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Carnegie Minerals Plc Annual Report December 2006

Contents

Officers and Advisers

Directors

Alan R Burns	Chairman
Alan G Hopkins	Managing Director
Timothy S Jones	Financial Director
Boris Matveev	Technical Director
Grant J Mooney	Non-executive Director

Secretary
Timothy S Jones

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Western Australia 6005

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Officers and Advisers (continued)

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Stock Exchange
AIM
London Stock Exchange
Code CME

Carnegie Minerals Plc is listed on the Alternative Investment Market (AIM) of the London Stock Exchange (code CME)

Highlights

- Successful IPO in August raised net ~ £1 5 million to fund the group's share of exploration in Senegal and support the funded mining operation in The Gambia

The Gambia

- Mining project construction well advanced with some production units already commissioned

Senegal

- Completed in fill drilling of first dune (at Niafarang) resulting in high grade resource

- Low level remote sensing undertaken over entire license area, generating numerous targets for exploration drilling

- Drilling underway over targets generated by remote sensing

Chairman's statement

"2007 promises to be a year of significant progress as we bring on stream our production in The Gambia and assess our adjoining areas in Senegal"

I am pleased to be able to report our inaugural period has been one of great progress Since listing on the AIM market in August 2006, we have rapidly advanced construction at our mineral sands production project in The Gambia with several production units already commissioned We are on schedule in this regard In parallel, our exploration team in adjoining Senegal has moved forward quickly with its evaluation of the targets adjoining The Gambian deposits with positive results The Gambian production will provide a platform for the development of any additional resources discovered during the exploration in adjoining Senegal

Management is to be admired for the way they have provided the project funding and marketing of the product thereby overcoming the problems of many start up mining projects Additionally, the group's activities have generated new opportunities with preliminary investigation work on these potentially leading to further growth

Results

As our ventures were predominantly in construction mode during the period, turnover was restricted to the preliminary sale by our Gambian joint venture of some concentrate processed by the small trial programme separators totalling £77,000 Expenditure by our 50% partner, Astron Limited who provided the funding on developing the production capability totalled £1 1 million to 31 12 06 As the project comprises several mining units at different locations, these are being developed sequentially so that production and exports commence while the remaining units are still being commissioned throughout 2007

The group invested in establishing both a financial and operating base from which it can then expand Losses attributable to ordinary shareholders for this initial period totalled £308,525 The loss per share was 0 0275p The board is unable to recommend a dividend at this stage of the company's development

As at 31st December 2006, the Group's cash reserves were £1 2 million after the IPO raising in August of net £1 5 million

Board & Management

In line with the development of the Group's emerging mining project in The Gambia, we recruited Mining Project Manager, Rob Bradley who has assumed responsibility for overseeing the development of the Gambian mining project We also recruited Mr Andrew Storrie as in country manager to oversee a growing team that now exceeds 120 This is a multicultural effort that includes a significant Chinese contingent operating and supporting the dredges provided by our Chinese based project partner, Astron Ltd who also provides the market for our product

Outlook

The coming year promises to be a remarkable year with the mining & processing facilities in The Gambia to be fully commissioned This will provide project revenues and enable the commencement of the repayment of the interest free development funding from Astron The results of the exploration work in Senegal will provide an understanding of the probable final scale / mine life of this cross border mineral sands project which has significant potential The pursuit of the new opportunities that have arisen also promise to add to the growth prospects of our young group

I would like to thank all our shareholders for their support and our hardworking executive team for their efforts during this demanding start up phase and we look forward to the coming year with great anticipation

review of operations

"Emerging production provides Carnegie with a platform for expansion in 2007"

Five events stand out as significant milestones in the development of Carnegie during the period under review The first was the successful listing of the Company in August on the AIM market that raised ~ net £1 5 million This, in conjunction with the funding arrangements with our partner, Astron Limited, provides the structural & financial platform for the group to support the emerging production in The Gambia and meet its share of exploration expenditure in adjoining Senegal

The second milestone was the progress made in establishing production capability in The Gambia At the time of writing, all four mining dredges have been constructed with three of these already commissioned and fully operational

The third milestone was the completion of the infill drilling at the first & nearest exploration target in adjoining Southern Senegal This coastal dune (Niafarang) is just at the Gambian border and only 4 kilometres from the Kartung deposit in The Gambia The total 2005-2006 auger drilling programme comprised about 1,600 line metres and resulted in a high grade indicated resource for this area

The fourth milestone is the commencement of exploration of the much larger coastal dune systems in southern Senegal The first phase involved flying a high resolution geophysical (magnetic & radiometric) survey over the entire license area This generated a number of exploration targets that warrant drill testing At the time of this report, a very experienced Australian drilling contractor has been contracted to undertake a minimum of 8,000 metres of air-core drilling in this area

The fifth milestone was the recruitment of key new members to the executive mining team

Emerging Production - The Gambia

The mining approach is to apply wet mining using four dredges to the low lying areas and dry mining using a bulldozer & front end loaders coupled with a mobile spiral plant for the higher dune deposits The dredging fleet comprises three suction dredges and one ladder dredge all with their own spiral concentration units All four dredges have been constructed with three already commissioned and working to capacity As each unit is commissioned, production levels progressively increase

The dry mining fleet has been acquired from China and has recently arrived in The Gambia This equipment will feed the spiral plant used for the earlier successful dry mining trials at Brufut (modified to make it more mobile)

All the above units produce gravity concentrates i e a combined heavy mineral concentrate that contains both the non magnetic (zircon & rutile) and the magnetic (ilmenite) valuable minerals Currently this combined concentrate is being sold and shipped to China based offtake partner, Yingkou Astron Chemical Co Ltd, a subsidiary of Astron Ltd It is planned for a magnetic separation plant to be constructed in the country which will then enable magnetically separated products to be shipped

We expect to produce ~80,000 tonnes of HMC in the part production year that is 2007 which equates to ~15,000 tonnes of non magnetic concentrate Our target thereafter is 20,000 tonnes per annum of non magnetic concentrate

While the production capability has necessarily led the development priorities, the construction of onsite laboratories, workshops, stores, offices, etc are also underway

All mine development work is funded by way of an interest free loan from the offtake party and 50% shareholder Astron Ltd

Exploration – Adjoining Senegal

The Company believes the mineral sands deposits explored in The Gambia extend over the border in adjoining Southern Senegal We have made quick progress following this up, with the nearest target at Niafarang just over the Gambian border and 4 kilometres south of the Company's Kartung deposit already auger drilled on a grid spacing of 200 m by 20 m This resulted in a high grade resource being calculated for this area

review of operations (continued)

In addition to the evaluation of the first target, we have flown a high resolution (low level) aeromagnetic and radiometric survey over the entire licence in the coastal area of Southern Senegal This generated a number of targets for drill testing & we have contracted Australian Wallis Drilling to drill a minimum of 8,000 line metres to test these targets

Once all the above results are in, we will have a better understanding of the probable eventual scale of operations for this cross border project

Management Team

With the commencement of construction and production in The Gambia, we have been fortunate to secure the services of key experienced mining professionals Rob Bradley (Project Manager), Andrew Storrie (resident In Country Manager) and Neil Martin (resident Mine Planning Engineer) Rob has extensive mining project start up experience from his time with Sons of Gwalia Ltd, Pac Min Mining Corp, Teck Corp and Mt Edon Gold Andrew, a mining engineer from Camborne School of Mines has extensive mining experience in Africa, Venezuela & Canada and includes time with Falconbridge, De Beers and Kanzai Mining Neil is an MSc graduate from Imperial College and has over 30 years of mining experience in Zambia, Ghana, Sweden & Canada Additionally, the very recent recruitment of Ebrima Cessay (resident Accounting & Administration Manager) to take over the accounting function will ensure the necessary in country controls & detailed support and management information is provided to the Gambian operations commensurate with the rise in activity levels

This team provides significant operational mining capability as we move into our first production phase and we welcome them onboard

Other

While production is emerging and exploration is actively underway on the Senegambia mineral sands project, the group's activities and presence have generated further growth opportunities The merits of these are being carefully investigated as potential areas of participation going forward

Prospects

2007 will be a very active year for Carnegie If all goes as planned, we expect the mining operations in The Gambia to be fully established with operations settled into a steady state Over the adjoining border in Southern Senegal we expect to have a mining resource estimate for the first target at Niafarang and to have investigated the extent of mineralization in other areas further to the south This should provide us with a good understanding of the probable final scale of operations for this project Additionally, the promise of involvement in a new high potential project provides the Company with a series of achievable challenges that we are looking forward to with great anticipation "

Directors' Report

The Directors present their report and the financial statements for the period from 3 February 2006 to 31 December 2006

Principal activity
The principal activity of the Company is the holding company of a group with mineral exploration and production interests held through joint ventures

Results and dividends
The results for the period are set out on page 12

The Directors do not recommend payment of a final dividend

Business review
A review of the business and future developments is given in the chairman's statement on page 4 and the review of operations on pages 5 and 6

Key performance indicators
The group has only recently entered the production phase and accordingly has only a brief period of performance to assess Key performance indicators will consist of volumes of production, market prices achieved and earnings per share Details of milestones reached during the period are given in the review of operations and details of the loss per share are given on page 12

Principal risks
The principal risk factors are exploration risk, resource estimate risk and price volatility Management of these risks is given high priority by the board

Directors and Directors' interests
The Directors of the Company during the period were as follows

James Cunningham-Davis	Appointed 3 February 2006, resigned 7 August 2006
Michael Proffitt	Appointed 3 February 2006, resigned 7 August 2006
Timothy Jones	Appointed 22 June 2006
Alan Burns	Appointed 7 August 2006
Alan Hopkins	Appointed 7 August 2006
Boris Matveev	Appointed 7 August 2006
Grant Mooney	Appointed 7 August 2006

Directors' interests in shares
The interests of the directors in office at 31 December 2006 were as follows

	Ordinary Shares of 1p		Warrants to subscribe for ordinary shares of 1p	
	31 12 06	Date of appointment	31 12 06	Date of appointment
Alan Burns	-	-	-	-
Alan Hopkins	-	-	-	-
Timothy Jones	250,000	-	125,000	-
Boris Matveev	-	-	-	-
Grant Mooney	-	-	-	-

Directors' Report (continued)

Directors' share options

The directors in office at 31 December 2006 had the following interests in share options

	Options granted in the period	Options exercised in the period	Options held at 31 12 06	Exercise Price (p)	Exercisable from	Expiry date
Alan Burns	1,055,555	-	1,055,555	8	14 08 07	14 08 13
Alan Hopkins	2,111,112	-	2,111,112	8	14 08 07	14 08 13
Boris Matveev	1,055,555	-	1,055,555	8	14 08 07	14 08 13
Timothy Jones	250,000	-	250,000	8	14 08 07	14 08 13
Grant Mooney	527,778	-	527,778	8	14 08 07	14 08 13

Substantial shareholdings

At 1 May 2007 the board has been formally notified of the following interests representing 3% or more of the company's issued share capital

	No of shares	Percentage of issued share capital
Carnegie Corporation Limited	22,500,000	40 9
RAB Special Situations (Master) Fund Limited	16,445,000	29 9

Policy and practice on payment of creditors

It is group and company policy to settle all debts on a timely basis, taking account of the credit period given by each supplier The company had no trade creditors as at 31 December 2006 Group trade creditors at 31 December 2006 were equivalent to 30 days of purchases based on the average daily amount invoiced by suppliers during the period

Financial instruments

Details regarding the group use of financial instrument and their associated risks are given in note 16 to the consolidated financial statements

Going concern

The financial statements have been prepared on the going concern basis as, in the opinion of the directors, at the time of approving the financial statements, there is a reasonable expectation that the group will continue in operational existence for the foreseeable future

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information The directors are not aware of any relevant audit information of which the auditors are unaware

BDO Stoy Hayward LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors and signed on behalf of the Board

Timothy Jones
Secretary
30 May 2007

Statement of Directors' Responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group, for safeguarding the assets of the group, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985 The directors have chosen to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and have chosen to prepare the parent company accounts in accordance with UK Generally Accepted Accounting Practice

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs A fair presentation also requires the Directors to

- consistently select and apply appropriate accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business
- make judgements and estimates that are reasonable and prudent, and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions The maintenance and integrity of the group's website is the responsibility of the directors The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein

Independent Auditor's Report To The Shareholders Of Carnegie Minerals Plc

We have audited the group and parent company financial statements (the "financial statements") of Carnegie Minerals Plc for the period ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the Highlights, the Chairman's Statement, Review of Operations and the Directors' Report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

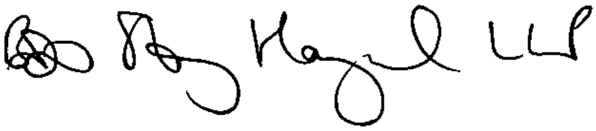
In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its loss for the period then ended,

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the Directors' Report is consistent with the financial statements



BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors, Epsom, 30 May 2007

Carnegie Minerals Plc consolidated income statement for the period ended 31 December 2006

	Notes	2006 £
Revenue – management fees	2	25,844
Administrative expenses		(471,640)
Other operating income		183,970
Operating loss	3	(261,826)
Share of losses of joint venture		(73,369)
Finance income – bank interest		26,670
Loss before tax		(308,525)
Tax expense	8	-
Loss for the period attributable to equity holders of the parent entity		(308,525)

Loss per share attributable to equity holders of the parent entity

Basic and diluted	9	(1 187)p

All results are derived from continuing operations

Carnegie Minerals Plc consolidated statement of recognised income and expense for the period ended 31 December 2006

	2006 £
Loss for the year	(308,525)
Foreign exchange gain on retranslation of overseas operations	6,768
Total recognised income and expense for the year	(301,757)
Attributable to	
Equity holders of the parent	(301,757)

Carnegie Minerals Plc consolidated balance sheet at 31 December 2006

	Notes	2006 £
Assets		
Non-current assets		
Intangible assets	10	448,288
Property, plant and equipment	11	84,366
Interests in joint ventures	7	656,150
		1,188,804
Current assets		
Trade and other receivables	13	78,637
Cash and cash equivalents		1,205,322
		1,283,959
Total assets		2,472,763
Liabilities		
Current liabilities		
Trade and other payables	14	108,200
Total liabilities		108,200
Net assets		2,364,563
Equity attributable to equity holders of parent		
Share capital	18	550,000
Share premium	19	969,851
Merger reserve	20	839,346
Foreign exchange reserve	20	6,768
Warrant reserve	20	250,000
Retained earnings	20	(251,402)
Total equity attributable to equity holders of the parent		2,364,563

The financial statement were approved by the Board of Directors and authorised for issue on 30 May 2007 and were signed on its behalf by

Timothy Jones
Director

Carnegie Minerals Plc consolidated cash flow statement for the period ended 31 December 2006

	Dec 2006 £
Net cash flow from operating activities	
Loss for the period	(308,525)
Depreciation and amortisation	7,648
Share-based payment expense	57,123
Share of losses of joint venture	73,369
Interest received	(26,670)
Foreign exchange gains	(21,966)
Movement in working capital	
– trade and other receivables	(78,399)
– trade and other payables	(163,560)
Cash flow from operations	(460,980)
Cash flow from investing activities	
Purchase of property, plant and equipment	(80,536)
Net funds acquired with subsidiary undertakings	225,317
Interest received	26,670
Net cash flow from investing activities	171,451
Cash flow from financing activities	
Issue of shares	2,025,000
Listing expenses and share issue costs	(530,149)
Net cash flow used in financing activities	1,494,851
Net increase in cash and cash equivalents	1,205,322
Cash and cash equivalents at 3 February 2006	-
Cash and cash equivalents at 31 December 2006	1,205,322
Cash and cash equivalents comprises of	
Cash available on demand	58,496
Short-term deposits	1,146,826
	1,205,322

1 Accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS The consolidated financial statements have also been prepared in accordance with IFRSs adopted by The European Union and therefore they comply with Article 4 of the EU IAS Regulation This is the first year the accounts have been prepared

The parent company financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and are set out on pages 30 to 32

Revenue

Revenue comprises management fees (excluding VAT and similar taxes) received from the group's joint ventures

Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary The consolidated financial statements present the results of the company and its subsidiaries ("the group") as if they formed a single entity Intercompany transactions and balances between group companies are therefore eliminated in full

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair value at the acquisition date The results of acquired operations are included in the consolidated income statement from the date on which control is obtained

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement

Joint Ventures

The group's interest in Carnegie Minerals (Gambia) Limited is classified as a jointly controlled entity Jointly controlled entities are included in the financial statements using the equity method Investments in such joint ventures are initially recognised in the consolidated balance sheet at cost The group's share of post acquisition profits and losses is recognised in the consolidated income statement with a corresponding adjustment to the carrying value of the investment, except that losses in excess of the group's investment in the associate are recognised only until the point at which the investors interest is reduced to nil

The group's interest in the Senegal joint venture is classified as a jointly controlled operation The group includes the assets it controls, its share of any income and the liabilities and expenses of jointly controlled operations in accordance with the terms of the underlying contractual arrangement

Foreign currency

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve") Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the group or the overseas operation concerned

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives The amortisation expense is included within the administrative expenses line in the income statement

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques

Financial assets
The group's financial assets comprise the following

Trade and other receivables – these are measured on initial recognition at fair value and are subsequently measured at amortised cost Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired

Cash and cash equivalents – comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value

Financial liabilities
The group's financial liabilities comprise trade and other payables and are recognised on initial recognition at fair value and are subsequently measured at amortised cost

Share based payment
The share option programme allows directors and employees to acquire shares of the Company The fair value of options granted is recognised as an expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the directors and employees become unconditionally entitled to the options The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on

- the initial recognition of goodwill,
- goodwill for which amortisation is not tax deductible,
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit, and
- investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered) Deferred tax balances are not discounted

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either

- the same taxable group company, or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered

Intangible fixed assets
The group applies the full-cost method of accounting under which all expenditure relating to the acquisition, exploration, appraisal and development or mineral interests, including an appropriate share of directly attributable overheads, is capitalised Capitalised costs are amortised on a unit of production basis from the date production commences The Board regularly reviews the carrying values of intangible assets and writes down capitalised expenditure to levels it considers to be prudent Amortisation will commence once production has started

Impairment of non-financial assets

Impairment tests on intangible assets are undertaken whenever events or changes in circumstances indicate that their carrying amount may not be recoverable Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly

Impairment charges are included in the administrative expenses line item in the income statement, except to the extend they reverse gains previously recognised in the statement of recognised income and expense

Property, plant and equipment

Fixed assets are depreciated using the straight line method over their estimated useful lives, as follows

Fixtures, fittings, equipment and computers	13-40%
Motor vehicles	12-25%

Changes in accounting policies – future accounting periods

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2007 or later periods but which the group has not early adopted as follows

New standards and interpretations not applied

During the period, the International Accounting Standards Board ("IASB") and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements

International Accounting Standards (IAS/IFRSs)		**Effective date**
IFRS 7	Financial Instruments Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009
IAS 1	Amendment – Presentation of Financial Statements Capital Disclosures	1 January 2007
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service concession arrangements	1 January 2008

At the date of this report, the following had not been endorsed by the EU IFRS 8 Operating Segments, IFRIC 10 Interim Financial Reporting and Impairment, IFRIC 11 IFRS 2 Group and Treasury Share Transactions, IFRIC 12 Service Concession Arrangements These are expected to be endorsed in June or July 2007

The Directors do not expect that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application accept for additional disclosures in relation to IFRS 7 and IRFS 8

2 Revenue
Revenue disclosed in the income statement is as follows

	Dec 2006 £
Provision of services to joint ventures	25,844

3 Operating loss
This is stated after charging the following

	Dec 2006 £
– Depreciation	7,648
– Auditors' fees	101,660

Other operating income of £183,970 consists of a loan from a former holding company, Carnegie Corporation Limited, forgiven following the acquisition of Coast Resources Limited by mutual agreement

4 Auditors' remuneration

	Dec 2006 £
Remuneration for audit services – group auditors	47,093
- other auditors	5,107
Remuneration for corporate finance services	49,460
	101,660

Group auditors' remuneration includes an amount of £35,000 in respect of the parent company

5 Staff costs and Directors' emoluments
a) Staff costs (including directors)

Group	Dec 2006 £
Wages and salaries	143,306
Expense of share-based payments	57,123
	200,429

Parent	
Fees and salaries	13,702
Expense of share-based payments	57,123
	70,825

The average monthly number of employees (including directors) during the period was as follows

	2006 Number
Group - Technical and administrative staff	6
Parent – Technical and administrative staff	1

b) Directors' emoluments

Group	Dec 2006 £
Fees and salaries	129,129
Expense of share-based payments	57,123
	186,252

The directors comprise the key management personnel of the group and the company

6 Segmental information

The group's primary reporting format for reporting segment information is business segments

	Business Segments		
	Mineral Resources £	Management Services £	Total £
Revenue			
Intercompany – to joint ventures	-	25,844	25,844
Total	-	25,844	25,844
Other income	-	210,64	210,64
Loss			
Continuing operations	(165,393)	(143,132)	(308,525)
Balance sheet			
Assets	2,275,021	197,742	2,472,763
Liabilities	(74,615)	(33,585)	(108,200)
Net assets	2,200,406	164,157	2,364,563
Other			
Capital expenditure	14,987	77,027	92,014
Depreciation	(5,931)	(1,717)	(7,648)
Investment in joint venture	656,150	-	656,150

The group's secondary reporting format for reporting segment information is geographic segments

	Geographical Segments		
	Africa £	Rest of world £	Total £
Revenue			
Intercompany – to joint ventures	25,844	-	25,844
Total	25,844	-	25,844
Other income	-	210,64	210,64
Loss			
Continuing operations	(139,549)	(168,976)	(308,525)
Balance sheet			
Assets	879,800	1,592,963	2,472,763
Liabilities	(74,615)	(33,585)	(108,200)
Net assets	805,185	1,559,378	2,364,563
Other			
Capital expenditure	14,987	77,027	92,014
Depreciation	(5,931)	(1,717)	(7,648)
Investment in joint venture	656,150	-	656,150

7 Joint ventures

(a) The group has a 50% interest in an unincorporated joint venture, the Senegal Joint Venture, which has been accounted for based on the group's share of assets, liabilities, income and expense The following amounts have been recognised in the group's balance sheet relating to this joint venture

	Dec 2006 £
Current assets	27,326
Non-current assets	134,080
Current liabilities	(9,830)
Net assets	151,576
Income	997
Expenses	(52,638)
Loss after tax	(51,641)

(b) The group has a 50% interest in an incorporated joint venture, Carnegie Minerals (Gambia) Limited which has been equity accounted for Financial information relating to this joint venture is summarised as follows

	Dec 2006 £
Total assets	1,681,411
Total liabilities	(1,132,587)
Revenues	83,376
Loss	(158,128)

Included within total liabilities are long-term payables to the group's joint venture partner of £1,119,130 These amounts are interest free and may be offset against amounts owing by the joint venture party for products supplied by Carnegie Minerals (Gambia) Limited All funding is non-recourse to Coast Resources Limited An appropriate adjustment has been made on consolidation to impute a market rate of interest on the interest free loan

8 Taxation

a) Reconciliation of the total tax charge

The tax assessed on the loss for the period is lower than the standard rate of corporation tax in the UK of 30%

The differences are reconciled below

	Dec 2006 Total £
Accounting loss before tax	(308,525)
Taxation at UK statutory income tax rate of 30%	(92,558)
Permanent difference on share based payments	17,137
Foreign subsidiary unrelieved tax losses	21,696
Holding company unrelieved tax losses	31,714
Share of losses of joint venture	22,011
Tax on loss	-

b) Deferred tax
Unrecognised deferred tax assets

	Dec 2006
	£
Unused losses carried forward	31,714
	31,714

9 Loss per share
The calculation of basic loss per ordinary share is based on a loss of £308,525 and on 25,981,873 ordinary shares, being the weighted average number of ordinary shares in issue during the period There is no difference between diluted loss per share and the basic loss per share presented as the Group reported a loss for the period

The company has issued share options and warrants over ordinary shares both of which could potentially dilute basic earnings per share in the future Further details are given in notes 17 and 18

10 Intangible assets

	Goodwill	**Licence**	**Total**
	£	**£**	**£**
Cost			
Acquired with subsidiary (note 15)	244,634	203,654	448,288
At 31 December 2006	244,634	203,654	448,288

As disclosed further in the review of operations, both the Gambian and Senegalese mining projects are progressing in a very satisfactory manner In view of the forecast revenue streams and cashflows of these projects, management is confident that the carrying amount of the related intangible assets as disclosed above will be recovered in full and that there is no current need for any impairment provision The situation will be monitored by management and adjustments made in future periods if future events indicate that such adjustments are appropriate

11 Property, plant and equipment

	Motor Vehicles	Fixtures fittings and office equipment	Total
	£	£	£
Cost			
Additions	69,348	11,188	80,536
Acquired with subsidiary (note 15)	5,216	6,262	11,478
At 31 December 2006	74,564	17,450	92,014
Depreciation			
Provided in period	5,386	2,262	7,648
At 31 December 2006	5,386	2,262	7,648
Net book value at 31 December 2006	**69,178**	**15,188**	**84,366**

12 Subsidiaries and joint ventures

The consolidated financial statements include the financial statements of Carnegie Minerals plc and the following trading subsidiaries and joint ventures

Name	Country of incorporation and operation	Proportion of voting rights and of equity interest 2006
Subsidiaries		
Carnegie Minerals Limited *	Isle of Man	100%
Coast Resources Limited *	Isle of Man	100%
Carnegie Services Pty Ltd *	Australia	100%
Jointly controlled entities		
Carnegie Minerals (Gambia) Ltd **	The Gambia	50%
Jointly controlled operations		
Senegal Joint Venture (unincorporated)**	Senegal	50%

* Held directly by Carnegie Minerals Plc
** Held by Coast Resources Limited

Principal place of business

Carnegie Minerals (Gambia) Ltd	Senegal Joint Venture
54 Kairaba Avenue – KSMD	Level 1, 16 Ord St
The Gambia	West Perth WA 60005

Nature of business

The principal activities of joint ventures during the period was the exploration, resource and development of mineral sands projects

13 Trade and other receivables (current)

	Dec 2006 £
Trade receivables	3,695
Prepayments	6,964
Other receivables	67,978
	78,637

Amounts shown in respect of trade receivables represent the maximum credit risk exposure at the balance sheet date

14 Trade and other payables (current)

	Dec 2006 £
Trade payables	36,007
Other payables and accruals	72,193
	108,200

15 Business combinations

On 3 August 2006, the group acquired 100% of the voting equity instruments of Coast Resources Limited, a company whose principal activity is exploration, resource and development activities of mineral sands projects through joint venture interests

Details of the fair value of identifiable net assets and liabilities acquired, purchase consideration and goodwill are as follows

Fair value of assets acquired	**Book value and fair value**
	£
Fixtures, fittings and office equipment	11,478
Licence	203,654
Exploration expenditure capitalised	28,312
Investments in joint venture	672,473
Cash and cash equivalents	33,289
Receivables	238
Payables	(194,078)
	755,366
22,500,000 ordinary shares	1,000,000
Goodwill	244,634

On 29 March 2006, the group acquired 100% of the voting equity instruments of Carnegie Minerals Limited

Details of the fair value of identifiable net assets and liabilities acquired, purchase consideration and goodwill are as follows

Fair value of assets acquired	**£**	**£**
Cash and cash equivalents	192,028	
Payables	(77,682)	
		114,346
5,000,000 ordinary shares		114,346
Goodwill		-

16 Financial instruments

The Group's principal financial instruments are trade and other receivables, trade and other payables, cash and short-term deposits The main purpose of these financial instruments is to finance the Group's ongoing operational requirements

The major financial risks faced by the Group are interest rate risk, credit risk and liquidity risk The Group does not consider that it has any significant credit risk due to the profile of its customers

The Group does not trade in financial instruments Policies for the management of these risks are shown below

a) Interest rate risk

Cash balances in excess of immediate needs are placed on short-term deposits in the money markets at variable rates of interest

b) Credit risk

Trade receivables are exclusively owed by joint venture partners and as such are regarded as low risk

c) Liquidity risk

Group management has responsibility for reducing exposure to liquidity risk and for ensuring that adequate funds are available to meet anticipated requirements It operates according to the policies and guidelines established by the Board Cash management is carried out centrally

Fair values

	Carrying amount Dec 2006 £
Financial assets	
– Cash and short – term deposits	1,205,322
– Trade and other receivables (current)	78,637
Financial liabilities	
– Trade and other payables (current)	108,200

The Directors believe that as they are short term, the fair values for all items equate to their book value

Interest rate risk

	Within 1 year £
Period ended 31 December 2006	
Floating rate	
– Cash and short – term deposits	1,205,322

17 Share-based payments

The Company has an equity-settled share based payment scheme for directors and employees Options are exercisable at a price equal to the market price of the Company's shares on the date of grant which was the placing price on 14 August 2006 The vesting period is 1 year If the options remain unexercised after a period of 6 years from the date of grant, the options expire Options are forfeited if the directors or employees leave the group before the options vest

During the period options were issued over a total of 5,000,000 Ordinary Shares at an exercise price of 8p per share These options were all outstanding at 31 December 2006 The estimated total fair value of the options is £150,000 or 3p per option (calculated with the Black-Scholes model)

The inputs into the Black-Scholes model are as follows

Share price	8p
Exercise price	8p
Expected volatility	30%
Risk free rate of interest	4 75%
Expected dividend yield	0%

Expected volatility was determined by reference to the historical volatility of similar listed entities

The Company recognised total expenses of £57,123 related to equity-settled share-based payment transactions during the period

18 Share capital

	2006 Number of shares	2006 £
Authorised		
– Ordinary shares of 1p each	100,000,000	1,000,000
Issued and fully paid		
– Ordinary shares of 1p each	55,000,000	550,000

Shares issued

Date		Parent Entity 2006 £
3 February 2006	2 fully paid ordinary shares at 1p each	-
29 March 2006	4,999,998 fully paid ordinary shares at 1p each	50,000
3 August 2006	22,500,000 fully paid ordinary shares at 1p each	225,000
7 August 2006	2,500,000 fully paid ordinary shares at 1 p each	25,000
14 August 2006	25,000,000 fully paid ordinary shares at 1p each	250,000
		550,000

The Company was incorporated on 3 February 2006, on which date two shares were issued to the subscribers to the Memorandum of Association of the Company

On 29 March 2006 the Company acquired the entire issued share capital of Carnegie Minerals Limited, an Isle of Man incorporated company, from RAB Special Situations (Master) Fund Limited and Seydor Limited and as consideration issued, credited as fully paid 4,999,998 Ordinary shares to the vendors of Carnegie Minerals Limited pursuant to an acquisition agreement dated 29 March 2006

On 3 August 2006 the Company exercised an option to acquire the entire issued share capital of Coast Resources Limited, an Isle of Man incorporated company, from Carnegie Corporation Limited in exchange for the issue by the Company of 22,500,000 Ordinary Shares, credited as fully paid at an aggregate exercise price of £1,000,000

On 7 August 2006 the Company entered into settlement agreement with James Cunningham-Davis and Michael Proffitt (who were previously directors of the Company) and Afortunado Investments Limited and Gumbo Investments Ltd (companies controlled by James Cunningham-Davis and Michael Proffitt respectively) pursuant to which certain options over shares in the Company previously granted to James Cunningham-Davis and Michael Proffitt were cancelled, the Company agreed to make a payment of £12,500 to Afortunado Investments Limited and Gumbo Investments Ltd and Afortunado Investments Limited and Gumbo Investments Ltd agreed to subscribe those payments of £12,500 for an aggregate of 2,500,000 new Ordinary Shares at a subscription price of 1p per Ordinary Share

On 14 August 2006 the Company issued 25,000,000 Ordinary Shares, pursuant to a Placing, for cash at a price of 8p per share

Warrants issued

In connection with the placing of 25,000,000 Ordinary Shares on 14 August 2006, 12,500,000 warrants were issued at the rate of one warrant for each two shares subscribed Each warrant entitles the holder to subscribe for one Ordinary Share in the Company at a price of 12p The warrants expire on 14 August 2008

These warrants were all outstanding at 31 December 2006 The estimated total fair value of the warrants is £250,000 or 2p per warrant (calculated with the Black-Scholes model)

The inputs into the Black-Scholes model are as follows

Share price	10 5p
Exercise price	12p
Expected volatility	30%
Risk free rate of interest	4 75%
Expected dividend yield	0%

Expected volatility was determined by reference to the historical volatility of similar listed entities

19 Share premium account

Premium arising on issue of Ordinary Shares

	£
On placing of shares	1,500,000
Expenses of placing	(530,149)
Balance as at 31 December 2006	969,851

20 Reserves

	Merger reserve £	Foreign exchange reserve £	Warrant reserve £	Retained earnings £
Arising on acquisitions	839,346	-	-	-
On issue of warrants	-	-	250,000	-
Gain/(loss) for the period	-	6,768	-	(308,525)
Fair value of share based payments	-	-	-	57,123
At 31 December 2006	839,346	6,768	250,000	(251,402)

The following describes the nature and purpose of each reserve within owners' equity

Reserve	Description and purpose
Share capital	Amount of the contributions made by shareholders in return for the issue of shares
Share premium	Amount subscribed for share capital in excess of nominal value

Merger reserve	Premium on shares issued in consideration of the acquisition of subsidiaries
Foreign exchange	Gains/losses arising on retranslating the net assets of overseas operations into sterling
Warrant reserve	Fair value of warrants issued in connection with share placing
Retained earnings	Cumulative net gains and losses recognised in the consolidated balance sheet

21 Related party transactions

During the period the group paid fees to Timothy Jones and Grant Mooney for work in connection with the company's listing on AIM performed by them before they became directors of the company of £8,522 and £45,000 respectively The group received fees of £25,844 in respect of management services provided to joint venture companies

Carnegie Minerals Plc parent company balance sheet at 31 December 2006

	Notes	Dec 2006 £
Fixed assets		
Investments in subsidiaries	5	1,114,346
Current assets		
Debtors	6	418,484
Cash and short-term deposits		1,127,420
		1,545,904
Creditors: Amounts falling due within one year	7	1,545,904
Net current assets		1,389,137
Net assets		2,503,483
Capital and reserves		
Issued capital	9	550,000
Share premium	10	1,219,851
Merger reserve	11	839,346
Profit and loss account	12	(105,714)
Shareholders funds		2,503,483

The financial statements were approved by the Board of Directors and authorised for issue on 30 May 2007 and were signed on its behalf by

Timothy Jones
Director

Carnegie Minerals Plc

Notes to the parent company financial statements for the period ended 31 December 2006)

The separate financial statements of the company are presented as required by the Companies Act 1985

1 Accounting policies

Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards

Investments

Investments are stated at cost less provision for any permanent diminution in value

Share based payment

The share option programme allow directors and employees to acquire shares of the Company The fair value of options granted is recognised as an expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the directors and employees become unconditionally entitled to the options The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted

2 Loss attributable to members of the parent company

The loss dealt with in the financial statements of the parent company is £162,105 As permitted by s230 of the Companies Act 1985, the company has elected not to present its own profit and loss account for the period

3 Auditor's remuneration

	Dec 2006 £
Audit of the Company's financial statements	35,000

4 Staff costs and Directors' emoluments

These are disclosed in note 5 to the consolidated financial statements

5 Investments

	Dec 2006 £
Cost at 31 December 2006	1,114,346

Details of holdings in subsidiary companies are set out in the note 12 to the consolidated financial statements

6 Debtors

	Dec 2006 £
Current	
Amount owing by group undertaking	352,619
Other debtors	58,901
Prepayments	6,964
	418,484

7 Creditors: Amounts following due within one year

	Dec 2006 £
Amount owed to group undertaking	111,507
Accruals	45,260
	156,767

8 Interest rate risk

Cash balances in excess of immediate needs are placed on short-term deposits in the money markets No investment exceeds one month's maturity

9 Share capital

	2006 Number of shares	2006 £
Authorised.		
– Ordinary shares of 1p each	100,000,000	1,000,000
Issued and fully paid·		
– Ordinary shares of 1p each	55,000,000	550,000

	2006 Number of shares	2006 £
Authorised·		
– Ordinary shares of 1p each	100,000,000	1,000,000
Issued and fully paid.		
– Ordinary shares of 1p each	55,000,000	550,000

Details of shares issued during the period are set out in note 18 to the consolidated financial statements

10 Share premium account

Premium arising from issue of ordinary shares.

	£
On placing of shares	1,750,000
Expenses of placing	(530,149)
Balance as at 31 December 2006	1,219,851

11 Merger reserve

	£
Arising on acquisitions	839,346

12 Profit and loss account

	£
Loss for the period	(162,105)
Fair value of share based payments	57,123
Balance on 31 December 2006	(105,714)