX Listing Rule disclosure requirements and approval of any proposed ASX announcement prior to release. The Board has appointed the Company Secretary as the designated person responsible for liaising with ASX. It is the policy of the Company to communicate with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company.

Risk Management

The Board is responsible for overseeing of the Group's risk management and control framework. Management is required to ensure that assessed risks are managed with appropriate systems and controls. Effectiveness of risk management systems and controls are reviewed periodically by the Board. The Company's adopted policy framework seeks to identify and mitigate Company risks as much as practicable. The Chief Operating Officer and the Chief Financial Officer have ultimate responsibility to the Board for the risk management and control framework.

CORPORATE GOVERNANCE STATEMENT CONTINUED...

Performance

The Board is responsible for undertaking performance evaluation each year. The performance evaluation covers all of the Board members and key executives of the Company. Its proposed that the evaluation findings would be compiled into a series of recommendations with the ultimate objective of enhancing performance.

Remuneration

The Board, within the pre-approved shareholder guidelines, determines fees payable to individual non-executive directors. The remuneration level of any executive director will be determined by the Chairman after taking into consideration those that apply to similar positions in comparable companies in Australia and taking consideration of Directors' possible participation in any equity-based remuneration scheme. The Chairman may use industry-wide data gathered by independent remuneration experts annually as his point of reference. Options or shares issued to Directors pursuant to any equity based remuneration scheme requires approval by shareholders prior to their issue. Options or shares to senior executives who are not directors will be issued by resolution of the Board.

Details of Director and Executive remuneration are set out in the Directors Report and Notes to the Financial Statements.

Interests of Stakeholders

The Company's core objective is the effective management of its resources with a view to identifying and developing profitable and environmentally sound mineral projects that create wealth for stakeholders.

Compliance with the Australian Stock Exchange Corporate Governance Best Practice Recommendations

The ASX listing rules require listed entities to include in their annual report a statement disclosing the extent to which the entity has followed the ASX Corporate Governance Guidelines best practice recommendations during the reporting period, identifying the recommendations that have not been followed and provide reasons for any variance. If a recommendation has been followed for only part of the year the entity must state the period during which it has been followed.

During the reporting period, the Company has complied with each of ASX Corporate Governance best practice recommendations, other than in relation to the matters below:

Recommendation 2.1

A majority of the Board should be Independent directors

Notification of Departure

The majority of the Board are not Independent directors.

Explanation of Departure

The Board strongly endorses the need for Boards to exercise independence of judgement however this needs to be balanced with the need for skills, commitment and a workable board size. The Board considers that the current structure is sufficient to ensure independence of judgement (given the diverse background and experience of Directors) combined with the established procedure which empowers Directors to seek independent professional advice at the company expense.

Recommendation 2.4

The Board should establish a nomination committee

Recommendation 4.2

The Board should establish an audit committee

Recommendation 9.2

The Board should establish a remuneration committee

Notification of Departure

The Company has not established separate audit, remuneration and nomination committees.

Explanation of Departure

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the establishment of separate board committees such as audit, remuneration and nomination committees. Accordingly, all matters that may be capable of delegation to the committees are dealt with by the full Board.

Recommendation 2.2

The Chairperson should be an Independent Director

Recommendation 2.3

The role of Chairperson and Chief Executive Officer should not be exercised by the same individual

Notification of Departure

The Chairperson is not an Independent Director. The role of Chairperson and the Chief Executive Officer are exercised by the same individual.

Explanation of Departure

While the current chairperson is not an Independent Director and the role of Chairperson and Chief Executive Officer are held by the same person the Board believes that Mr Burrowes extensive industry experience and record as a director of other listed companies makes him the most appropriate person for the position. The Company will monitor this arrangement to ensure that the best interests of the Company and its stakeholders continue to be served in the future.

DIRECTORS' REPORT

Your directors present their report on Stellar Resources Limited and its controlled entities for the year ended 30 June 2006.

Directors

The names of Directors of the Company in office at any time during or since the end of the period are:

Director	Position Held
Thomas J Burrowes	Executive Chairman
Barrie E Laws	Non-executive Director
David J Isles	Executive Director
Christopher G Anderson	Executive Director

Company Secretary

The following people hold the position of Company Secretary at the end of the financial period:

Mr Bill Michaelidis – Bachelor of Business (Economics) CPA. Mr Michaelidis was appointed Company Secretary in December 2004. Prior to that Mr Michaelidis held management positions in a number of multinational resource companies, over a period of thirty years.

Mr Melvyn Drummond – Bachelor of Business (Commerce) FCIS. He worked and resided in four countries prior to permanently relocating to Australia in 1985. He has held senior finance and administrative positions (including directorship) in both private and public companies in various business sectors, including resources, in Australasia and abroad between 1976 and since coming to Melbourne.

Principal Activities

The principal activity of the Consolidated Entity during the period was mineral exploration with the objective of identifying and developing economic reserves.

Operating Result

The net loss of the Consolidated Entity for the financial period was \$1,180,555 (2005: \$535,300).

Dividends Paid or Recommended

No amounts have been paid or declared as dividends during the course of the financial period.

Review of Operations

During the financial year, the Consolidated Entity continued to explore on its extensive and diverse exploration portfolio. In addition, the entity also finalised the purchase of Hillment

Pty Ltd, for total consideration of \$612,000. Hillment is the registered owner of EL 3372, which contains the major portion of the "Warrior" palaeochannel hosted uranium deposit located in the west of Tarcoola in central South Australia.

In order to fund current and on-going exploration activities the Consolidated Entity raised an additional \$3.88 million. Of this amount, \$0.51 million was raised via a placement of 1.6 million ordinary fully paid shares to Peninsula Exploration Pty Ltd and the balance of \$3.37 million to sophisticated and professional investors at 45 cents each through Bell Potter Securities Limited. The Consolidated Entity incurred total exploration expenditure for the year of \$2.7 million (2005: \$2.1 million).

The consolidated loss after tax of the Consolidated Entity for the financial year was \$1,180,555 (2005: \$535,300). The Parent Company loss after tax for the financial year was \$2,986,455 (2005: \$4,676,907).

During the financial year the following subsidiary was acquired:

Entity	Date of Acquisition	Consideration
Hillment Pty Ltd	3 October 2005	\$612,000

Detailed comments on operations are included separately in this Annual Report under Review of Operations.

Financial Position

The net assets and cash reserves of the Consolidated Entity as at 30 June 2006 were \$12.2 million (2005: \$9.4 million) and \$5.6 million (2005: \$5.2 million) respectively. The directors believe the Consolidated Entity is in a strong financial position to undertake its outlined exploration activities.

Significant changes in the State of Affairs

The following significant changes to the state of the affairs of the Company occurred during the financial period:

- On 20 October 2005 the Company issued 1,600,000 ordinary fully paid shares at 32 cents, to Peninsula Exploration Pty Ltd.
- On 11 May 2006 the Company issued 7,500,000 ordinary fully paid shares to sophisticated and professional investors at an issue price of 45 cents each through Bell Potter Securities Limited.

After Balance Date Events

On the 25 July 2006 the Consolidated Entity announced its intention to enter into a farm-out arrangement with Toro Energy Limited, a listed public company, in reference to exploration licence 3372 and 3369W.

DIRECTORS' REPORT CONTINUED...

After Balance Date Events continued...

On 26 July 2006 the Consolidated Entity entered into a farm-out arrangement with UraniumSA Limited, an unlisted public company, for uranium exploration on six exploration licences in the Tarcoola region of the central Gawler Craton. The tenements covered by the farm-out arrangements are exploration licences 2898, 3089, 3205, 3253, 3500 and easternmost block of exploration licence 3369.

The joint venture arrangement is subject to and conditional on UraniumSA completing a successful initial public offering by the end of this year.

Business Strategies

The Consolidated Entity is committed to the corporate objective of:

"Enhancing shareholder wealth, through mineral discovery"

It seeks to meet this objective by:

- Utilising cutting edge exploration technology;
- Focusing on projects located within geological terrains hosting world-class ore bodies; and
- Utilising experienced, focused and success driven management team.

Environmental Issues

The Consolidated Entity's exploration activities are subject to various environmental regulations under both state and federal legislation in Australia. The ongoing operation of these tenements is subject to compliance with the respective mining and environmental regulations and legislation.

Licence requirements relating to ground disturbance, rehabilitation and waste disposal exist for all tenements held. The directors are not aware of any significant breaches of mining and environmental regulations and legislation during the period covered by this report.

Meetings of Directors

The number of meetings of the Company's board of directors held during the period ended 30 June 2006, and the number attended by directors were:

Director	Eligible to Attend	Attended
T J Burrowes	9	9
B E Laws	9	9
D J Isles	9	9
C G Anderson	9	9

Remuneration Report

Remuneration policies

The policy for determining the nature and amount of remuneration of directors and executives is agreed by the board of directors as a whole. The board may obtain professional advice where necessary to ensure that the company attracts and retains talented and motivated directors and employees who can enhance company performance through their contributions and leadership.

For executive directors and executives, the company provides a remuneration package that incorporates both cash-based and share-based remuneration. The contracts for services between the company and directors and executives are on a continuing basis, the terms of which, are not expected to change in the immediate future. Share-based remuneration is conditional upon continuing employment, thereby aligning director and shareholder interests. The remuneration policy is not directly related to company performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth by the company for shareholders.

The company determines the maximum amount for remuneration, including threshold for share-based remuneration, for directors by resolution. Non-executive directors' remuneration is determined by shareholders of the Company at general meetings. Shareholders fixed the maximum aggregate remuneration of non-executive directors at \$500,000. Further details regarding components of directors' and executive remuneration are provided in the Notes to the Financial Statements.

The names and positions of each person who held the position of director at any time during the financial year are provided above. The names of executives in the company (other than Executive Directors) who received the highest remuneration for the financial year are:

Executives	Position
B Michaelidis	Company Secretary/CFO

The three key elements of director and executive remuneration are:

- base salary and fees, which are determined by reference to the market rate based on payments at similar size companies in the industry;
- superannuation contributions; and
- equity-based payments, the value of which are dependent on the company's share price and other factors.

(i) *Directors' Remuneration*

2006	Short Term Benefits			Post Employment			Equity	Total
	Salary & Fees	Bonus	Non- monetary	Super- annuation	Pre- scribed Benefits	Other	Options	
	\$	\$	\$	\$	\$	\$	\$	\$
T J Burrowes	129,250	–	–	49,500	–	–	26,509 (12.9%)*	205,259
B E Laws	27,083	–	–	2,437	–	–	13,854 (31.9%)*	43,374
D J Isles	75,000	–	–	–	–	–	26,509 (26.1%)*	101,509
C G Anderson	150,000	–	–	–	–	–	26,509 (15.0%)*	176,509
	381,333	–	–	51,937	–	–	93,381	526,651
2005	Short Term Benefits			Post Employment			Equity	Total
	Salary & Fees	Bonus	Non- monetary	Super- annuation	Pre- scribed Benefits	Other	Options	
	\$	\$	\$	\$	\$	\$	\$	\$
T J Burrowes	70,500	–	–	12,000	–	–	14,610 (15.0%)*	97,110
B E Laws	13,798	–	–	1,258	–	–	7,305 (32.6%)*	22,361
D J Isles	31,250	–	–	–	–	–	14,610 (31.8%)*	45,860
C G Anderson	83,467	–	–	–	–	–	14,610 (14.9%)*	98,077
	199,015	–	–	13,258	–	–	51,135	263,408

* Percentage value of each persons remuneration that consists of options is shown in brackets.

Directors' fees for Mr Anderson and Mr Isles are paid respectively to CG Anderson & Associates and The Goongarrie Trust.

No options were issued to Directors of the Company as part of their remuneration during the period.

(ii) *Executives' Remuneration*

During the year ending 30 June 2006 the Company did not employ any executive officers (excluding Executive Directors) other than Mr Michaelidis and Mr Drummond.

2006	Short Term Benefits			Post Employment			Equity	Total
	Salary & Fees	Bonus	Non- monetary	Super- annuation	Pre- scribed Benefits	Other	Options	
	\$	\$	\$	\$	\$	\$	\$	\$
B Michaelidis	68,250	–	–	13,000	–	–	70,765 (46.9%)*	152,015
M J Drummond	–	–	–	–	–	–	–	–
	68,250	–	–	13,000	–	–	70,765	152,015
2005	Short Term Benefits			Post Employment			Equity	Total
	Salary & Fees	Bonus	Non- monetary	Super- annuation	Pre- scribed Benefits	Other	Options	
	\$	\$	\$	\$	\$	\$	\$	\$
B Michaelidis	42,000	–	–	8,000	–	–	–	50,000
M J Drummond	–	–	–	–	–	–	–	–
	42,000	–	–	8,000	–	–	–	50,000

* Percentage value of each persons remuneration that consists of options is shown in brackets.

In accordance with the remuneration policy described above, options granted as remuneration are valued at grant date in accordance with AASB 2 Share-based Payments.

DIRECTORS' REPORT CONTINUED...

Remuneration policies continued...

(iii) Value of options issued to directors and executives

The following table discloses the value of options granted, exercised or lapsed during the year:

	Options granted Value at grant date	Options exercised Value at exercise date	Options lapsed Value at time of lapse	Total value of options granted, and exercised and lapsed (1)	Value of options included in remuneration for the year (2)	Percentage of total remuneration for the year that consists of options %
	\$	\$	\$	\$	\$	
B Michaelidis	70,765	–	–	70,765	70,765	46.9

Value of options – basis of calculation

(1) The total value of options granted, exercised and lapsed is calculated based on the following:

- Fair value of the options at grant date multiplied by the number of options granted during the year; plus
- Fair value of the option at the time it is exercised multiplied by the number of options exercised during the year; plus
- Fair value of the option at the time of lapse multiplied by the number of options lapsed during the year.

(2) The total value of options included in remuneration for the year is calculated in accordance with Accounting Standard AASB 2.

No options previously granted as remuneration have lapsed or been exercised during the financial year.

Share Options

Share option issue

During and since the end of financial year an aggregate of 625,000 share options were granted to the following employees of the company:

	Number of options granted	Issuing entity	Option expiry date
B Michaelidis	250,000	Stellar Resources Limited	19/08/09
B Rava	150,000	Stellar Resources Limited	19/08/09
M Raetz	150,000	Stellar Resources Limited	19/08/09
A Rigg	75,000	Stellar Resources Limited	19/08/09

Shares under options

At the date of this report, the unissued ordinary shares of Stellar Resources Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
10/12/2004	10/12/2008	\$0.30	3,500,000*
22/09/2005	19/08/2009	\$0.30	250,000
16/03/2006	19/08/2009	\$0.30	375,000

* Options remain in escrow until 28 April 2007

Shares issued on exercise on share options

No shares were issued during or since the end of financial year as a result of exercise of a share option.

Information on Directors and Company Secretary

The qualifications, experience and special responsibilities of each person who has been a director of Stellar Resources Limited at any time during or since the end of the financial year is provided below, together with details of the company secretaries as at year end.

<p>Chairman</p> <p>Thomas J Burrowes B.Ec (Hons), MBA (Melb)</p> <p>Appointed 19 April 2004 Resigned 20 April 2004 Re-appointed 10 December 2004</p>	<p>Mr Burrowes has extensive experience in all facets of Australian exploration and mining over the past fifteen years. After an initial career in funds management, he has held numerous directorships in ASX listed exploration and mining companies.</p> <p>Shareholding: 1,086,112 Option holding: 1,000,000</p> <p>Directorships of other listed companies since 1 July 2003: Buka Minerals Limited – (May 1999 - July 2003)</p>
<p>Director</p> <p>Barrie E Laws B.Com, FS Fin, ASA, ACIS</p> <p>Appointed 10 December 2004</p>	<p>Mr Laws has experience in management with particular emphasis on funds management. He joined the Norwich Union Group in October 1991 and was appointed to the Board of Norwich Union Life Australia Limited in March 1993 and as its Chief Executive Officer in February 1997. He retired from full time employment with the Norwich Group in March 1998.</p> <p>Shareholding: 75,000 Option holding: 500,000</p> <p>Mr Laws did not hold any other listed company directorships in the preceding three years.</p>
<p>Director</p> <p>Christopher G Anderson B.Sc (Hons), Fellow AusIMM</p> <p>Appointed 19 April 2004 Resigned 20 April 2004 Appointed 10 December 2004</p>	<p>Mr Anderson is an exploration consultant with 29 years of experience in mineral exploration programs both in Australia and overseas. He is a graduate of Adelaide University, with an Honours degree in geophysics and geology. He has managed a contract geological and geophysical consultancy service company with particular expertise in the cost effective application of geophysics.</p> <p>Shareholding: 75,000 Option holding: 1,000,000</p> <p>Mr Anderson did not hold any other listed company directorships in the preceding three years.</p>
<p>Director</p> <p>David J Isles B.Sc (Hons) PhD, SEG, ASEG, AIG, MAusIMM</p> <p>Appointed 19 April 2004</p>	<p>Dr Isles is a geophysicist and recognised expert in aeromagnetic interpretation. He has worked in operational exploration with BHP Minerals and in the area of exploration technology development with World Geoscience Corporation.</p> <p>Shareholding: 73,612 Option holding: 1,000,000</p> <p>Directorships of other listed companies since 1 July 2003: Gravity Diamonds Limited – (September 1996 – November 2004) Mineral Deposits Limited – (December 2002 – Current)</p>
<p>Company Secretary/CFO</p> <p>Bill Michaelidis B.Bus, CPA</p> <p>Appointed 19 October 2004</p>	<p>Mr Michaelidis was appointed Company Secretary and CFO in October 2004. He is a qualified accountant with over 30 years experience in the resources sector.</p> <p>Shareholding: 5,000 Option holding: 250,000</p>
<p>Joint Company Secretary</p> <p>Melvyn J Drummond BA, B.Com, FCIS</p> <p>Appointed 19 April 2004</p>	<p>Mr Drummond worked and resided in four countries prior to permanently relocating to Australia in 1985. He has held senior finance and administrative positions (including directorships) in both private and public companies in various business sectors, including resources.</p> <p>Shareholding: 40,000</p>

DIRECTORS' REPORT CONTINUED...

Indemnifying Officers

The company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The terms and conditions of the insurance are confidential and cannot be disclosed.

Proceedings on Behalf of the 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 these proceedings.

Non Audit Services

No non-audit services were provided from the Company's auditors DTT Victoria (formerly BDO) during the financial period ended 30 June 2006.

Auditor's Independence Declaration

The lead auditor's Independence Declaration for the year ended 30 June 2006 has been received and can be found on page 23 of the directors' report.

DTT Victoria has changed its name from BDO and is a continuation of that Victorian partnership. The partners of DTT Victoria have also joined the Australian partnership of Deloitte Touche Tohmatsu.

This report is made in accordance with a resolution of the directors and dated this 29 day of September, 2006.



T J Burrowes
Executive Chairman

INDEPENDENT AUDITOR'S DECLARATION

DTT Victoria

The Directors
Stellar Resources Limited
Level 7 Exchange Tower
530 Little Collins Street
MELBOURNE VIC 3000

29 September 2006

Dear Board Members

Stellar Resources Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Stellar Resources Limited.

As lead audit partner for the audit of the financial statements of Stellar Resources Limited for the financial year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DTT Victoria
Chartered Accountants



G R Sincok
Partner

Liability limited by a scheme approved under Professional Standards Legislation.
DTT Victoria has changed its name from BDO and is a continuation of that Victorian partnership.
The partners of DTT Victoria have also joined the Australian partnership of Deloitte Touche Tohmatsu.
All changes with effect from 14 August 2006.

DTT Victoria
ABN 96 080 779 423
180 Lonsdale Street
Melbourne VIC 3000
GPO Box 788
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9208 7000
Fax: +61 (0) 3 9208 7001
www.deloitte.com.au



DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001, including:
 - a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the financial period ended on that date of the Company and the Consolidated Entity.
2. The Chief Executive Officer and the Chief Financial Officer have each declared that:
 - a) the financial records of the Company and the Consolidated Entity for the financial period have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements and notes for the financial period comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial period give a true and fair view.
3. In the Directors' opinion there are reasonable grounds to believe that the Company and the Consolidated Entity will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors and dated this 29 day of September, 2006.



T J Burrowes
Chairman and Chief Executive Officer

INCOME STATEMENT

FOR THE YEAR ENDED TO 30 JUNE 2006

	Note	Consolidated Entity		Company	
		Year to 30 Jun 06	Period from 19 Apr 04 to 30 Jun 05	Year to 30 Jun 06	Period from 19 Apr 04 to 30 Jun 05
		\$	\$	\$	\$
Revenues	2	243,461	165,079	243,461	165,079
Administration expenditure		(841,931)	(544,280)	(841,927)	(542,941)
Depreciation & amortisation expenses	3	(11,656)	(2,482)	(11,069)	(1,945)
Exploration expenditure write off	3	(570,429)	(153,617)	–	–
Impairment in value of investments	3	–	–	(247,620)	–
Impairment of loans to subsidiaries	8	–	–	(2,129,300)	(4,297,100)
Loss before income tax expense		(1,180,555)	(535,300)	(2,986,455)	(4,676,907)
Income tax expense	4	–	–	–	–
Loss for the period attributable to members of the parent entity		(1,180,555)	(535,300)	(2,986,455)	(4,676,907)
Basic earnings per share (cents per share)	17	(2.29)	(2.14)	–	–
Diluted earnings per share (cents per share)	17	(2.29)	(2.14)	–	–

The accompanying notes form part of these financial statements.

BALANCE SHEET

AS AT 30 JUNE 2006

		Consolidated Entity		Company	
	Note	2006	2005	2006	2005
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	5	5,612,994	5,226,876	5,612,994	5,226,874
Trade and other receivables	6	183,941	168,499	171,941	156,499
Other	7	26,326	17,992	26,326	17,992
TOTAL CURRENT ASSETS		5,823,261	5,413,367	5,811,261	5,401,365
NON CURRENT ASSETS					
Loan receivables	8	–	–	–	–
Other financial assets	9	–	–	612,000	247,620
Property, plant and equipment	10	138,640	82,317	75,245	18,335
Exploration expenditure	11	6,484,112	4,313,243	–	–
TOTAL NON CURRENT ASSETS		6,622,752	4,395,560	687,245	265,955
TOTAL ASSETS		12,446,013	9,808,927	6,498,506	5,667,320
CURRENT LIABILITIES					
Trade and other payables	12	232,322	381,646	232,322	381,646
Provisions	13	27,809	10,134	27,809	10,134
TOTAL CURRENT LIABILITIES		260,131	391,780	260,131	391,780
TOTAL LIABILITIES		260,131	391,780	260,131	391,780
NET ASSETS		12,185,882	9,417,147	6,238,375	5,275,540
EQUITY					
Issued Capital	14	13,605,098	9,901,312	13,605,098	9,901,312
Reserves	15	296,639	51,135	296,639	51,135
Accumulated losses	16	(1,715,855)	(535,300)	(7,663,362)	(4,676,907)
TOTAL EQUITY		12,185,882	9,417,147	6,238,375	5,275,540

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED TO 30 JUNE 2006

	Note	Consolidated Entity		Company	
		Year to 30 Jun 06	Period from 19 Apr 04 to 30 Jun 05	Year to 30 Jun 06	Period from 19 Apr 04 to 30 Jun 05
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(627,726)	(428,169)	(627,722)	(426,830)
Interest received		243,461	133,079	243,461	133,079
Net cash used in Operating activities	24	(384,265)	(295,090)	(384,261)	(293,751)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for subsidiaries	23(a)	–	–	(612,000)	(120)
Payments for exploration		(2,899,328)	(1,696,239)	–	–
Payment for plant and equipment		(67,979)	(20,280)	(67,979)	(20,280)
Net cash used in Investing activities		(2,967,307)	(1,716,519)	(679,979)	(20,400)
CASH FLOWS FROM FINANCING ACTIVITIES					
Advances to Subsidiaries		–	–	(2,287,330)	(4,112,787)
Repayment of loan		–	(2,415,327)	–	–
Proceeds from share issues		3,887,000	9,944,597	3,887,000	9,944,597
Payment of share issue costs		(183,214)	(290,785)	(183,214)	(290,785)
Proceeds from unmarketable parcel share sale		177,259	–	177,259	–
Payments in relation to unmarketable parcel share sale		(143,355)	–	(143,355)	–
Net cash provided by Financing activities		3,737,690	7,238,485	1,450,360	5,541,025
NET INCREASE IN CASH AND CASH EQUIVALENTS		386,118	5,226,876	386,120	5,226,874
Cash and cash equivalents at beginning of financial year		5,226,876	–	5,226,874	–
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	5	5,612,994	5,226,876	5,612,994	5,226,874

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED TO 30 JUNE 2006

Consolidated Entity	Note	Issued capital	Accumulated losses	Employee equity-settled benefits reserve	Total equity
		\$	\$	\$	\$
At 19 April 2004		–	–	–	–
Issue of share capital	14	10,192,097	–	–	10,192,097
Cost of share issues	14	(290,785)	–	–	(290,785)
Loss for the period*	16	–	(535,300)	–	(535,300)
Share-based payment expense	15	–	–	51,135	51,135
At 30 June 2005		9,901,312	(535,300)	51,135	9,417,147
Issue of share capital	14	3,887,000	–	–	3,887,000
Cost of share issues	14	(183,214)	–	–	(183,214)
Loss for the period*	16	–	(1,180,555)	–	(1,180,555)
Share-based payment expense	15	–	–	245,504	245,504
At 30 June 2006		13,605,098	(1,715,855)	296,639	12,185,882

Company	Note	Issued capital	Accumulated losses	Employee equity-settled benefits reserve	Total equity
		\$	\$	\$	\$
At 19 April 2004		–	–	–	–
Issue of share capital	14	10,192,097	–	–	10,192,097
Cost of share issues	14	(290,785)	–	–	(290,785)
Loss for the period*	16	–	(4,676,907)	–	(4,676,907)
Share-based payment expense	15	–	–	51,135	51,135
At 30 June 2005		9,901,312	(4,676,907)	51,135	5,275,540
Issue of share capital	14	3,887,000	–	–	3,887,000
Cost of share issues	14	(183,214)	–	–	(183,214)
Loss for the period*	16	–	(2,986,455)	–	(2,986,455)
Share-based payment expense	15	–	–	245,504	245,504
At 30 June 2006		13,605,098	(7,663,362)	296,639	6,238,375

* The loss for the period is the recognised income and expense for the period.

The accompanying notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Accounting standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS.

The financial statements were authorised for issue by the directors on 29 September 2006.

Basis of preparation

The financial report has been prepared on an accrual basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", with 19 April 2004 (date of incorporation of the Company) as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is discussed in Note 20.

Judgements made by management in the application of AIFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements is for the period ended 30 June 2005, and in the preparation of the opening AIFRS balance sheet at 19 April 2004 (as disclosed in Note 20), the consolidated entity's date of transition.

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

(a) Income Tax

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

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

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or used tax losses and tax offsets can be utilised.

The company and all its wholly-owned Australian resident entities have formed a tax-consolidated group under Australian taxation law. Stellar Resources Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group). Under the tax sharing arrangements, amounts will be recognised as payable or

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006 CONTINUED...

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued...

(a) Income Tax continued...

receivable between group companies in relation to their contribution to the tax benefits and amounts of tax paid or payable. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing arrangement is considered remote.

(b) Revenue

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

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

(c) Cash

For the purposes of the cash flow statement, cash includes cash on hand and in banks (including short term deposits), net of outstanding bank overdrafts.

(d) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(e) Investments

Non-current investments are carried at cost less impairment write down. The carrying amount of investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. Gains or losses, whether realised or unrealised, are included in profit before income tax.

(f) Impairment of Assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(g) Property, Plant and Equipment

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

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

and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Class of Fixed Asset	Depreciation Period	Rates
Office furniture and equipment	2 to 5 years	20% to 50%
Software	2.5 years	40%
Buildings	40 years	2.5%

(h) Exploration, Evaluation and Development Expenditure

Costs carried forward

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Costs carried forward in respect of an area of interest that is abandoned are written off in the period in which the decision to abandon is made.

(i) Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

(j) Payables

Liabilities for trade payables and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

(k) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions, to defined contributions superannuation plans on behalf of employees and are expensed when incurred.

The Company operates an Employee Option Plan, details of which are provided in Note 14 to the financial statements.

(l) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 "Consolidated and Separate Financial Statements". A list of subsidiaries appears in Note 23 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006 CONTINUED...

(m) Goods and Services Tax (GST)

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

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

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

(n) Share-based Payments

The entity provides benefits to employees (including directors) of the entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). These benefits are currently provided under the Employee Option Plan.

The cost of these equity-settled share-based payments that were unvested as of 1 January 2005 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black-Scholes model.

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

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest because of the non-achievement of non-market based performance conditions.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(o) Comparatives

The 2005 financial period comparatives, relate to the period 19 April 2004 (date of incorporation) to 30 June 2005.

Issued Standards Not Early Adopted

The Directors have considered the impact of new accounting standards that are not yet applicable and do not believe they will have a material impact on the financial performance or state of affairs of the Company and Consolidated Entity.

	Consolidated Entity		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
2 REVENUE				
Operating activities				
Interest received – other persons	243,461	165,079	243,461	165,079
Total Revenue	243,461	165,079	243,641	165,079
3 EXPENSES				
Depreciation – Buildings, Plant and equipment	11,656	2,482	11,069	1,945
Exploration expenditure written off	570,429	153,617	–	–
Rental expense	28,250	17,500	28,250	17,500
Impairment of investments	–	–	247,620	–
Equity-settled share based payments	245,504	51,135	245,504	51,135
Impairment of loans to subsidiaries	–	–	2,129,300	4,297,100
4 INCOME TAX				
(a) Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense	–	–	–	–
Deferred tax expense relating to origination and reversal of temporary differences	–	–	–	–
Total tax expense	–	–	–	–
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit/(loss) form operations	(1,180,555)	(535,300)	(2,986,455)	(4,676,907)
Income tax expense/(benefit) calculated at 30%	(354,167)	(160,590)	(895,936)	(1,403,072)
Non-deductible expenses	73,651	15,560	615,420	1,304,470
Unused tax losses and tax offsets not recognised as deferred tax assets	280,516	145,030	280,516	98,602
Total tax expense/(benefit)	–	–	–	–

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006 CONTINUED...

	Consolidated Entity		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$

4 INCOME TAX continued...

(b) Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as assets:

Tax losses – revenue	602,282	321,766	602,282	321,766
Tax losses – capital	720,427	720,427	720,427	720,427
Total tax benefit	1,322,709	1,042,193	1,322,709	1,042,193

Tax consolidation

Relevance of tax consolidation to the consolidation entity

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 October 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Stellar Resources Limited.

Nature of tax sharing agreements

Entities within the tax-consolidated group have entered into a tax sharing agreement with the head entity. The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

5 CASH AND CASH EQUIVALENTS

Cash at bank	242,994	375,849	242,994	375,847
Term Deposits	5,370,000	4,851,027	5,370,000	4,851,027
	5,612,994	5,226,876	5,612,994	5,226,874

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalent	5,612,994	5,226,876	5,612,994	5,226,874
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6 TRADE AND OTHER RECEIVABLES – CURRENT

Other debtors	100,652	100,615	100,652	100,615
GST receivable	32,289	24,884	32,289	24,884
Tenement security deposit	51,000	43,000	39,000	31,000
	183,941	168,499	171,941	156,499

	Consolidated Entity		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
7 OTHER ASSETS – CURRENT				
Prepaid workers compensation insurance	12,649	6,287	12,649	6,287
Prepaid insurance premium	13,677	11,705	13,677	11,705
	26,326	17,992	26,326	17,992
8 LOAN RECEIVABLES – NON-CURRENT				
Receivable from wholly owned subsidiaries	–	–	6,426,400	4,297,100
Accumulated impairment	–	–	(6,426,400)	(4,297,100)
	–	–	–	–
Loans to subsidiaries are non-interest bearing and are repayable on demand.				
Ultimate recovery of loan receivables is dependent upon success in exploration and development or sale or farm-out of the subsidiaries' exploration interests.				
9 OTHER FINANCIAL ASSETS – NON-CURRENT				
Shares in subsidiaries at cost	–	–	859,620	247,620
Accumulated impairment	–	–	(247,620)	–
Investments in wholly owned subsidiaries	–	–	612,000	247,620
10 PROPERTY, PLANT AND EQUIPMENT				
Land & buildings – at cost	64,519	64,519	–	–
Accumulated depreciation	(1,124)	(537)	–	–
	63,395	63,982	–	–
Office furniture & equipment – at cost	76,888	11,249	76,888	11,249
Accumulated depreciation	(9,148)	(1,086)	(9,148)	(1,086)
	67,740	10,163	67,740	10,163
Software	11,371	9,031	11,371	9,031
Accumulated depreciation	(3,866)	(859)	(3,866)	(859)
	7,505	8,172	7,505	8,172
Total property, plant and equipment	138,640	82,317	75,245	18,335
(a) Movements in Carrying Amounts				
Balance at the beginning of the period	82,317	–	18,335	–
Additions	67,979	20,280	67,979	20,280
Acquisition of subsidiaries	–	63,982	–	–
Depreciation expense	(11,656)	(1,945)	(11,069)	(1,945)
Carrying amount at the end of the period	138,640	82,317	75,245	18,335

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006 CONTINUED...

	Consolidated Entity		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
11 EXPLORATION EXPENDITURE				
(a) Carrying values				
Balance at the beginning of the period	4,313,243	2,347,142	–	–
Acquisition of subsidiaries (Note 23(a))	611,998	–	–	–
Expenditure incurred during period	2,129,300	2,119,718	–	–
Expenditure written off during period	(570,429)	(153,617)	–	–
Exploration expenditure carried forward	6,484,112	4,313,243	–	–
Ultimate recovery of capitalised exploration expenditure is dependent upon success in exploration and development or sale or farm-out of the exploration interests.				
(b) Joint venture interest				
A wholly owned subsidiary, Balrone Holdings Pty Ltd has the following significant exploration joint venture interests:				
North Bendigo Joint Venture – Gold exploration 50%				
Triako Joint Venture – Base metal exploration farm-in whereby the Consolidated Entity can earn between 51% and 60%				
The Consolidated Entity's share of assets employed in the joint ventures are:				
NON-CURRENT ASSETS				
Exploration expenditure	1,477,625	944,496	–	–
12 TRADE AND OTHER PAYABLES				
Other creditors and accruals	232,322	381,646	232,322	381,646
13 CURRENT PROVISIONS				
Employee benefits	27,809	10,134	27,809	10,134
– Aggregate employee benefits liability	27,809	10,134	27,809	10,134
– Number of employees at year-end	6	6	6	6
14 ISSUED CAPITAL				
(a) Issued capital				
58,338,168 fully paid ordinary shares (2005: 49,238,168)	13,605,098	9,901,312	13,605,098	9,901,312

14 ISSUED CAPITAL continued...

(b) Movements in shares on Issue

	2006 No.	2006 \$	2005 No.	2005 \$
At the beginning of the reporting period	49,238,168	9,901,312	–	–
Shares issued during the period :				
Placement Gravity Capital Limited	–	–	38,238,168	7,944,597
Placement Rubicon	–	–	1,000,000	247,500
Placement Market	7,500,000	3,375,000	10,000,000	2,000,000
Placement Hillment	1,600,000	512,000	–	–
Share issue cost	–	(183,214)	–	(290,785)
At the end of the reporting period	58,338,168	13,605,098	49,238,168	9,901,312

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

On 3 October 2005 the company issued 1,600,000 ordinary fully paid shares at an issue price of 32 cents to fund the acquisition of Hillment Pty Ltd.

On 11 May 2006 the Company issued 7,500,000 ordinary fully paid shares at an issue price of 45 cents to sophisticated and professional investors through Bell Potter Securities Limited.

(c) Share Options

The Company has in place an Employee Option Plan under which employees of the Company, including executive and non-executive directors can be offered both short term and long term incentives. Under the Plan each option is to subscribe for one share and, when issued, these shares rank equally with other shares. Options issued under the Employee Option Plan are not transferable. As at 30 June 2006, employees have options over 625,000 ordinary shares all of which are exercisable at 30 cents each and expire on 19 August 2009. In addition, on 10 December 2004, the Company's Directors were granted 3,500,000 options to subscribe for ordinary shares at an exercise price of 30 cents each. These options are exercisable between 28 April 2007 and 10 December 2008.

(i) At 30 June 2006, the Company had on issue the following options to acquire shares in the Company:

Nos.	Class
3,500,000	Unlisted Director Options - Escrowed until 28 April 2007
625,000	Unlisted Vested Employee Options expiring 19 August 2009

The following share-based payment arrangements were in existence during the period.

Option series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Director options (i)	3,500,000	10/12/04	10/12/08	30 cents	\$220,500
Employee options (ii)	250,000	22/09/05	19/08/09	30 cents	\$70,765
Employee options (iii)	375,000	16/03/06	19/08/09	30 cents	\$81,358

(i) Under the ASX listing rules, options issued to Directors in the year ending 30 June 2005 remain in escrow until 28 April 2007 and vest on that date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006 CONTINUED...

14 ISSUED CAPITAL continued...

(c) Share Options continued...

- (ii)(iii) In accordance with the Company's Employee Option Plan, employee options issued on the 22 September 2005 and 16 March 2006 fully vest on issue date.

The weighted average fair value of the share options granted during the financial year is 24.3 cents (2005: 6.3 cents). Options were priced using the Black-Scholes Options Pricing Model. Share price volatility is based on the historical share price volatility for the period from ASX listing to option issue date.

Inputs into the model	Director options (i)	Employee options (ii)	Employee options (iii)
Grant date share price	20 cents	40 cents	30 cents
Exercise price	30 cents	30 cents	30 cents
Volatility	30.70%	88.78%	111.11%
Option life	4 years	3.9 years	3.43 years
Dividend yield	Nil	Nil	Nil
Risk-free interest rate	5.30%	5.30%	5.39%

The following reconciles the outstanding options at the beginning and end of the financial year.

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at the beginning of the financial year	3,500,000	30 cents	–	–
Granted during the financial year	625,000	30 cents	3,500,000	30 cents
Forfeited during the financial year	–	–	–	–
Exercised during the financial year	–	–	–	–
Expired during the financial year	–	–	–	–
Balance at end of the financial year	4,125,000	30 cents	3,500,000	30 cents
Exercisable at the end of the financial year	4,125,000	30 cents	3,500,000	30 cents

- (i) Exercised during the financial year
No share options issued under the employee option plan were exercised during the year.
- (ii)(iii) Balance at end of the financial year
The share options outstanding at the end of the financial year had an exercise price of 30 cents and weighted average remaining contractual life of 932 days.

	Consolidated Entity		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
15 RESERVES				
Employee equity-settled benefits reserve				
Balance at beginning of financial year	51,135	–	51,135	–
Share-based payment	245,504	51,135	245,504	51,135
Transfer to share capital	–	–	–	–
Balance at end of financial year	296,639	51,135	296,639	51,135

The employee equity-settled benefits reserve arises on the grant of share options to directors and employees under the employee share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in Notes 14 and 18 to the financial statements.

16 ACCUMULATED LOSSES

Accumulated losses at the beginning of the period	(535,300)	–	(4,676,907)	–
Loss for the period	(1,180,555)	(535,300)	(2,986,455)	(4,676,907)
Accumulated losses at the end of the financial period	(1,715,855)	(535,300)	(7,663,362)	(4,676,907)

17 EARNINGS PER SHARE

(a) Reconciliation of Earnings to Net Loss		
Net Loss	1,180,555	535,300
Net Loss used in calculation of basic EPS	1,180,555	535,300
Net Loss used in calculation of diluted EPS	1,180,555	535,300
(b) Weighted average number of ordinary shares outstanding during the period used in calculation of basic EPS	51,449,127	24,965,296
Weighted average number of ordinary shares outstanding during the period used in calculation of dilutive EPS	51,449,127	24,965,296

(c) Diluted EPS

As the Company incurred a net loss in each of 2005 and 2006, the effect of potential ordinary shares such as options is not dilutive.

18 KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Names and positions held of key management personnel in office at any time during the financial period are:

Thomas J Burrowes	–	Executive Chairman
Barrie E Laws	–	Non-executive Director
David J Isles	–	Executive Director
Christopher G Anderson	–	Executive Director
Bill Michaelidis	–	Company Secretary/CFO
Melvyn J Drummond	–	Company Secretary

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006 CONTINUED...

18 KEY MANAGEMENT PERSONNEL COMPENSATION *continued...*

(b) Directors' and Executives' Compensation

Remuneration Policy

The Board is responsible for determining and reviewing the remuneration of the directors including the managing director and the executive officers of the Company. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the Company's operations. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Board seeks where necessary the advice of external advisers in connection with the structure of remuneration packages. The Board also recommends the levels and form of remuneration for non-executive directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to non-executive directors shall not exceed the sum fixed by members of the Company in general meeting. Shareholders fixed the maximum aggregate remuneration for non-executive directors at \$500,000.

The three key elements of director and executive remuneration are:

- base salary and fees, which are determined by reference to the market rate based on payments at similar size companies in the industry;
- superannuation contributions; and
- equity-based payments, the value of which are dependent on the Company's share price and other factors.

Key Management Personnel Compensation

2006	Short Term Benefits			Post Employment			Equity	Other Benefits	Total
	Salary & Fees	Bonus	Non-monetary	Super-annuation	Pre-scribed Benefits	Other	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors									
T J Burrowes	129,250	–	–	49,500	–	–	26,509	–	205,259
B E Laws	27,083	–	–	2,437	–	–	13,854	–	43,374
D J Isles	75,000	–	–	–	–	–	26,509	–	101,509
C G Anderson	150,000	–	–	–	–	–	26,509	–	176,509
Executives									
B Michaelidis	68,250	–	–	13,000	–	–	70,765	–	152,015
M J Drummond	–	–	–	–	–	–	–	–	–
	449,583	–	–	64,937	–	–	164,146	–	678,666
2005	Short Term Benefits			Post Employment			Equity	Other Benefits	Total
	Salary & Fees	Bonus	Non-monetary	Super-annuation	Pre-scribed Benefits	Other	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors									
T J Burrowes	70,500	–	–	12,000	–	–	14,610	–	97,110
B E Laws	13,798	–	–	1,258	–	–	7,305	–	22,361
D J Isles	31,250	–	–	–	–	–	14,610	–	45,860
C G Anderson	83,467	–	–	–	–	–	14,610	–	98,077
Executives									
B Michaelidis	42,000	–	–	8,000	–	–	–	–	50,000
M J Drummond	–	–	–	–	–	–	–	–	–
	241,015	–	–	21,258	–	–	51,135	–	313,408

18 KEY MANAGEMENT PERSONNEL COMPENSATION continued...

Key Management Personnel Compensation continued...

All key management personnel compensation is paid by Stellar Resources Limited. Key management personnel receive no remuneration from group subsidiary companies.

Compensation for Mr Anderson and Mr Isles are paid respectively to CG Anderson & Associates and The Goongarrie Trust.

On 22 September 2005, 250,000 unlisted options were granted to Mr Michaelidis. The options to subscribe for ordinary shares at an exercise price of 30 cents each are exercisable on or before 19 August 2009 and have been valued at \$70,765.

(c) Compensation Options: Granted and vested during the year (consolidated)

2006	Vested Number	Granted Number	Grant Date	Value per option at grant date	Terms and conditions for each grant			
					Exercise Price	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
T J Burrowes	–	–	–	–	–	–	–	–
B E Laws	–	–	–	–	–	–	–	–
D J Isles	–	–	–	–	–	–	–	–
C G Anderson	–	–	–	–	–	–	–	–
Executives								
B Michaelidis	250,000	250,000	22/09/05	28 cents	30 cents	19/08/09	22/09/05	19/08/09
	250,000	250,000						
2006	Vested Number	Granted Number	Grant Date	Value per option at grant date	Terms and conditions for each grant			
					Exercise Price	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
T J Burrowes	–	1,000,000	10/12/04	6.3 cents	30 cents	10/12/08	28/04/07	10/12/08
B E Laws	–	500,000	10/12/04	6.3 cents	30 cents	10/12/08	28/04/07	10/12/08
D J Isles	–	1,000,000	10/12/04	6.3 cents	30 cents	10/12/08	28/04/07	10/12/08
C G Anderson	–	1,000,000	10/12/04	6.3 cents	30 cents	10/12/08	28/04/07	10/12/08
Executives								
B Michaelidis	–	–	–	–	–	–	–	–
	–	3,500,000						

All grants of options are exercisable within four years. Employee options, other than director options, vest immediately. Options issued to directors remain in escrow and vest on 28 April 2007.

(d) Details concerning share-based remuneration of directors and executives

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Any options not exercised before or on the date of termination will lapse.

The objective of the share-based schemes is to both reinforce the short and long-term goals of the company and to provide a common interest between management and shareholders. Options granted during the year to executives are outline in Note 18(c) above.

The Board is responsible for the review and operation of the Stellar Option Plan including terms and conditions for all options issued. The number of options offered under the plan is limited to less than 5% of the total number of shares on issue at the time of the offer.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006 CONTINUED...

18 KEY MANAGEMENT PERSONNEL COMPENSATION *continued...*

(e) Number of options held by key management personnel (consolidated)

2006	Balance 1/07/05	Granted as compensation	Options exercised	Net change other	Balance 30/06/06	Total vested 30/06/06	Total exercisable 30/06/06	Total unexercisable 30/06/06
Directors								
T J Burrowes	1,000,000	–	–	–	1,000,000	–	–	1,000,000
B E Laws	500,000	–	–	–	500,000	–	–	500,000
D J Isles	1,000,000	–	–	–	1,000,000	–	–	1,000,000
C G Anderson	1,000,000	–	–	–	1,000,000	–	–	1,000,000
Executives								
B Michaelidis	–	250,000	–	–	250,000	250,000	250,000	–
M J Drummond	–	–	–	–	–	–	–	–
	3,500,000	250,000	–	–	3,750,000	250,000	250,000	3,500,000
2005	Balance 19/04/04	Granted as compensation	Options exercised	Net change other	Balance 30/06/06	Total vested 30/06/05	Total exercisable 30/06/05	Total unexercisable 30/06/05
Directors								
T J Burrowes	–	1,000,000	–	–	1,000,000	–	–	1,000,000
B E Laws	–	500,000	–	–	500,000	–	–	500,000
D J Isles	–	1,000,000	–	–	1,000,000	–	–	1,000,000
C G Anderson	–	1,000,000	–	–	1,000,000	–	–	1,000,000
Executives								
B Michaelidis	–	–	–	–	–	–	–	–
M J Drummond	–	–	–	–	–	–	–	–
	–	3,500,000	–	–	3,500,000	–	–	3,500,000

(f) Shares issued on exercise of compensation options (consolidated)

No shares were issued to directors or executives on exercise of compensation options during the financial year.

(g) Loans to key management personnel (consolidated)

There were no loans to key management personnel at anytime during the current or prior financial year.

(h) Number of shares held by key management personnel

2006	Balance 1/07/05	Received as Compensation	Options Exercised	Net change other	Balance 30/06/06	Held Normally
Directors						
T J Burrowes	1,086,112	–	–	–	1,086,112	–
B E Laws	75,000	–	–	–	75,000	–
D J Isles	73,612	–	–	–	73,612	–
C G Anderson	75,000	–	–	–	75,000	–
Executives						
B Michaelidis	5,000	–	–	–	5,000	–
M J Drummond	6,112	–	–	33,888	40,000	–
	1,314,724	–	–	–	1,314,724	–

18 KEY MANAGEMENT PERSONNEL COMPENSATION continued...

(h) Number of shares held by key management personnel continued...

2005	Balance 19/04/04	Received as Compensation	Options Exercised	Net change other	Balance 30/06/06
Directors					
T J Burrowes	–	–	–	1,086,112	1,086,112
B E Laws	–	–	–	75,000	75,000
D J Isles	–	–	–	73,612	73,612
C G Anderson	–	–	–	75,000	75,000
Executives					
B Michaelidis	–	–	–	5,000	5,000
M J Drummond	–	–	–	6,112	6,112
	–	–	–	1,314,724	1,314,724

	Consolidated Entity		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$

19 REMUNERATION OF AUDITORS

Remuneration for audit or review of the financial reports of the Company

16,560	8,500	16,560	8,500
16,560	8,500	16,560	8,500

20 IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Consolidated Entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (AIFRS). The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 "First-time Adoption of Australian equivalents to International Financial Reporting Standards", with 19 April 2004 (date of incorporation) as the date of transition.

An explanation of how the transition from superseded policies to AIFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006 CONTINUED...

20 IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued...

(a) Reconciliation of equity as presented under superseded AGAAP to that under AIFRS

		Consolidated Entity		Company	
		30 Jun 05	19 Apr 04	30 Jun 05	19 Apr 04
		\$	\$	\$	\$
Issued Capital					
Share capital under AGAAP		9,901,312	–	9,901,312	–
Issued capital under AIFRS		9,901,312	–	9,901,312	–
Reserves					
Reserves under AGAAP		–	–	–	–
Recognition of share-based payments	(i)	51,135	–	51,135	–
Reserves under AIFRS		51,135	–	51,135	–
Accumulated Losses					
Prior period loss after tax under AGAAP		(503,858)	–	(328,672)	–
Recognition of share-based payments	(i)	(51,135)	–	(51,135)	–
Write-back of goodwill amortisation	(ii)	19,693	–	–	–
Recognition of provision for loan receivables	(iii)	–	–	(4,297,100)	–
Accumulated loss after tax under AIFRS		(535,300)	–	(4,676,907)	–
Total equity under AGAAP		9,397,454	–	9,572,640	–
Total equity under AIFRS		9,417,147	–	5,275,540	–

(b) Reconciliation of loss for the period as presented under superseded AGAAP to under AIFRS

		Consolidated Entity	Company
		Period from 19 Apr 04 to 30 Jun 05	Period from 19 Apr 04 to 30 Jun 05
		\$	\$
Loss for the period under AGAAP		(503,858)	(328,672)
Recognition of share-based payment expense	(i)	(51,135)	(51,135)
Write-back of goodwill amortisation	(ii)	19,693	–
Recognition of provision for loan receivables	(iii)	–	(4,297,100)
Loss for the period Under AIFRS		(535,300)	(4,676,907)

Effect of AIFRS on the cash flow statement for the financial period from 19 April 2004 to 30 June 2005

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under the superseded policies.

20 IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *continued...*

(b) Reconciliation of loss for the period as presented under superseded AGAAP to under AIFRS *continued...*

Notes to the reconciliations of equity and income

(i) Share-based payments

For the financial period ended 30 June 2005, share-based payments of \$51,135 (included in the 'administration expenditure') which were not recognised under the superseded policies were recognised under AIFRS, with a corresponding increase in the employee equity-settled benefits reserve. These adjustments had no tax effect as the amounts are not deductible for taxation purposes.

(ii) Goodwill

Goodwill, which was amortised under superseded policies, is not amortised under AIFRS from the date of transition. The effect of the change is an increase in the carrying amount of goodwill by \$19,693 (company: nil) and a decrease in net loss of \$19,693 for the financial period from 19 April 2004 to 30 June 2005. There is no tax effect as deferred taxes are not recognised for temporary differences arising from goodwill for which amortisation is not deductible for tax purposes.

(iii) Provision for loan receivables

Ultimate recovery of loan receivables is dependent upon success in exploration and development or sale or farm-out of the subsidiaries' exploration interests. Therefore, ultimate recovery is in doubt.

	Consolidated Entity		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$

21 COMMITMENTS FOR EXPENDITURE

Exploration Commitments	1,204,461	1,019,410	–	–
In order to maintain current rights of tenure to exploration tenements, the Company has minimum exploration expenditure requirements up until the expiry of leases. These obligations, which are subject to renegotiation upon expiry of leases, are not provided for in the financial statements and are payable:				
Not later than one year	1,204,461	1,019,410	–	–
Exploration commitments later than one year are dependent on management assessment on prospectivity and desirability of retaining current suite of exploration projects.				

22 RELATED PARTIES

Directors

The names of the persons who were directors of Stellar Resources Limited at any time during the financial period are as follows:

Thomas J Burrowes	–	Executive Chairman
Barrie E Laws	–	Non-executive Director
David J Isles	–	Executive Director
Christopher G Anderson	–	Executive Director

Remuneration Benefits

Information on remuneration benefits of Directors is disclosed in Note 18.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006 CONTINUED...

22 RELATED PARTIES continued...

Transaction of Directors and Director – Related Entities Concerning Shares or Share Options

Directors and Director related entities hold directly, indirectly or beneficially as at the reporting date the following equity interests in the Consolidated Entity:

	Consolidated Entity		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
Ordinary shares	–	–	1,309,724	1,309,724
Options over ordinary shares	–	–	3,500,000	3,500,000

Since 30 June no directors have acquired any additional shares.

Other Transactions with Directors and Director – Related Entities

During the period, geological, geophysical and field services were provided at commercial rates by a director related entity, Euro Exploration Services Pty Ltd, of which Mr Anderson, was both a Director and shareholder. Euro Exploration Services Pty Ltd charged \$232,656 (2005: \$222,017) in relation to these services.

During the period, Providence Gold and Minerals Pty Ltd (PGM) of which Mr Burrowes is a Director and shareholder undertook exploration activities under a joint venture arrangement whereby exploration costs are borne on a 50/50 basis between PGM and the Company.

23 SUBSIDIARIES

	Country of Incorporation	Percent Owned (%)	
		2006	2005
Company:			
Stellar Resources Limited	Australia	–	–
Subsidiaries of Stellar Resources Limited:			
Balrhone Holdings Pty Ltd	Australia	100%	100%
Rilo Explorations Pty Ltd	Australia	100%	100%
Bridgedale Holdings Pty Ltd	Australia	100%	100%
Hiltaba Gold Pty Ltd	Australia	100%	100%
Rubicon Min Tech Ventures Pty Ltd	Australia	100%	100%
Hillment Pty Ltd	Australia	100%	–

23 SUBSIDIARIES continued...

(a) Subsidiaries Acquired

The following subsidiaries were acquired during the period:

2006	Date Acquired	Purchase Consideration	Percentage Acquired
Hillment Pty Ltd	3/10/05	\$612,000	100%
2005	Date Acquired	Purchase Consideration	Percentage Acquired
Balrone Holdings Pty Ltd	22/04/04	\$2	100%
Rilo Explorations Pty Ltd	22/04/04	\$16	100%
Bridgedale Holdings Pty Ltd	22/04/04	\$2	100%
Hiltaba Gold Pty Ltd	22/04/04	\$100	100%
Rubicon Min Tech Ventures Pty Ltd	28/10/04	\$247,500	100%

Hillment Pty Ltd

Net assets acquired	Book value \$	Fair value adjustment \$	Fair value on acquisition \$
Current assets:			
Cash and cash equivalents	2	–	2
Exploration expenditure	–	611,998	611,998
	2	611,998	612,000

(b) Subsidiaries Disposed

No subsidiaries were disposed during the period

	Consolidated Entity		Company	
	2006 \$	2005 \$	2006 \$	2005 \$

24 CASH FLOW INFORMATION

Reconciliation of Cash Flow from Operations
with Loss after Income Tax

Loss after income tax	(1,180,555)	(535,300)	(2,986,455)	(4,676,907)
Non-cash flows in loss from ordinary activities				
Depreciation of fixed assets	11,656	2,482	11,069	1,945
Amortisation formation Cost	–	735	–	–
Exploration expenditure write off	570,429	153,617	–	–
Employee equity-settled benefits	245,504	51,135	245,504	51,135
Diminution in investments	–	–	247,620	–
Provision for subsidiary loan receivables	–	–	2,129,300	4,297,100
Changes in assets and liabilities				
(Increase)/decrease in receivables	–	(32,000)	–	(32,000)
(Increase)/decrease in prepayments	(19,041)	(18,727)	(19,041)	(17,992)
Increase/(decrease) in payables	(29,933)	72,834	(29,933)	72,834
Increase/(decrease) in employee entitlements	17,675	10,134	17,675	10,134
Cash flows used in operations	(384,265)	(295,090)	(384,261)	(293,751)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED TO 30 JUNE 2006 CONTINUED...

25 FINANCIAL INSTRUMENTS

(a) Off-balance sheet derivative instruments

The Company does not utilise any off-balance sheet derivative instruments.

(b) Commodity contracts

As at 30 June 2006, the Company does not have in place any commodity contracts.

(c) Credit risk exposure

The credit risk on financial assets of the Company, which have been recognised in the income statement, is generally the carrying amount, net of any provisions for doubtful debts.

(d) Interest rate risk exposure

The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table:

2006	Weighted Average Effective Interest Rate	Floating interest \$	Fixed interest maturing			Non interest Bearing \$	Total \$
			1 yr or Less \$	Over 1 yr to 5 yrs \$	More than 5 yrs \$		
Financial assets							
Cash	6.03%	–	5,612,994	–	–	–	5,612,994
Receivables	–	–	–	–	–	183,941	183,941
Total financial assets	–	–	5,612,994	–	–	183,941	5,796,935
Financial liabilities							
Trade and other creditors	–	–	–	–	–	232,322	232,322
Total financial liabilities	–	–	–	–	–	232,322	232,322
Net financial assets	–	–	5,612,994	–	–	(48,381)	5,564,614

2005	Weighted Average Effective Interest Rate	Floating interest \$	Fixed interest maturing			Non interest Bearing \$	Total \$
			1 yr or Less \$	Over 1 yr to 5 yrs \$	More than 5 yrs \$		
Financial assets							
Cash	5.55%	–	5,226,876	–	–	–	5,226,876
Receivables	–	–	–	–	–	168,499	168,499
Total financial assets	–	–	5,226,876	–	–	168,499	5,395,375
Financial liabilities							
Trade and other creditors	–	–	–	–	–	381,646	381,646
Total financial liabilities	–	–	–	–	–	381,646	381,646
Net financial assets	–	–	5,226,876	–	–	(213,147)	5,013,729

(e) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non interest bearing monetary financial assets and financial liabilities of the Company approximates their carrying amounts.

26 STATEMENT OF OPERATIONS BY SEGMENTS

The consolidated entity only operates in the Australian mineral exploration sector where it is actively pursuing opportunities.

27 EVENTS SUBSEQUENT TO REPORTING DATE

On the 25 July 2006 the Consolidated Entity announced its intention to enter into a farm-out arrangement with Toro Energy Limited, a listed public company, in reference to exploration licence 3372 and 3369W.

On 26 July 2006 the Consolidated Entity entered into a farm-out arrangement with UraniumSA Limited, an unlisted public company, for uranium exploration on six exploration licences in the Tarcoola region of the central Gawler Craton. The tenements covered by the farm-out arrangements are exploration licences 2898, 3089, 3205, 3253, 3500 and easternmost block of exploration licence 3369.

The joint venture arrangement is subject to and conditional on UraniumSA completing a successful initial public offering by the end of the year.

The financial effect of this transaction has not been brought to account in the 2006 financial report.

28 COMPANY DETAILS

The registered office and principal place of business of the Company is: Level 7, 530 Little Collins Street, Melbourne

INDEPENDENT AUDIT REPORT

DTT Victoria

DTT Victoria
ABN 96 080 779 423
180 Lonsdale Street
Melbourne VIC 3000
GPO Box 78B
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9208 7000
Fax: +61 (0) 3 9208 7001
www.deloitte.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF STELLAR RESOURCES LIMITED ABN 96 108 758 961

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Stellar Resources Limited (the Company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 24 to 49. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

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

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, 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 form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates 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.

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

Liability limited by a scheme approved under Professional Standards Legislation.
DTT Victoria has changed its name from BDO and is a continuation of that Victorian partnership.
The partners of DTT Victoria have also joined the Australian partnership of Deloitte Touche Tohmatsu.
All changes with effect from 14 August 2006.

DTT Victoria

DTT Victoria
ABN 96 080 779 423
180 Lonsdale Street
Melbourne VIC 3000
GPO Box 78B
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9208 7000
Fax: +61 (0) 3 9208 7001
www.deloitte.com.au

Audit Opinion

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

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



DTT Victoria
Chartered Accountants



G R Sincock
Partner

Melbourne
Date: 29 September 2006

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ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by Australian Stock Exchange Limited in respect of listed public companies.

1 Shareholding

The issued capital of the company was 58,338,168 ordinary shares fully paid as at 26 September 2006, of which 56,900,944 are listed on the Australian Stock Exchange. In addition, the company has on issue 4,125,000 unlisted options to acquire shares at an exercise of 30 cents per share at any time up to 19 August 2009.

(a) Distribution of Shareholder Numbers

Size of Holding	Number of Shareholders	Units	%	Number of Option holders	Units	%
1 – 1,000	219	94,975	0.16	–	–	–
1,001 – 5,000	574	1,697,585	2.91	–	–	–
5,001 – 10,000	363	3,121,199	5.35	–	–	–
10,001 – 100,000	821	28,197,998	48.34	1	75,000	1.82
100,001 and over	83	25,226,411	43.24	7	4,050,000	98.18
	2,060	58,338,168	100.00	8	4,125,000	100.00

There were 324 shareholders who held less than a marketable parcel (2,000 shares) based on the market price of 25 cents.

(b) Substantial shareholder as at 26 September 2006

Name	Number of Shares Held	%
L J Thomson Pty Ltd	3,350,000	5.74

(c) Substantial shareholder as at 26 September 2006

Name	Number of Shares Held	%
1 L J Thomson Pty Ltd	3,350,000	5.74
2 ANZ Nominees Limited <Cash Income A/C>	1,678,900	2.88
3 Peninsula Exploration Pty Ltd	1,297,787	2.22
4 Fountain Oaks Pty Ltd <Limb Family Super Fund A/C>	1,195,000	2.05
5 Providence Gold and Minerals Pty Ltd	1,016,112	1.74
6 Ankaa Springs Pty Ltd	700,000	1.20
7 Mr Arnold Olschyna	580,000	0.99
8 Temtor Pty Ltd	520,000	0.89
9 Mannwest Group Pty Ltd	500,000	0.86
10 Gilventures Pty Ltd	455,000	0.78
11 UBS Wealth Management Australia Nominees Pty Ltd	427,824	0.73
12 Carojon Pty Ltd <Imbruglia Super Fund A/C>	425,000	0.73
13 Tatwin Pty Ltd <Bitcon Super Fund A/C>	379,028	0.65
14 Somnus Pty Ltd	350,000	0.60
15 Bartlet Holdings Limited	300,000	0.51
16 Evergem Pty Ltd	300,000	0.51
17 New Privateer Holdings Ltd <Trading No 2 A/C>	300,000	0.51
18 Noscita Dion Pty Ltd	300,000	0.51
19 Mishkan Pty Ltd	300,000	0.51
20 Wythenshawe Pty Ltd	300,000	0.51
	14,674,651	25.12

1 Shareholding continued...

(d) Largest Optionholders

Name	Number of Shares Held	%
1 T J Burrowes	1,000,000	24.24
2 C G Anderson	1,000,000	24.24
3 D J Isles	1,000,000	24.24
4 B E Laws	500,000	12.12
5 B Michaelidis	250,000	6.06
6 B Rava	150,000	3.64
7 M Raetz	150,000	3.64
8 A M Rigg	75,000	1.82
	4,125,000	100.00

(e) Voting Rights

Voting rights of members are governed by the company's Constitution. In summary, on the show of hands, every member present in person or by proxy shall have one vote and, upon a poll, every such attending member shall be entitled to one vote for every share held.

(f) Unquoted and Restricted Securities

Options over un-issued Shares

- 3,500,000 options are on issue to four Stellar Directors. These options are exercisable up to 10 December 2008 at an exercisable price of 30 cents.
- 625,000 options are on issue to Stellar employees. These options are exercisable up to 19 August 2009 at an exercisable price of 30 cents each.

Restricted Shares

- 1,437,224 shares issued to five current and former Stellar Directors (or related parties) are in escrow until 28 April 2007.

SCHEDULE OF TENEMENTS

Area (Km ²)	Stellar Interest Held (%)	Registered Title Holder	Date Granted	Expiry On / Payment Due	Notes
Exploration Licence EL4632 – Triako Joint Venture, New South Wales 61	51	Anglogold Ashanti Australia Limited, Triako Resources Limited	21/12/1993	20/12/2007	Note 1
Exploration Licence EL6556 – Panama Hat, New South Wales 38	100	Balrone Holdings Pty Ltd	11/04/2006	10/04/2008	
Mining Lease ML4650 – Tarcoola Project, South Australia 15.61 ha	100	Hiltaba Gold Pty Ltd	11/01/2005	10/01/2010	
Mining Lease ML4667 – Tarcoola Project, South Australia 4.49 ha	100	Hiltaba Gold Pty Ltd	11/01/2005	10/01/2010	
Mining Lease ML5179 – Tarcoola Project, South Australia 4.68 ha	100	Hiltaba Gold Pty Ltd	11/01/2005	10/01/2010	
Mining Lease ML5300 – Tarcoola Project, South Australia 2.89 ha	100	Hiltaba Gold Pty Ltd	11/01/2005	10/01/2010	
Exploration Licence EL2898 – Cooladding, South Australia 74	100	Hiltaba Gold Pty Ltd	5/03/2002	4/03/2007	Note 2
Exploration Licence EL3089 – Tarcoola, South Australia 1249	100	Hiltaba Gold Pty Ltd	2/06/2003	1/06/2008	Note 2
Exploration Licence EL3204 – Uno, South Australia 107	100	Vintage Exploration and Mining Pty Ltd	5/05/2004	4/05/2009	Note 3
Exploration Licence EL3205 – Pinding, South Australia 500	100	Hiltaba Gold Pty Ltd	10/05/2004	9/05/2009	Note 2
Exploration Licence EL3253 – Hierns Well, South Australia 427	100	Hiltaba Gold Pty Ltd	29/09/2004	28/09/2009	Note 2
Exploration Licence EL3336 – Robins Rise, South Australia 818	100	Hiltaba Gold Pty Ltd	9/05/2005	8/05/2007	
Exploration Licence EL3369 – Carnding, South Australia 263	100	Hiltaba Gold Pty Ltd	4/07/2005	3/07/2007	Note 2
Exploration Licence EL3372 – Warrior, South Australia 165	100	Hillment Pty Ltd	8/07/2005	7/07/2007	Note 4
Exploration Licence EL3436 Lake Woorong, South Australia 889	100	Hiltaba Gold Pty Ltd	20/10/2005	19/10/2006	
Exploration Licence EL3500 Kychering, South Australia 91	100	Hiltaba Gold Pty Ltd	18/01/2006	17/01/2007	Note 2

Area (Km ²)	Stellar Interest Held (%)	Registered Title Holder	Date Granted	Expiry On / Payment Due	Notes
Exploration Licence EL3583 Pernatty, South Australia					
598	100	Hiltaba Gold Pty Ltd	21/06/2006	20/06/2007	
Exploration Licence Application ELA298/06 – Cleanskin Swamp, South Australia					
637	100	Hiltaba Gold Pty Ltd			Note 6
Exploration Licence Application ELA299/06 – Long Creek, South Australia					
927	100	Hiltaba Gold Pty Ltd			Note 6
Exploration Licence EL46/2003 – Heemskirk, Tasmania					
193	100	Rubicon Min Tech Ventures Pty Ltd	3/02/2005	9/02/2010	
Exploration Licence EL1/2004 – Ramsay River, Tasmania					
90	100	Rubicon Min Tech Ventures Pty Ltd	3/02/2005	9/02/2010	
Exploration Licence EL49/2004 – Rayne, Tasmania					
28	100	Rubicon Min Tech Ventures Pty Ltd	3/02/2005	9/02/2010	
Exploration Licence EL50/2004 – Ewart Creek, Tasmania					
32	100	Rubicon Min Tech Ventures Pty Ltd	3/02/2005	9/02/2010	
Exploration Licence Application ELA21/2006 – Hangman's Creek, Tasmania					
8	100	Rubicon Min Tech Ventures Pty Ltd			Note 5
Exploration Licence EL4525 – North Bendigo, Victoria					
374	50	Providence Gold and Minerals Pty Ltd, Stellar Resources Limited	11/01/2001	10/01/2007	
Petroleum Exploration Permit PEP155 – Marlo Block, Gippsland Basin, Victoria					
1000	3	Petro Tech Pty Ltd	29/08/2000	16/02/2007	
Exploration Permit for Petroleum EPP Vic/P40(V) - Gippsland Basin, Bass Strait, Victoria					
400	9.8	Petro Tech Pty Ltd	20/04/2004	19/04/2010	
Exploration Permit for Petroleum EPP Vic/P47 - Gilbert Block, Gippsland Basin, Bass Strait, Victoria					
230	3	Moby Oil & Gas Ltd, Bass Strait Oil Company Limited, Eagle Bay Resources NL	28/05/2001	27/02/2008	

Notes:

- Note 1 Stellar has right to earn 51% and 60% interest
- Note 2 UraniumSA Limited earning 70% in uranium interest
Stellar retained 100% interest in BHP Billiton Falcon Access Areas
- Note 3 Stellar option to acquire 100%
- Note 4 Memorandum of Understanding for farm-out to Toro Energy Limited
- Note 5 Application date 1/05/2006
- Note 6 Application date 19/06/2006

CORPORATE DIRECTORY

DIRECTORS

Thomas J Burrowes (Chairman)
Barrie E Laws (Non-executive)
David J Isles (Executive)
Christopher G Anderson (Executive)

LEGAL ADVISERS

Bryan Cumming
Level 7, Exchange Tower
530 Little Collins Street
Melbourne VIC 3000

COMPANY SECRETARY

Bill Michaelidis
Melvyn J Drummond

AUDITOR

DTT Victoria
QV Building
180 Lonsdale Street
Melbourne VIC 3000

REGISTERED OFFICE

Level 7, Exchange Tower
530 Little Collins Street
Melbourne VIC 3000
Telephone: (03) 9909 7618
Facsimile: (03) 9909 7621
Email: srzinfo@stellarresources.com.au
Website: www.stellarresources.com.au

Registers of unlisted employee and other options held at this address

BANKERS

National Australia Bank Limited
Level 2, 330 Collins Street
Melbourne VIC 3000

PRINCIPAL STOCK EXCHANGE

Australian Stock Exchange Limited
530 Collins Street
Melbourne VIC 3000
ASX code for shares: SRZ

ADELAIDE OFFICE

63 King William Street
Kent Town SA 5067
Telephone: (08) 8363 1589

SHARE REGISTRY

Link Market Services Limited
Level 4, 333 Collins Street
Melbourne VIC 3000

Register of listed ordinary shares held at this address





Stellar Resources Limited ABN 96 108 758 961

Level 7 Exchange Tower, 530 Little Collins Street, Melbourne Victoria 3000

T/ +61 3 9909 7618 F/ + 61 3 9909 7621 E/ szinfo@stellarresources.com.au

