# MAGNUM GOLD N.L.

**A.B.N. 70 003 170 376**

**FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004**

**DIRECTORS**
John Brian Rodger, Chairman
Jeffrey Christopher Schiller B.Sc. (Hons.), PhD. (University of Adelaide)
Peter Robert Richard
Paul Aurius Lincoln Smith LL.B. (University of Sydney)
Wayne Vincent Annis-Brown LL.B., LL.M. (University of Sydney)
Marcus Paul Lincoln Smith B.A., BSc. (Hons), MSc., PhD. (University of Sydney)

**SECRETARY**
Steven J. Danielson B.B.S., F.C.A.

**REGISTERED OFFICE**
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**SHARE REGISTRY**
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**SOLICITORS**
Lincoln Smith & Co.,
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133 Castlereagh Street,
SYDNEY NSW 2000 AUSTRALIA

Blake Dawson Waldron,
Level 36, Grosvenor Place,
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SYDNEY NSW 2000 AUSTRALIA

**AUDITOR**
PricewaterhouseCoopers, Chartered Accountants,
Darling Park Tower 2,
201 Sussex Street,
SYDNEY NSW 1171 AUSTRALIA

**STOCK EXCHANGE LISTING**
Magnum Gold N.L. shares are listed on the Australian Stock Exchange under the code MGU.

The company is limited by shares, incorporated and domiciled in Australia.

# DIRECTORS' REPORT

Your directors present their report together with the financial statements of the company for the year ended 31 December 2004.

The following persons were directors of Magnum Gold N.L. during the whole of the financial year:-

P.A. Lincoln Smith
W.V. Annis-Brown
M.P. Lincoln Smith

J.B. Rodger was appointed a director on 17 August 2004 and continues in office at the date of this report.

J.C. Schiller was appointed a director on 19 October 2004 and continues in office at the date of this report.

P.R. Richard was appointed a director on 24 March 2005 and continues in office at the date of this report.

M.P. Lincoln Smith was a director from the beginning of the financial year until his resignation on 3 March 2005.

W.V. Annis-Brown was a director from the beginning of the financial year until his resignation on 10 March 2005.

P.A. Lincoln Smith was a director from the beginning of the financial year until his resignation on 24 March 2005.

**Principal Activity**
The principal continuing activity of the company is the exploration for natural resources.

**Operating Results**
The operating loss of the company for the year, after income tax, was $89,280 (2003: loss $33,763).

**Dividends**
No dividends have been paid or declared by the company during the year (2003: nil). The directors of the company do not recommend the payment of a dividend in respect of the year (2003: nil).

**Review of Operations**
**Western Australia**
**Kalgoorlie Tenements (ML M26/497 and ML M26/498 - "Corsair North". The tenements were previously subject to joint ventures with Kalgoorlie Consolidated Gold Mines).**
No work was undertaken on these tenements during the reporting period.

**Bunawan Gold Project, Philippines**
The Bunawan Project is located in central eastern Mindanao, 180 km north of the capital, Davao City, and beside the national highway. The project is strategically positioned in a district that has known epithermal gold deposits and also has potential for porphyry hosted copper-gold mineralisation. The major mine in the immediate area, located five kilometres to the north of Bunawan, is the Co-O Mine, which is owned and operated by Philsaga Mining Corporation ("Philsaga"), Magnum Gold's joint venture partner. The Co-O Mine has produced gold from underground mining of high grade quartz veins to a depth of approximately 250m and is open at depth and along strike. Ore from the Co-O Mine is treated at Philsaga's CIP plant 12 km by road to the NNW. The treatment plant has spare capacity to expand its throughput rate and could treat any ore that may be discovered at Bunawan.

Immediately to the south of the Bunawan Project is the Saugon Project a joint venture between Philsaga and Medusa Mining Ltd. This area contains several prospects with gold bearing quartz veins, some are less than one kilometre from the boundary of Magnum Gold's Bunawan ground. The Saugon veins include the First Hit Vein, from which Medusa has reported drill intersections up to 1.0m @ 35.95 gpt Au and 541 gpt Ag.

## DIRECTORS' REPORT (Continued)

**Review of Operations (Continued)**

Further to the south in the same belt of volcanic rocks is the recently depleted Diwalwal Mine, reputed to have produced 7.5 million ounces of gold from underground mining of an epithermal vein system.

The Bunawan Project has not been systematically explored despite its location close to the Co-O deposit and other gold bearing veins. Magnum Gold has commenced an exploration program of stream sediment sampling over the entire project area. Field teams have also carried out geological mapping, outcrop excavation, trenching and soil sampling in several prospective areas.

Through a joint venture with Philsaga, Magnum Gold can earn a 50% interest in the Bunawan Project by spending US$1.5 million on exploration and/or development. The ground subject to the Joint Venture is the application for Mining & Production Sharing Agreement APSA(XIII)000054. Through the joint venture Magnum Gold will have guaranteed access to Philsaga's CIP treatment plant for any ore that may be discovered on the project, and the use of Philsaga's management and local exploration base.

**Other Activities**
The company continues to monitor opportunities for participation in additional projects.

**Significant Changes in the State of Affairs**
Significant changes in the state of affairs of the company during the financial year were as follows:-

An increase in contributed equity of $366,582 (from $7,851,129 to $8,217,711) as a result of:

| | |
|---|---|
| Issue of 12,000,000 fully paid ordinary shares @ 3.3 cents each | 396,000 |
| Less: Transaction costs arising on share issues | (29,418) |
| | $366,582 |

**Likely Developments**
The company proposes to continue its natural resources exploration programme.

**Matters Subsequent to the End of the Financial Year**
On 17 January 2005 the company issued 5,000,000 fully paid ordinary shares at a price of 10 cents per share. The purpose of the share placement was to raise working capital of $500,000. Prior to 31 December 2004 the company had received share application monies totalling $440,000.

Except for the share issue mentioned above, there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature which, in the opinion of the directors, is likely to affect substantially the operations of the company, the results of those operations, or the state of affairs of the company in subsequent financial years, apart from those events mentioned in the review of operations.

**Environmental Regulation**
The company is subject to significant environmental and monitoring requirements in respect of its natural resources exploration activities which are imposed by the following Government Departments via their relevant legislation: Environmental Protection Authority, Department of Infrastructure Planning and Natural Resources, National Parks and Wildlife Services, Department of Urban Affairs & Planning and Department of Minerals Resources.

There have been no material breaches of these requirements during the year.

## DIRECTORS' REPORT (Continued)

**Information on Directors**

**Paul Aurius Lincoln Smith, LL.B. (University of Sydney), Solicitor.**
Mr. Lincoln Smith was appointed Executive Chairman of the Board on 26 September 1986.

He is a practising solicitor of the Supreme Court of New South Wales and Chairman of Directors of Carbon Minerals N.L.

By virtue of these positions, Mr. Lincoln Smith has had in excess of 35 years experience in the management of mineral exploration companies.

Mr. Lincoln Smith resigned as a director on 24 March 2005.

Shares in the company in which Mr. Lincoln Smith has a relevant interest as at the date of this report were 2,043,349.

**Wayne Vincent Annis-Brown, LL.B., LL.M. (University of Sydney), Solicitor.**
Mr. Annis-Brown was appointed as an Executive Director of the company on 4 August 1988.

He has been a practising solicitor of the Supreme Court of New South Wales for 31 years and has had considerable experience in commercial and business law. In addition he is an Executive Director of Carbon Minerals N.L.

Mr. Annis-Brown resigned as a director on 10 March 2005.

Shares in the company in which Mr. Annis-Brown has a relevant interest as at the date of this report were 36,291.

**Marcus Paul Lincoln Smith, B.A., BSc. (Hons.), MSc. PhD. (University of Sydney), Environmental Scientist.**
Mr. Lincoln Smith was appointed a Director of the company originally as an alternate director for Paul Aurius Lincoln Smith and was appointed as a Non-executive Director in his own right on 6 December 1996.

He is a qualified environmental scientist and has carried out environmental consulting work for 24 years. Mr. Lincoln Smith is also a Non-executive Director of Carbon Minerals N.L.

Mr. Lincoln Smith resigned as a director on 3 March 2005.

Shares in the company in which Mr. Lincoln Smith has a relevant interest as at the date of this report were 17,300.

**John Brian Rodger**
Mr. Rodger was appointed as an Executive Director of the company on 17 August 2004 and was elected as Chairman of the Board on 24 March 2005.

Mr. Rodger has been involved with the resources industry since 1980 and during that time he has been a Director of more than 15 listed entities. He has broad experience in the management of mining companies both in Australia and overseas. Mr. Rodger will use his wide range of contacts to assist the company in expanding its prospecting and exploration base.

Shares in the company in which Mr. Rodger has a relevant interest as at the date of this report were 12,000,000.

## DIRECTORS' REPORT (Continued)

**Information on Directors (Continued)**
**Jeffrey Christopher Schiller, BSc. (Hons), PhD. (University of Adelaide)**
Dr. Schiller was appointed as a Non-executive Director of the company on 19 October 2004.

Dr. Schiller has had extensive experience as a Director and/or Exploration Manager of a number of listed mining entities and is currently Non-executive Chairman of Medusa Mining Limited. Dr. Schiller is a member of the Australian Institute of Mining and Metallurgy and the Geological Society of Australia.

Shares in the company in which Dr. Schiller has a relevant interest as at the date of this report were 1,500,000.

**Peter Robert Richard**
Mr. Richard was appointed as an independent Non-executive Director of the company on 24 March 2005.

Mr. Richard has had over 35 years experience as a partner and director of several Stock Broking firms with particular reference to capital raisings for emerging resource companies. He is currently CEO of the Ironbark Group, an export orientated consulting group and has been a board member of half a dozen publicly listed companies in the investment and mining industries over the last 20 years.

Shares in the company in which Mr. Richard has a relevant interest as at the date of this report were nil.

**Meeting of Directors**
The following table sets out the numbers of meetings of the company's board of directors held during the year ended 31 December 2004, and the numbers of meetings attended by each director were:-

**Meeting of Directors (continued)**

| | Full Meetings of Directors | |
|---|---|---|
| | **A** | **B** |
| P.A. Lincoln Smith (resigned 24 March 2005) | 5 | 5 |
| W.V. Annis-Brown (resigned 10 March 2005) | 3 | 5 |
| M.P. Lincoln Smith (resigned 3 March 2005) | 2 | 5 |
| J.B. Rodger (appointed 17 August 2004) | 2 | 3 |
| J.C. Schiller (appointed 19 October 2004) | 1 | 1 |
| P.R. Richard (appointed 24 March 2005) | 0 | 0 |

**A** = Number of meetings attended
**B** = Number of meetings held during the time the director held office

**Directors' and Executives' Emoluments**
The Board determines remuneration policies and practices generally, including remuneration packages and other terms of employment for executive directors and non-executive directors.

Executive directors' and non-executive directors' remuneration and other terms of employment are reviewed annually by the Board having regard to performance against goals set at the start of the year and relevant comparative information.

Details of the nature and amount of each element of the emoluments of each director of Magnum Gold N.L. and each of the 5 officers of the company receiving the highest emoluments are set out below:-

## DIRECTORS' REPORT (Continued)

**Directors' and Executives' Emoluments (Continued)**

| **Executive Directors** | **Directors' Base Fee** |
|---|---|
| | **$** |
| P.A. Lincoln Smith | -- |
| W.V. Annis-Brown | -- |
| J.B. Rodger | -- |
| **Non-executive Directors** | |
| M.P. Lincoln Smith | -- |
| J.C. Schiller | -- |
| P.R. Richard | -- |
| **Other Officers** | |
| S.J. Danielson | -- |

No other officers or directors receive any emoluments from the company.

Based on the size of the company and its activities the directors believe that the remuneration of the directors and executives is a fair reflection of the company's performance.

**Auditors**

PricewaterhouseCoopers continue in office in accordance with Section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the Board and is signed for and on behalf of the directors.

J.B. Rodger
Director
Sydney, 30 March 2005.

PRICEWATERHOUSECOOPERS

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## Auditor's Independence Declaration

As lead auditor for the audit of Magnum Gold N.L. for the year ended 31 December 2004, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Magnum Gold N.L. during the period.

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
31 March 2005

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Magnum Gold NL is committed to attaining and implementing the highest standards of corporate governance. The board has reviewed the company's corporate governance practices in relation to the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council. The Board supports the intent of the best practice recommendations and recognises that given the limited size and scope of the company it is not practical to institute all of the best practice recommendations at present.

A description of the company's main corporate governance practices is set out hereunder. Unless stated otherwise, all of the following practices were in place for the entire year.

**The Board of Directors**
The Board of Directors are responsible to the shareholders for the performance of the company and the implementation of corporate governance policies. The Board operates in accordance with the following principles:-

- The Board should comprise between 3 and 12 directors, with a mix of executive and non-executive directors;
- The Board should comprise directors with a range of skills and experience that are appropriate and assist the directors in performing their duties within the scope of the company's operations.

Directors are initially appointed by the full Board and are subject to re-election at the annual general meeting by shareholders at three-yearly intervals, or at the next annual general meeting after their initial appointment.

The Chairman of the Board is an executive director who is elected by the full Board.

Corporate governance best practice recommendations 2.1, 2.2, 2.3 which requires the majority of the Board to be independent directors, the Chairman to be an independent director and the roles of Chairman and Chief Executive Officer to be exercised by different individuals have not been adopted by the company. The Board is of the opinion that the company is best served by its current board composition of executive and non-executive directors and a chairman who is an executive director and also performs the role of chief executive officer.

The company considers corporate governance best practice recommendation 1.1 which requires formalisation and disclosure of the functions reserved to the Board and those delegated to management inappropriate given the size of the company's operations, the number of directors constituting the Board and the fact that the company has no employees. Accordingly, the Board is responsible for the functions typically delegated to management in addition to its usual Board functions.

**Independent Professional Advice**
Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

**Performance Assessment**
The Board undertakes annual self assessment of its collective performance and the performance of the Chairman.

The Chairman undertakes an annual assessment of the performance of individual directors. The Directors' performance is measured against specific performance goals as set out by the Board annually.

## CORPORATE GOVERNANCE STATEMENT (Continued)

**Nomination and Remuneration of Directors and Audit Committees**
Corporate governance best practice recommendations 2.4, 4.2 and 9.2 require listed entities to establish a nomination committee, an audit committee and a remuneration committee respectively. During the year ended 31 December 2004, the company did not have a separate nomination, audit or remuneration committee. However, the duties and responsibilities typically delegated to such committees are considered to be the responsibility of the full Board.

Due to the relatively small size of the company's operations and the number of directors constituting the Board, the Board of Directors unanimously believe that the company's policies relating to the nomination and remuneration of directors and the review of external audit arrangements are best catered for by the involvement of the entire Board. The main procedures that the company has in place regarding the nomination and remuneration of directors and reviewing the adequacy of existing external audit arrangements are set out below.

**Nomination of Directors**
Any Board member may make recommendations on Board composition and appointments, however appointments are subject to the final approval of the full Board.

**Remuneration of Directors**
The amount of remuneration payable to directors is determined and reviewed by the full Board. Further information on directors' remuneration is set out in Note 15 to the financial statements.

**Review of External Audit Arrangements**
The assessment of the scope and quality of the company's audit is carried out by the full Board. Assessment procedures include:-

- Reviewing external audit reports to ensure that any significant deficiencies or breakdowns in controls or procedures have been identified and remedied;
- Liaising with the auditors and ensuring that the annual statutory audit and half-year review are conducted in an effective manner;
- Reviewing internal controls;
- Monitoring compliance with statutory responsibilities.

**Ethical Standards**
The Board expects all directors to perform their duties in a manner which is ethical, honest and objective and at all times endeavour to maintain and improve the performance and reputation of the company. A code of conduct, as purported in best practice recommendation 3.1 and 10.1, has not been formally established as the Chairman consistently and continuously ensures that all members of the Board have a clear understanding of their duties, responsibilities and their accountability to the company and its shareholders for their conduct.

The purchase and sale of company securities by Directors and employees is permitted. However, buying or selling of the company's shares is not allowed at any time by any person who possesses unpublished information which may affect the price of the company's shares.

**Communication with Shareholders and Continuous Disclosure**
The company aims to provide relevant and timely information to its shareholders and the broader investment community in accordance with its continuous disclosure obligations under the ASX Listing Rules.

The Board has established policies and procedures to ensure compliance with ASX Listing Rule disclosure requirements and accountability at a senior management level for that compliance. However, the Board believes that the formalisation of these policies and procedures in a written form as recommended in best practice recommendation 5.1 is not necessary as the Board is satisfied that all Board members are acutely aware of the importance of making timely and balanced disclosure.

## CORPORATE GOVERNANCE STATEMENT (Continued)

**Communication with Shareholders and Continuous Disclosure (Continued)**

Mr. S.J. Danielson, company secretary, has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

**Risk Assessment and Management**

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems.

The assessment of identified and potential significant business risk is monitored by the executive directors. The executive directors are responsible for the development and implementation of appropriate risk management strategies in order to mitigate such risk.

The Chairman has declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the company.

## STATEMENT OF FINANCIAL PERFORMANCE
## FOR THE YEAR ENDED 31 DECEMBER 2004

| | NOTES | 2004<br>$ | 2003<br>$ |
|---|---|---|---|
| **Revenue from ordinary activities** | 2 | **11,311** | 40,407 |
| Exploration expense | | **(4,194)** | (24,608) |
| Borrowing costs expense | | **--** | (630) |
| Administration expenses | | **(68,739)** | (48,932) |
| Other expenses from ordinary activities | | **(27,658)** | - |
| **Loss from ordinary activities before income tax expense** | 3 | **(89,280)** | (33,763) |
| Income tax expense | 4 | **--** | -- |
| **Loss from ordinary activities after income tax expense** | | **(89,280)** | (33,763) |
| Net loss | | **(89,280)** | (33,763) |
| **Total changes in equity other than those resulting from transactions with owners as owners** | | **(89,280)** | (33,763) |
| | | **Cents** | Cents |
| Earnings per share | 22 | **(0.13)** | (0.05) |
| Diluted earnings per share | | **(0.13)** | (0.05) |

The above statement of financial performance should be read in conjunction with the accompanying notes.

# STATEMENT OF FINANCIAL POSITION
# AS AT 31 DECEMBER 2004

| | NOTES | 2004<br>$ | 2003<br>$ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash | 5 | **--** | 3,693 |
| Short Term Deposits | 6 | **861,033** | 89,552 |
| Receivables | 7 | **9,587** | 2,223 |
| **Total Current Assets** | | **870,620** | 95,468 |
| **Non-Current Assets** | | | |
| Exploration and Evaluation Expenditure | 8 | **--** | 27,842 |
| **Total Non-Current Assets** | | **--** | 27,842 |
| **Total Assets** | | **870,620** | 123,310 |
| **Current Liabilities** | | | |
| Accounts Payable | 9 | **30,970** | 10,050 |
| Interest Bearing Liabilities | 10 | **9,088** | -- |
| Other | 11 | **440,000** | -- |
| **Total Current Liabilities** | | **480,058** | 10,050 |
| **Total Liabilities** | | **480,058** | 10,050 |
| **Net Assets** | | **390,562** | 113,260 |
| **Equity** | | | |
| Contributed Equity | 12 | **8,217,711** | 7,851,129 |
| Accumulated Losses | 13 | **(7,827,149)** | (7,737,869) |
| **Total Equity** | 14 | **390,562** | 113,260 |
| Commitments for Expenditure | 23 | | |
| Contingent Liabilities | 25 | | |

The above statement of financial position should be read in conjunction with the accompanying notes.

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2004

| | NOTES | 2004 $ | 2003 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | **10,092** | 5,194 |
| Exploration expenditure recouped | | **517** | -- |
| Payments | | | |
| - to suppliers and employees (inclusive of goods and services tax) | | **(58,491)** | (52,678) |
| - for exploration expenditure (inclusive of goods and services tax) | | **--** | (5,458) |
| **Net cash inflow/(outflow) from operating activities** | 21 | **(47,882)** | (52,942) |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of non-current asset | | **--** | 35,000 |
| **Net cash inflow/(outflow) from investing activities** | | **--** | 35,000 |
| **Cash flows from financing activities** | | | |
| Proceeds from share issue | | **396,000** | -- |
| Proceeds from share application monies | | **440,000** | -- |
| Share issue transaction costs | | **(29,418)** | -- |
| **Net cash inflow/(outflow) from financing activities** | | **806,582** | -- |
| **Net increase/(decrease) in cash held** | | **758,700** | (17,942) |
| **Cash at the beginning of the financial year** | | **93,245** | 111,187 |
| **Cash at the end of the financial year** | 5 | **851,945** | 93,245 |

The above statement of cash flows should be read in conjunction with the accompanying notes

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) BASIS OF ACCOUNTING**

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

The Australian Accounting Standards Board (AASB) is adopting Australian Equivalent International Financial Reporting Standards (AEIFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the company's financial statements for the year ending 31 December 2005. Information about how the transition to Australian equivalents to IFRS is being managed, and the key differences in accounting policies that are expected to arise, is set out in note 1(l).

**(b) JOINT VENTURES**

Where part of a joint venture interest is farmed out in consideration of the farminee undertaking to incur further expenditure on behalf of both the farminee and the entity in the joint venture area of interest, exploration expenditure incurred and carried forward prior to farmout continues to be carried forward without adjustment, unless the terms of the farmout are excessive based on the diluted interest retained. A provision is then made to reduce exploration expenditure to its recoverable amount. Any cash received in consideration for farming out part of a joint venture interest is treated as a reduction in the carrying value of the related mineral property. Details of the joint ventures are set out in note 21.

**(c) EXPLORATION EXPENDITURE**

Exploration expenditure is carried forward when it is incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which:

(i) the expenditure is expected to be recouped by the company through successful development of the area; or

(ii) exploration activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable mineral reserves, and active and significant operations in, or in relation to, the area are continuing.

Cumulative exploration expenditure which no longer satisfies the above policy is no longer carried forward as an asset, but is charged against, and shown as a deduction from, operating profit.

**(d) INCOME TAX**

The liability method of tax effect accounting procedures are followed whereby the income tax expense is matched with the accounting profit after allowing for permanent differences. The future income tax benefit relating to tax losses is not carried forward as an asset unless realisation of the benefit can be regarded as being virtually certain.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(e) CASH**

For purposes of the statement of cash flows, cash includes short term deposits less bank overdrafts which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis.

**(f) RECOVERABLE AMOUNT OF NON-CURRENT ASSETS**

Where the carrying amount of an individual non-current asset is greater than its recoverable amount the asset is revalued to its recoverable amount (except exploration which is carried forward in accordance with (c) above). To the extent that the revaluation decrement reverses a revaluation increment previously credited to and still included in the balance of the asset revaluation reserve, the decrement is debited directly to that reserve. Otherwise the decrement is recognised as an expense in the statement of financial performance.

The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted to their present values.

**(g) DEPRECIATION**

Depreciation is calculated on a straight line basis so as to write off the net cost of each item of plant and equipment over its expected useful life.

**(h) TRADE AND OTHER CREDITORS**

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(i) EARNINGS PER SHARE**

Basic earnings per share is determined by dividing the operating profit after income tax by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

There are no outstanding derivatives therefore diluted earnings per share is the same as basic earnings per share.

**(j) REVENUE RECOGNITION**

Amounts disclosed as revenue are recognised on an accruals basis in accordance with the terms of the relevant agreement.

**(k) RECEIVABLES**

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists and in any event when the debt is more than 120 days overdue.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)**

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) AUSTRALIAN EQUIVALENT INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

The Australian Accounting Standards Board (AASB) is adopting AEIFRS for application to reporting periods beginning on or after 1 January 2005. The AASB will issue Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity's financial statements for the year ending 31 December 2005.

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AEIFRS to that comparative period. Most adjustments required on transition to AEIFRS will be made, retrospectively, against opening retained earnings as at 1 January 2004.

The board of directors has begun the process of evaluating the effects that the transition to Australian equivalents to IFRS will have on Magnum Gold NL. In some cases choices of accounting policies are available, including elective exemptions under Pending Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. Some of these choices are still being analysed to determine the most appropriate accounting policy for the company.

Major changes identified to date that will be required to the company's existing accounting policies include the following:

**(i) Income tax**

Under the new AASB 112 *Income taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

**(ii) Exploration**

AASB 6 *Exploration for and evaluation of mineral resources* was released in December 2004 and will supersede the existing AASB 1022 *Accounting for the extractive industries*. The primary difference in the new standard is that it applies only to exploration and evaluation expenditure. The differences between these two standards in this respect are not considered to be material to the entity.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the consolidated entity's financial position and reported results.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)

### NOTE 2: REVENUE

| | 2004 $ | 2003 $ |
|---|---|---|
| **Revenue from operating activities** | | |
| Proceeds from sale of non-current asset | **--** | 35,000 |
| Exploration expenditure recouped | **517** | -- |
| **Revenue from outside the operating activities** | | |
| Interest received – non related corporations | **10,794** | 5,407 |
| Total revenue | **11,311** | 40,407 |

### NOTE 3: OPERATING LOSS

| | 2004 $ | 2003 $ |
|---|---|---|
| Loss from ordinary activities before income tax expense includes the following specific expenses: | | |
| Exploration expenses | **4,194** | 24,608 |

The company has no employees (2003: nil).

### NOTE 4: INCOME TAX

The income tax expense for the financial year differs from the amount calculated on the loss. The differences are reconciled as follows:-

| | 2004 | 2003 |
|---|---|---|
| Loss from ordinary activities before income tax expense | **(89,280)** | (33,763) |
| Income tax calculated at 30% | **(26,784)** | (10,129) |
| Future income tax benefit not recognised/ (brought to account) | **26,784** | 10,129 |
| Income tax charge/(credit) attributable to operating loss | **--** | -- |
| The directors estimate that the potential future income tax benefit at 31 December 2004 in respect of tax losses not brought to account is: | **429,665** | 402,881 |

This benefit for tax losses will only be obtained if:

(i) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised.

(ii) the company continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation affect the company in realising the benefit from the deductions for the losses.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)**

## NOTE 5: CURRENT ASSETS – CASH

| | 2004 $ | 2003 $ |
|---|---|---|
| Cash at bank and on hand | **--** | 3,693 |

The above figures are reconciled to cash at the end of the year as shown in the statement of cash flows as follows:-

| | | |
|---|---|---|
| Balances as above | **--** | 3,693 |
| Add Short term deposits (Note 6) | **861,033** | 89,552 |
| | **861,033** | 93,245 |
| Less: Bank overdraft (Note 10) | **(9,088)** | -- |
| Balance per Statement of Cash Flows | **851,945** | 93,245 |

Cash at bank balances are subject to interest at variable rates and the average rate for the year was 0.27% (2003 0.61%)

## NOTE 6: CURRENT ASSETS – SHORT TERM DEPOSITS

| | | |
|---|---|---|
| Short term deposits | **861,033** | 89,552 |

Short term deposits are subject to interest at fixed rates and the average interest rate for the year was 5.01% (2003: 4.02%).

| | | |
|---|---|---|
| Amounts included in short term deposits held as security for bank guarantee (refer Note 25) | **30,000** | 30,000 |

## NOTE 7: CURRENT ASSETS – RECEIVABLES

| | | |
|---|---|---|
| Sundry debtors | **8,672** | 2,010 |
| Interest receivable | **915** | 213 |
| | **9,587** | 2,223 |

The carrying value of receivables approximates their fair value.

## NOTE 8: NON-CURRENT ASSETS – OTHER

| **Exploration and evaluation expenditure** | | |
|---|---|---|
| Cost brought forward | **27,842** | 47,126 |
| Expenditure incurred during the year | **--** | 5,324 |
| Expenditure written off during the year | **(4,194)** | (24,608) |
| | **23,648** | 27,842 |
| Provision for diminution in value | **(23,648)** | -- |
| Net exploration and evaluation expenditure carried forward | **--** | 27,842 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)

### NOTE 8: NON-CURRENT ASSETS – OTHER (Continued)

The above amounts represent costs of areas of interest carried forward as an asset in accordance with the accounting policy set out in Note 1. The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

### NOTE 9: CURRENT LIABILITIES – PAYABLES

| | 2004 $ | 2003 $ |
|---|---|---|
| Other creditors | **30,970** | 10,050 |

### NOTE 10: CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

| | 2004 $ | 2003 $ |
|---|---|---|
| Bank overdraft | **9,088** | -- |

The bank overdraft amount above is subject to interest calculated at the rate of 9.1% per annum.

### NOTE 11: CURRENT LIABILITIES - OTHER

| | 2004 $ | 2003 $ |
|---|---|---|
| Share application monies received | **440,000** | -- |

### NOTE 12: CONTRIBUTED EQUITY

(a) **Share Capital**

| | 2004 $ | 2003 $ |
|---|---|---|
| 5 ordinary shares of $0.20 each, fully paid, issued as subscriber shares | **1** | 1 |
| 76,165,612 ordinary shares of $0.20 each, fully paid | **8,217,710** | 7,851,128 |
| | **8,217,711** | 7,851,129 |

(b) **Movements in ordinary share capital:**

| Date | Details | No. of Shares | Issue Price (cents) | $ |
|---|---|---|---|---|
| 1 January 2004 | Opening balance | 64,165,617 | | 7,851,129 |
| 17 August 2004 | Share issue | 12,000,000 | 3.3 | 396,000 |
| | Less: Transaction costs arising on share issue | | | (29,418) |
| 31 December 2004 | Balance | **76,165,617** | | **8,217,711** |

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)

### NOTE 12: CONTRIBUTED EQUITY

(c) **Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

At 31 December 2004 there were 76,165,617 ordinary shares called and fully paid to 20 cents.

### NOTE 13: ACCUMULATED LOSSES

| | Notes | **2004** | 2003 |
|---|---|---|---|
| **Accumulated Losses** | | **$** | $ |
| Accumulated losses at the beginning of the financial year | | **(7,737,869)** | (7,704,106) |
| Net loss | | **(89,280)** | (33,763) |
| Accumulated losses at the end of the financial year | | **(7,827,149)** | (7,737,869) |

### NOTE 14: EQUITY

| | Notes | **2004** | 2003 |
|---|---|---|---|
| Total equity at the beginning of the financial year | | **113,260** | 147,023 |
| Total changes in equity recognised in the statement of financial performance | | **(89,280)** | (33,763) |
| Transactions with owners as owners: | | | |
| Contributions of equity, net of transaction costs | 12(b) | **366,582** | -- |
| Total equity at the end of the financial year | | **390,562** | 113,260 |

### NOTE 15: REMUNERATION OF DIRECTORS

| | **2004** | 2003 |
|---|---|---|
| Amount paid or payable, or otherwise made available to the directors of Magnum Gold N.L. from the company and related corporations | **16,000** | 8,000 |
| Number of directors whose remuneration was within the following bands: | | |
| $0 - $10,000 | **5** | 3 |

Note: Remuneration for the periods ended 31 December 2004 and 31 December 2003 refers to payments by a related corporation Carbon Minerals N.L. No payments were made during the year by Magnum Gold N.L.

### NOTE 16: REMUNERATION OF AUDITORS

| | **2004** | 2003 |
|---|---|---|
| Remuneration for audit or review of the financial reports | **5,930** | 2,650 |

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)

### NOTE 17: RELATED PARTY DISCLOSURES

**(a) Directors**

The following persons were directors of Magnum Gold N.L. during the financial year:-

**Chairman - executive**
P.A. Lincoln Smith

**Executive directors**
W.V. Annis-Brown
J.B. Rodger

**Non-executive directors**
M.P. Lincoln Smith
J.C. Schiller

W.V. Annis-Brown resigned from the position of executive director on 10 March 2005.

M.P. Lincoln Smith resigned from the position of director on 3 March 2005.

P.A. Lincoln Smith resigned from the position of director on 24 March 2005.

**(b) Remuneration**

Information on remuneration of directors is provided in Note 15.

**(c) Other Transactions of Directors and Director-Related Entities**

During the year office representation fees of $8520 (2003: $8,520) were payable to Palmarc Investments Pty Limited a company controlled by P.A. Lincoln Smith.

**(d) Interest of Directors**

The register of directors' shareholdings discloses that at balance date, the directors of the company held a relevant interest in the share capital of the company as follows:-

| | **2004** | 2003 |
|---|---|---|
| P.A. Lincoln Smith | **14,043,349** | 51,335,864 |
| W.V. Annis-Brown | **36,291** | 36,291 |
| M.P. Lincoln Smith | **17,300** | 17,300 |
| J.B. Rodger | **12,000,000** | -- |
| J.C. Schiller | **1,000,000** | -- |

M.P. Lincoln Smith is a son of P.A. Lincoln Smith and may therefore be considered to have a related interest in P.A. Lincoln Smith's shareholding above and vice versa.

### NOTE 18: SEGMENTS INFORMATION

**Business Segments**

The company operates in only one business segment, being a natural resources explorer.

**Geographical Segments**

The company's exploration activities were primarily carried out in Australia. The company is currently negotiating exploration opportunities in the Philippines. At balance date no revenue has been earned and no expenses have been incurred in relation to any geographical segments other than Australia.

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)

### NOTE 19: DIVIDENDS

| | 2004 $ | 2003 $ |
|---|---|---|
| Franking credits available for the subsequent financial year | **58,451** | 58,451 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:-

(a) franking credits that will arise from the payment of the current tax liability
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and
(d) franking credits that may be prevented from being distributed in subsequent financial years.

Under legislation that took effect on 1 July 2002, the amount recorded in the franking account is the amount of income tax paid, rather than franking credits based on after tax profits, and amounts debited to that account in respect of dividends paid after 30 June 2002 are the franking credits attaching to those dividends rather than the gross amount of the dividends.

### NOTE 20: FINANCIAL INSTRUMENTS

**(a) Interest rate risk exposures**

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. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the company intends to hold fixed rate assets and liabilities to maturity.

**(b) Net fair values of financial assets and liabilities**

The carrying amounts of financial assets and liabilities as disclosed in the statement of financial position equate to their estimated net fair value.

**(c) Interest rate risk exposures**

| | Notes | Floating interest rate | Fixed interest maturing in: 1 year or less | Non-interest bearing | Total |
|---|---|---|---|---|---|
| **2004** | | $ | $ | $ | $ |
| **Financial assets** | | | | | |
| Cash and deposits | 5,6 | -- | 861,033 | -- | 861,033 |
| Receivables | 7 | -- | -- | 9,587 | 9,587 |
| | | -- | 861,033 | 9,587 | 870,620 |
| Weighted average interest rate | | 0.27% | 5.01% | | |
| **Financial liabilities** | | | | | |
| Bank overdraft | 10 | 9,088 | -- | -- | 9,088 |
| Other creditors | 9 | -- | -- | 30,970 | 30,970 |
| | | 9,088 | -- | 30,970 | 40,058 |
| Weighted average interest rate | | 9.1% | | | |
| Net financial assets (liabilities) | | (9,088) | 861,033 | (21,383) | 830,562 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)

### NOTE 20: FINANCIAL INSTRUMENTS (Continued)

| | | Fixed interest maturing in: | | | |
|---|---|---|---|---|---|
| | **Notes** | **Floating interest rate** | **1 year or less** | **Non-interest bearing** | **Total** |
| **2003** | | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | | |
| Cash and deposits | 5,6 | 3,693 | 89,552 | -- | 93,245 |
| Receivables | 7 | -- | -- | 2,223 | 2,223 |
| | | 3,693 | 89,552 | 2,223 | 95,468 |
| Weighted average interest rate | | 0.61% | 4.02% | | |
| **Financial liabilities** | | | | | |
| Bank overdraft | 10 | -- | -- | -- | -- |
| Other creditors | 9 | -- | -- | 10,050 | 10,050 |
| | | -- | -- | 10,050 | 10,050 |
| Net financial assets (liabilities) | | 3,693 | 89,552 | (7,827) | 85,418 |

### NOTE 21: RECONCILIATION OF OPERATING LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | **2004** | 2003 |
|---|---|---|
| | **$** | $ |
| Operating loss after income tax | **(89,280)** | (33,763) |
| Exploration expenditure written off | **4,194** | 24,608 |
| Exploration expenditure incurred | **--** | (5,324) |
| Profit on sale of non-current asset | **--** | (35,000) |
| Change in operating assets and liabilities: | | |
| (Increase) decrease in interest receivable | **(702)** | (213) |
| (Increase) decrease in sundry debtors | **(6,662)** | 441 |
| Increase (decrease) in provision for diminution in value of non-current assets | **23,648** | -- |
| Increase (decrease) in trade creditors | **--** | (200) |
| Increase (decrease) in other creditors | **17,420** | (3,491) |
| Increase (decrease) in sundry creditors | **3,500** | -- |
| Net cash outflow from operating activities | **(47,882)** | (52,942) |

### NOTE 22: EARNINGS PER SHARE

| | | |
|---|---|---|
| Basic earnings per share | **(0.0013)** | (0.0005) |
| Weighted average number of ordinary shares outstanding during the year used as the denominator in calculating basic earnings per share | **68,636,850** | 64,165,612 |

Diluted earnings per share is the same as basic earnings per share.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)**

## NOTE 23: COMMITMENTS FOR EXPENDITURE

**Exploration Commitments**

In order to maintain current rights to tenure to exploration tenements, the company has the following discretionary exploration expenditure requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases are not provided for in the financial statements and are payable:-

| | **2004** | 2003 |
|---|---|---|
| | **$** | $ |
| Not later than one year | **--** | 425,446 |
| Later than one year but not later than five years | **--** | -- |
| | **--** | 425,446 |

If the company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

## NOTE 24: JOINT VENTURES

**New South Wales Biogas Project PELs 439 and 440**

Current tenure for PELs 439 and 440 expired on 23 October 2004. Renewal of the PELs was not sought. Accordingly the joint venture agreement with Australian Coalbed Methane Pty Limited was terminated.

All joint ventures are in the exploration stage and the company's share of joint venture exploration expenditure is included in Note 8.

The company's interest in the joint ventures are included in the balance sheet, in accordance with the accounting policy described in note 1(c), under the following classification:

| | | |
|---|---|---|
| **Non-Current Assets** | | |
| Exploration and evaluation expenditure carried forward | **--** | 4,194 |

## NOTE 25: CONTINGENT LIABILITIES

| | | |
|---|---|---|
| **Guarantees** | | |
| Secured guarantees in respect of Department of Mineral Resources deposits. Secured by deposits held by the company (refer Note 6) in financial institutions: | **30,000** | 30,000 |

**Native Title Claims**

The company has been notified of a number of competing native title claims under the Commonwealth Native Title Act, 1993 over tenements held by the company.

Until further information is available, the company will not be in a position to assess the likely effect, if any, of any claim on the company. However, the directors of the company expect that the existing tenements will not be materially affected by any claim or the claims in aggregate.

**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2004 (Continued)**

## NOTE 26: EVENT OCCURRING AFTER BALANCE DATE

On 17 January 2005 the company issued 5,000,000 fully paid ordinary shares at a price of $0.10 per share. The purpose of the share placement was to raise working capital of $500,000. Prior to 31 December 2004 the company had received share application monies totalling $440,000 and the company has accounted for this as a current liability at balance date (Refer Note 11).

# DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 11 to 25:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
(b) give a true and fair view of the company's financial position as at 31 December 2004 and of its performance, as represented by the results of its operations and cash flows, for the financial year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and
(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

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

J.B. Rodger
Director
Sydney, 30 March 2005

PRICEWATERHOUSECOOPERS

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# Independent audit report to the members of Magnum Gold N.L.

## Audit opinion

In our opinion, the financial report of Magnum Gold N.L.:

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Magnum Gold N.L. as at 31 December 2004, and of its performance for the year ended on that date, and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

## Scope

**The financial report and directors' responsibility**
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Magnum Gold N.L. (the company) for the year ended 31 December 2004.

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

**Audit approach**
We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to 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 control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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

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## Independent audit report to the members of Magnum Gold N.L. (continued)

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

PricewaterhouseCoopers

| | |
|---|---|
| Peter Buchholz | Sydney |
| Partner | 31 March 2005 |