

PEEL EXPLORATION LIMITED
ABN 42 119 343 734
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30 JUNE 2007**

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PEEL EXPLORATION LIMITED

CORPORATE GOVERNANCE STATEMENT

A description of the Company's main corporate governance practices is set out below. These practices, unless otherwise stated, were adopted on 20th March 2007. Copies of relevant corporate governance policies are available in the corporate governance section of the Company's web-site at www.peel.com.au.

BOARD OF DIRECTORS

The Board is responsible for guiding and monitoring the Company on behalf of shareholders by whom they are elected and to whom they are accountable. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of shareholders. Day to day management of the Company's affairs and the implementation of corporate strategies and policy initiatives are formally delegated by the Board to the Managing Director and senior executives, as set out in the Company's Board charter.

Board composition

The Board charter states that:

- the Board is to comprise an appropriate mix of both executive and non-executive directors.
- the roles of Chairman and Managing Director will not be combined.
- the Chairman is elected by the full Board and is required to meet regularly with the Managing Director.

Board members should possess complementary business disciplines and experience aligned with the Company's objectives, with a number of directors being independent and where appropriate, major shareholders being represented on the Board. Consequently, at various times there may not be a majority of directors classified as being independent, according to ASX guidelines. However, where any director has a material personal interest in a matter, the director will not be permitted to be present during discussions or to vote on the matter.

Directors' independence

The experience, qualifications and term of office of directors are set out in the Directors' Report. The Board comprises three directors none of whom are considered independent under the principles set out below. Having regard to the share ownership structure of the Company, it is considered appropriate by the Board that a major shareholder may be represented on the Board and if nominated, hold the position of Chairman. Such appointment would not be deemed to be independent under ASX guidelines. The Chairman is expected to bring independent thought and judgement to his role in all circumstances. Where matters arise in which there is a perceived conflict of interest, the Chairman must declare his interest and abstain from any consideration or voting on the relevant matter.

The Board has adopted ASX recommended principles in relation to the assessment of directors' independence. Financial materiality thresholds used in the assessment of independence are set at 10% of the annual gross expenditure of the Company and/or 25% of the annual income or business turnover of the director.

Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense, subject to the prior written approval of the Chairman, which shall not be unreasonably withheld.

Performance assessment

The Board has adopted a formal process for an annual self assessment of its collective performance and the performance of individual directors. The Board is required to meet annually with the purpose of reviewing the role of the Board, assessing its performance over the previous 12 months and examining ways in which the Board can better perform its duties. A formal assessment was undertaken during the year, using a self-assessment checklist as the basis for evaluation of performance against the requirements of the Board charter.

Corporate reporting

The Managing Director and Chief Financial Officer provide a certification to the Board on the integrity of the Company's external financial reports. The Board does not specifically require an additional certification that the financial statements are founded on a sound system of risk management and that compliance and control systems are operating efficiently and effectively. The Board considers that risk management and internal compliance and control systems are sufficiently robust for the Board to place reliance on the integrity of the financial statements without the need for an additional certification by management.

BOARD COMMITTEES

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship makes use of committees. To this end the Board has established or may establish the following committees:

- Audit Committee;
- Nomination Committee; and
- Remuneration Committee.

PEEL EXPLORATION LIMITED

CORPORATE GOVERNANCE STATEMENT

At present the Board has deemed that the Company's current size does not sufficiently warrant the establishment of the above-mentioned committees; however the Board will continually re-evaluate this position as necessary. If or when these committees are established, each will have its own written charter. Matters determined by the committees will be submitted to the full Board as recommendations for Board consideration.

If or when an audit committee is established, the committee will oversee accounting and reporting practices and will also be responsible for:

- co-ordination and appraisal of the quality of the audits conducted by the Company's external auditors;
- determination of the independence and effectiveness of the external auditors;
- assessment of whether non-audit services have the potential to impair the independence of the external auditor;
- reviewing the adequacy of the reporting and accounting controls of the Company.

If or when a remuneration committee is established, the remuneration committee will review all remuneration policies and practices for the Company, including overall strategies in relation to executive remuneration policies and compensation arrangements for the Managing Director and non-executive directors, as well as all equity based remuneration plans.

Details of the Company's current remuneration policies are set out in the Remuneration Report section of the Directors' Report. The remuneration policy states that executive directors may participate in share option schemes with the prior approval of shareholders. Executives may also participate in employee share option schemes, with any option issues generally being made in accordance with thresholds set in plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue options to executives outside of approved employee option plans in appropriate circumstances.

The responsibility for the selection of potential directors and to review membership lies with the full Board of the Company and consequently no separate nomination committee has been established. In circumstances where the size of the Board is expanded as a result of the growth or complexity of the Company, the establishment of a separate nomination committee will be reconsidered.

EXTERNAL AUDITORS

The performance of the external auditor is reviewed annually. BDO Kendalls were appointed as the external auditors in 2006. It is both the Company's and BDO Kendall's policy to rotate audit engagement partners at least every five years and the review partner every five years.

The external auditors provide an annual declaration of their independence to the Board. The external auditor is requested to attend annual general meetings and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

CODE OF CONDUCT

A formal code of conduct for the Company applies to all directors and employees. The code aims to encourage the appropriate standards of conduct and behaviour of the directors, officers, employees and contractors of the Company. All personnel are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Trading in the Company's securities by directors and senior executives is not permitted in the two months immediately preceding the release of the Company's annual and half-year financial results. Any transactions to be undertaken must be notified to the Chairman or Managing Director in advance.

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATIONS

The Company has a formal written policy for the continuous disclosure of any price sensitive information concerning the Company. The Board has also adopted a formal written policy covering arrangements to promote communications with shareholders and to encourage effective participation at general meetings.

The Managing Director and Company Secretary have been nominated as the Company's primary disclosure officers. All information released to the ASX is posted on the Company's web-site immediately after it is disclosed to the ASX. When analysts are briefed on aspects on the Company's operations, the material used in the presentation is released to the ASX and posted on the Company's web-site. All shareholders receive a copy of the Company's annual report. In addition, the Company makes all market announcements, media briefings, details of shareholders meetings, press releases and financial reports available on the Company's web-site.

PEEL EXPLORATION LIMITED

CORPORATE DIRECTORY

Directors

Michael Kiernan - Non-Executive Chairman
Robert Tyson - Executive Director
Simon Hadfield - Non-Executive Director

Company Secretary

David Hocking

Registered and Principal Office

Level 1, 79 Hay St, Subiaco, WA 6008
Telephone: (08) 9382 3955
Facsimile: (08) 9388 1025
Website: www.peelex.com.au
Email: rob@peelex.com.au

Share Registry

Computershare Investor Services
Level 2, 45 St George Tce, Perth, WA 6000
Telephone: 1300 557 010

Auditors

BDO Kendalls Audit & Assurance Pty Ltd
128 Hay St, Subiaco, WA 6008

Legal Advisors

Steinepreis Paganin
Level 4, Next Building,
16 Milligan St, Perth, WA 6000

Home Exchange

ASX Code: PEX

ABN

42 119 343 734

PEEL EXPLORATION LIMITED

DIRECTORS REPORT

Your directors present their report on the Company for the financial period ended 30 June 2007. The following persons hold office as Directors at the date of this report. Their qualifications and experience are:

Michael Kiernan – Non-Executive Chairman

With more than 30 years experience in the mining and transport industries, Mr Kiernan brings a wealth of knowledge and experience to the Peel Exploration board. Mr Kiernan retains the positions of Chairman at Monarch Gold Mining Company Ltd, Territory Resources Ltd, India Resources Ltd, Precious Metals Australia Ltd, Mineral Resources Ltd and is also a Director of Matilda Minerals Ltd.

Robert Maclaine Tyson – Executive Director

Mr Tyson is a geologist with more than 15 years resources industry experience having worked in exploration and mining-related roles for companies including Cyprus Exploration Pty Ltd, Queensland Metals Corporation NL, Murchison Zinc Pty Ltd, Normandy Mining Ltd and Equigold NL. Mr Tyson has more than five years of senior management experience and retains the position of General Manager at resources industry publisher and conference business, Resource Information Unit Pty Ltd. Mr Tyson is a Member of the Australasian Institute of Mining and Metallurgy.

Simon Hadfield – Non-Executive Director

Mr Hadfield has more than 30 years experience managing medium and large companies including the holding of directorships at publicly-listed industrial and resource companies. Mr Hadfield is Managing Director of Resource Information Unit Pty Ltd.

David Hocking – Company Secretary

Mr Hocking is a qualified Chartered Accountant from the United Kingdom. He has more than 20 years commercial experience in Australia producing management and financial accounts for medium sized businesses in a range of industries including publishing, franchising, rural merchandising, financial services and the offshore oil industry. Mr Hocking also brings previous experience as a Company Secretary in a public company.

Directors' Interests in Shares and Options

Directors' interests in shares and options as at 30th June 2007 are set out in the table below. Between the end of the financial period and the date of this report, Michael Kiernan purchased 1,622,874 options, Robert Tyson purchased 1,372,874 options and Simon Hadfield purchased 1,172,873 options.

Director	Shares Directly and Indirectly Held	Options
Michael Kiernan	3,000,000	4,000,000
Robert Tyson	2,500,000	3,750,000
Simon Hadfield	2,100,000	3,550,000

Activities

The continuing principal activity of the Company is the exploration for economic deposits of minerals. For the period of this report, the emphasis has been on base and precious metals.

Results

The loss of the Company for the financial period after providing for income tax amounted to \$409,724 (2006: \$5,164).

Dividends

No dividends were paid or proposed during the period.

Review of Operations

Peel Exploration Limited successfully completed its IPO and was admitted to the Official List of the ASX on May 17, 2007. The Company concentrated on the exploration of its various projects located in the New England region of northern New South Wales. A summary of the Company's activities during the year is contained in the Operations Report section of the Annual Report.

PEEL EXPLORATION LIMITED

DIRECTORS REPORT

Corporate Structure

Peel Exploration Limited is a limited Company that is incorporated and domiciled in Australia.

Employees

The Company had three employees as at 30 June 2007 – them being the Directors. The Company uses consultants and contractors as required.

Significant Changes

The Directors are not aware of any significant changes in the state of affairs of the Company occurring during the financial period, other than disclosed in this report.

Matters Subsequent to the End of the Financial Period

On September 21 2007, the NSW government granted EL 6883 & EL 6884. These licences are jointly referred to as the Attunga Project.

Since the end of the financial period the Company has issued 15,000,000 options exercisable at 20c each on or before 30 November 2010, at an issue price of 1c each raising \$150,000.

Other than as disclosed above there were at the date of this report no matters or circumstances which have arisen since 30th June 2006 that have significantly affected or may significantly affect:

- i) the operations of the Company;
- ii) the results of those operations; or
- iii) the state of affairs of the Company.

Likely Developments and Expected Results

As the Company's areas of interest are at an early stage, it is not possible to postulate the likely developments and any expected results.

Remuneration Report

The remuneration report is set out under the following headings:

- a) Principles used to determine the nature and amount of remuneration (audited);
- b) Details of remuneration (audited);
- c) Service agreements (audited);
- d) Share-based compensation (audited); and
- e) Additional information (unaudited).

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

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The Board believes that executive remuneration satisfies the following key criteria:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

These criteria result in a framework which can be used to provide a mix of fixed and variable remuneration, and a blend of short and long-term incentives in line with the Company's limited financial resources.

PEEL EXPLORATION LIMITED

DIRECTORS REPORT

Board and Senior Management

Fees and payments to the non-executive Directors and senior executives reflect the demands which are made on, and the responsibilities of, the Directors and the senior management. Such fees and payments are reviewed annually by the Board.

Company policy in relation to issuing options and remunerating executives is that directors are entitled to remuneration out of the funds of the Company but the remuneration of the non-executive Directors may not exceed in any year the amount fixed by the Company in general meeting for that purpose. The aggregate remuneration of the non-executive directors has been fixed at a maximum of \$200,000 per annum to be apportioned among the non-executive Directors in such a manner as they determine (refer below). Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at Board meetings and otherwise in the execution of their duties as Directors.

b) Details of remuneration (audited)

Details of the nature and amount of each element of the remuneration of each of the Directors of Peel Exploration Ltd and those senior executives of the Company who received the highest emoluments during the year ended 30 June 2007 are set out in the following table.

Table 1: Director and senior executive remuneration

Directors of Peel Exploration Ltd	Directors Fees	Salaries	Consulting Fees	Super-annuation	Options	Total
2007	\$	\$	\$	\$	\$	\$
<i>Directors</i>						
RM Tyson	-	-	-	-	107,500	107,500
ML Kiernan	-	-	-	-	107,500	107,500
S Hadfield	-	-	-	-	107,500	107,500
NT Hadfield	-	-	-	-	-	-
<i>Other executives</i>						
D Hocking	-	-	9,625	-	-	9,625
Total	-	-	9,625	-	322,500	332,125

- Options do not represent cash payments to Directors and options granted may or may not be exercised by the Directors.

The consolidated entity incurred no director or senior executive remuneration in 2006.

c) Service agreements (audited)

Remuneration and other terms of employment for the Directors and executives are not formalised in Service/Appointment agreements. Major provisions of employment are set out below:

ML Kiernan

There is no written contract for Mr Kiernan, who received payments and benefits totalling \$107,500 in his role as a director of the Company.

RM Tyson

There is no written contract for Mr Tyson, who received payments and benefits totalling \$107,500 in his role as a director of the Company.

S Hadfield

There is no written contract for Mr Hadfield, who received payments and benefits totalling \$107,500 in his role as a director of the Company.

No service agreements had been entered into in the period since 30 June 2007 to the date of this report.

d) Share-based compensation (audited)

At 30 June 2007 the Company had granted options over 7,500,000 unissued shares to Directors, all issued in the 2007 financial year, arising from the listing of the Company on the ASX. These were:

ML Kiernan – 2,500,000

RM Tyson – 2,500,000

S Hadfield – 2,500,000

PEEL EXPLORATION LIMITED

DIRECTORS REPORT

These options were all granted on 8 March 2007 and expire 30 November 2010 with an exercise price of 30 cents per share. They are all escrowed until 17 May 2009.

Table 2: Options granted as part of remuneration

	Grant date	Grant number	Vest date	Expiry date	Value per option at grant date \$	Exercised number	Value per option at exercise date \$	Value at date option lapsed \$	% of remuneration
2007									
RM Tyson	8.3.07	2,500,000	8.3.07	30.11.10	0.043	-	-	-	100
ML Kiernan	8.3.07	2,500,000	8.3.07	30.11.10	0.043	-	-	-	100
S Hadfield	8.3.07	2,500,000	8.3.07	30.11.10	0.043	-	-	-	100

The value of the options granted has been recognised as share-based remuneration in the financial statements and are expensed accordingly.

Options granted as a part of director and executive remuneration have been valued using a Black and Scholes option-pricing model, which takes account of factors including the option exercise price, the share price at time of grant, volatility of the underlying share price, the risk-free interest rate and the expected life of the option.

Fair value of options

Model inputs for determining the fair value of options granted during year end 30 June 2007 included:

Underlying security spot price	\$0.125
Exercise price	\$0.30
Dividend rate	Nil
Standard deviation of returns (annualized)	70%
Risk-free rate	5.85%
Valuation date	1 March 2007
Expiration date	30 November 2010
Expiration period (years)	3.7509
Black Scholes Valuation (\$ per security)	0.043
Binomial Valuation (\$ per security)	0.043

The dividend yield reflects the assumption that no dividends will be paid out. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Options included in Directors' and executives' remuneration are treated as follows:

Fair values have been assessed using the Black and Scholes option valuation methodology which takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the options, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

PEEL EXPLORATION LIMITED

DIRECTORS REPORT

Share Options

A detailed breakdown of the Company's options (unquoted options and Directors options) is as follows.

	Options	\$
Balance 1 July 2006	-	-
Issued to Shareholders on 8 March 2007	7,500,000	-
Issued to Directors on 8 March 2007	7,500,000	322,500
Balance 30 June 2007	15,000,000	322,500
Options		
- exercisable at 20 cents each on or before 30 November 2010	7,500,000	
- exercisable at 30 cents each on or before 30 November 2010	7,500,000	
	15,000,000	

Meetings of Directors

Director's attendance at Directors meetings are shown in the following table:

Director	Number held whilst in office	Number attended
ML Kiernan (appointed 15.03.2007)	4	4
RM Tyson	8	8
S Hadfield	8	8
NT Hadfield (resigned 15.03.2007)	5	5

Indemnification and Insurance of Directors and Officers

During the financial year the Company paid insurance premiums in respect of Directors' and Officers' Liability Insurance contracts for the current directors and officers. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of this insurance, as such disclosure is prohibited under the terms of the contract.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Environmental Performance

Peel Exploration Limited holds exploration licences issued by the NSW Department of Primary Industry which specifies guidelines for environmental impacts in relation to exploration activities. The licence conditions provide for the full rehabilitation of the areas of exploration in accordance with the Department's guidelines and standards. There have been no known breaches of the licence conditions.

PEEL EXPLORATION LIMITED

DIRECTORS REPORT

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included at the end of this financial report

Auditor

BDO Kendalls Audit & Assurance (WA) Pty Ltd continues in office under section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the Board of Directors:

A handwritten signature in black ink, appearing to read 'R. M. Tyson', with a long horizontal flourish extending to the right.

Rob Tyson

Director

Perth, Western Australia

Dated on this the 28th day of September 2007.



BDO Kendalls

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ABN 79 112 284 787

28 September 2007

The Directors
Peel Exploration Ltd
79 Hay Street
SUBIACO WA 6008

Dear Board Members

**DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS OF
PEEL EXPLORATION LIMITED**

As lead auditor of Peel Exploration Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully
BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls

Glyn O'Brien
Director

PEEL EXPLORATION LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	2007 \$	2006 \$
Continuing operations			
Revenue	3	13,461	-
Share-based remuneration to employees and directors		(322,500)	-
Exploration expenditure written-off		(56,719)	-
Administration expenses		<u>(43,966)</u>	<u>(5,164)</u>
Loss before income tax expense		<u>(409,724)</u>	<u>(5,164)</u>
Income tax expense	4	<u>-</u>	<u>-</u>
Loss for the year		<u>(409,724)</u>	<u>(5,164)</u>
Basic and diluted loss per share (cents per share)	21	(4.0)	(0.3)

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

PEEL EXPLORATION LIMITED

**BALANCE SHEET
AS AT 30 JUNE 2007**

	NOTE	2007 \$	2006 \$
CURRENT ASSETS			
Cash and cash equivalents	5	2,656,920	1,088
Trade and other receivables	6	<u>22,850</u>	<u>1,000</u>
TOTAL CURRENT ASSETS		<u>2,679,770</u>	<u>2,088</u>
NON-CURRENT ASSETS			
Receivables	7	40,000	-
Plant and equipment	8	1,676	-
Exploration licences	9	<u>11,425</u>	<u>3,220</u>
TOTAL NON-CURRENT ASSETS		<u>53,101</u>	<u>3,220</u>
TOTAL ASSETS		<u>2,732,871</u>	<u>5,308</u>
CURRENT LIABILITIES			
Trade and other payables	10	26,197	4,000
Borrowings	11	<u>-</u>	<u>4,372</u>
TOTAL CURRENT LIABILITIES		<u>26,197</u>	<u>8,372</u>
TOTAL LIABILITIES		<u>26,197</u>	<u>8,372</u>
NET ASSETS / (LIABILITIES)		<u>2,706,674</u>	<u>(3,064)</u>
EQUITY			
Contributed equity	12	2,799,062	2,100
Accumulated losses	13	(414,888)	(5,164)
Reserves	13	<u>322,500</u>	<u>-</u>
TOTAL EQUITY		<u>2,706,674</u>	<u>(3,064)</u>

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

PEEL EXPLORATION LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007**

	Attributable to equity holders of the company			
	Contributed equity	Accumulated losses	Reserves	Total equity
	\$	\$	\$	\$
At 20 April 2006	-	-	-	-
Loss for the period	-	(5,164)	-	(5,164)
Issue of share capital	2,100	-	-	2,100
At 30 June 2006	2,100	(5,164)		(3,064)
Loss for the year	-	(409,724)	-	(409,724)
Issue of share capital	3,032,700	-	-	3,032,700
Share issue expenses	(235,738)	-	-	(235,738)
Share-based payments	-	-	322,500	322,500
At 30 June 2007	2,799,062	(414,888)	322,500	2,706,674

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

PEEL EXPLORATION LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	2007 \$	2006 \$
Cash flows from operating activities			
Payments to suppliers and employees		(101,338)	(1,164)
Interest received		<u>13,461</u>	<u>-</u>
Net cash outflow from operating activities	20	<u>(87,877)</u>	<u>(1,164)</u>
Cash flows from investing activities			
Payments for mineral exploration expenditure		(8,205)	(3,220)
Payment of security deposits		(40,000)	-
Payments for purchase of plant and equipment		<u>(1,676)</u>	<u>-</u>
Net cash outflow from investing activities		<u>(49,881)</u>	<u>(3,220)</u>
Cash flows from financing activities			
Proceeds from issues of shares		3,032,700	2,100
Transaction costs of issue of shares		(235,738)	-
Loans to other parties		1,000	(1,000)
Proceeds from borrowings		<u>(4,372)</u>	<u>4,372</u>
Net cash inflow from financing activities		<u>2,793,590</u>	<u>5,472</u>
Net increase in cash and cash equivalents		2,655,832	1,088
Cash and cash equivalents at the beginning of the financial year		<u>1,088</u>	<u>-</u>
Cash and cash equivalents at the end of the financial year		<u><u>2,656,920</u></u>	<u><u>1,088</u></u>

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

PEEL EXPLORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes the financial statements for Peel Exploration Limited ("the Company").

(a) Basis of preparation

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

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes of Peel Exploration Limited comply with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

(b) Revenue recognition

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

Interest income

Revenue is recognised as the interest accrues using the effective interest rate method.

(c) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. A deferred income tax asset is not recognised where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss or when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(d) Impairment of assets

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The estimated future cash flows are discounted to their present value

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using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

No impairment losses have been recognised for the years ending 30 June 2007 and 2006.

(e) Cash and cash equivalents

For cash flow statement preparation purposes, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions. Bank overdrafts are shown within borrowings in the current liabilities of the balance sheet.

(f) Trade and other receivables

Trade receivables, which generally have 30 to 90 day terms, are carried at nominal amounts due less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

(g) Other financial assets

Security deposits

Security deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(h) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

(i) Plant and equipment

All assets acquired, including plant and equipment are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Plant and equipment is included at cost less provision for depreciation and any impairment in value and depreciated on a straight-line basis commencing from the time the asset is held ready for use.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(j) Exploration and evaluation expenditure

Exploration licences

Exploration licences costs are capitalised on payment. They are not amortised but are reviewed each financial period in respect of each licence being still held by the Company. They are expensed through the profit and loss where the licence is no longer held and the licence cost is not recoverable.

The company's policy with respect to exploration expenditure is to write off all costs as incurred. Accordingly, exploration expenditure of \$56,719 has been written off during the year. The decision to write off exploration expenditure as incurred does not indicate any change in the board's view of the intrinsic value of the mining leases held by the company. Rather, the decision was taken, as it is the most prudent treatment available under current accounting standards for such expenditure.

The carrying value of exploration and evaluation expenditure carried forward in respect of each area of interest is assessed for impairment when facts and circumstances suggest the carrying amount may exceed its recoverable amount. Any resulting impairment loss is recognised as an expense in the income statement.

(k) Trade and other payables

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

(l) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period if the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity acquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(n) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(o) Goods and services tax

Revenues, expenses and assets are recognised net of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable is included as a current asset in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from the taxation authority are classified as operating cash flows.

(p) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below:

- (i) *AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, & AASB 1038)*
AASB7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

PEEL EXPLORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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(ii) *AASB-I 10 Interim Financial Reporting and Impairment*

AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Company has not recognised any impairment losses from inception to date. Application of the interpretation will therefore have no impact on the Company's financial statements.

No initial application of any other issued and effective Australian Accounting Standard has had any significant effect on the current period or any prior period. Furthermore, no other new Australian Accounting Standard, which has been issued but is not yet effective, is expected to have any significant effect on a future reporting period.

2. FINANCIAL RISK MANAGEMENT

The net fair values of financial assets and financial liabilities approximate their carrying values, as disclosed in the balance sheet. The maximum exposure to credit risk at balance date is the carrying amount of financial assets (i.e., cash and receivables) as disclosed in balance sheet and notes to the financial statements. The company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities is as follows:

	Fixed interest rate maturing within 1 year	Non-interest bearing	Total
	\$	\$	\$
2007			
Financial assets & liabilities			
Cash and cash equivalents	2,613,460	43,460	2,656,920
Receivables - current	-	22,850	22,850
- non-current	-	40,000	40,000
Creditors & accruals	-	(26,197)	(26,197)
	2,613,460	80,113	2,693,573
Weighted average interest rate	6.18%		
2006			
Financial assets & liabilities			
Cash and cash equivalents	-	1,088	1,088
Receivables - current	-	1,000	1,000
- non-current	-	-	-
Creditors & accruals	-	(8,372)	(8,372)
	-	(6,284)	(6,284)
Weighted average interest rate	Nil%		

The Company manages its interest rate risk through the use of fixed term deposits, to manage the unpredictability of financial markets and seek to minimise potential adverse effects on financial performance.

	2007	2006
	\$	\$
3. REVENUE		
Interest received	13,461	-

PEEL EXPLORATION LIMITED
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	2007 \$	2006 \$
4. INCOME TAX		
Income tax expense		
Current tax	-	-
Deferred tax	-	-
	-	-
	-	-
 Numerical reconciliation of income tax expense to prima facie tax payable:		
Accounting loss before income tax	(409,724)	(5,164)
	(409,724)	(5,164)
At the statutory income tax rate of 30% (2006: 30%)	(122,917)	(1,549)
Expenditure not allowable for income tax purposes:		
Non-deductible expenses	96,750	-
Tax losses not brought to account	26,167	1,549
	122,917	1,549
Income tax benefit reported in the income statement	-	-
	-	-
	-	-
 The company has tax losses arising in Australia of \$29,595 (2006: \$1,549) that are available indefinitely for offset against future taxable profits of the company. No deferred tax asset has been recognised in respect of these losses at this point in time as the company is still engaged in exploration activities. The company also has an unrecognised deferred tax asset in respect of equity raising costs of \$70,721.		
 5. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	43,460	1,088
Term deposit with a financial institution	2,613,460	-
	2,656,920	1,088
	2,656,920	1,088
 The above figures agree to cash at the end of the financial year as shown in the statement of cash flows		
 The deposit is bearing a fixed interest rate of 6.18% and has a 30 day term.		
 6. TRADE AND OTHER RECEIVABLES		
GST recoverable from taxation authority	22,850	-
Unsecured loans – related parties (note 14)	-	1,000
	22,850	1,000
	22,850	1,000
 7. RECEIVABLES (NON-CURRENT)		
Security deposits on mining tenements	40,000	-
	40,000	-
	40,000	-

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	2007	2006
	\$	\$
8. PLANT AND EQUIPMENT		
Plant and equipment		
At cost	1,676	-
Less accumulated depreciation	-	-
	1,676	-
Reconciliation		
Carrying amount at beginning of year	-	-
Additions	1,676	-
Depreciation expense	-	-
Carrying amount at end of year	1,676	-
9. EXPLORATION LICENCES		
Opening balance	3,220	-
Payment of exploration licences	8,205	3,220
Closing balance	11,425	3,220
10. TRADE AND OTHER PAYABLES		
Trade payables	23,197	4,000
Other payables	3,000	-
	26,197	4,000
11. BORROWINGS		
Unsecured loan – related party (note 14)	-	4,372
12. CONTRIBUTED EQUITY		
(a) Share capital		
30,000,000 (2006: 2,100,000) ordinary shares fully paid	2,799,062	2,100
(b) Movements in ordinary share capital	Shares	\$
Balance 1 July 2005	-	-
Shares issued 20 April 2006	2,100,000	2,100
Balance 30 June 2006	2,100,000	2,100
Share issued as seed capital 17 July 2006	2,700,000	20,700
Share issued as seed capital 27 February 2007	10,200,000	12,000
Share issued pursuant to IPO 11 May 2007	15,000,000	3,000,000
Transaction costs on share issues	-	(235,738)
Balance 30 June 2007	30,000,000	2,799,062
(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.		
(d) Options		
Information relating to options issued during the year is set out in note 13.		

2007

2006

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	\$	\$
13. RESERVES		
<i>(i) Accumulated losses</i>		
Balance 1 July	(5,164)	-
Loss for the year	<u>(409,724)</u>	<u>(5,164)</u>
Balance 30 June	<u><u>(414,888)</u></u>	<u><u>(5,164)</u></u>

(ii) Share-based payments reserve

Balance 1 July	-	-
Option expenses	<u>322,500</u>	<u>-</u>
Balance 30 June	<u><u>322,500</u></u>	<u><u>-</u></u>

Nature and purpose of reserve

The share-based payment reserve represents the fair value of equity benefits provided to directors and employees as part of their remuneration for services provided to the company paid for by the issue of equity.

	Options	\$
Balance 1 July 2006	-	-
Issued to Shareholders on 8 March 2007	7,500,000	-
Issued to Directors on 8 March 2007	<u>7,500,000</u>	<u>322,500</u>
Balance 30 June 2007	<u><u>15,000,000</u></u>	<u><u>322,500</u></u>

Options

- exercisable at 20 cents each on or before 30 November 2010	7,500,000
- exercisable at 30 cents each on or before 30 November 2010	<u>7,500,000</u>
	<u><u>15,000,000</u></u>

Model inputs for options granted during the year ended 30 June 2007 included:

Underlying Security spot price	\$0.125
Exercise price	\$0.30
Dividend rate	Nil
Standard deviation of returns (annualised)	70%
Risk free rate	5.85%
Valuation date	1 March 2007
Expiration date	30 November 2010
Expiration period (years)	3.7509
Black Scholes Valuation (\$ per security)	0.043
Binomial Valuation (\$ per security)	0.043

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

14. KEY MANAGEMENT PERSONNEL DISCLOSURES

PEEL EXPLORATION LIMITED
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Details of key management personnel

Executive Directors

R M Tyson (appointed on 20 April 2006)

Non-executive directors

M L Kiernan (appointed 15 April 2007)

S Hadfield (appointed 20 April 2006)

N T Hadfield (appointed 20 April 2006 and resigned 15 March 2007)

Other key management personnel

The following person also had authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly:

D Hocking, Company Secretary and Corporate Accountant (appointed 15 March 2007)

Key management personnel compensation

	2007	2006
	\$	\$
Short-term employee benefits	-	-
Post-employment benefits	-	-
Long-term benefits	-	-
Share-based payments	322,500	-
	322,500	-
	322,500	-

The Company has taken advantage of relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in the remuneration report in the directors' report.

Equity instrument disclosures relating to key management personnel

Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and share issued on the exercise of such options, together with terms and conditions of the options, can be found in note 13.

Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Peel Exploration Limited and other key management personnel of the company, including their personally related parties, are set out below:

	Balance at the start of the year	Granted as compensation	Granted, non-compensation	Exercised	Balance at end of the year	Vested and exercisable	Unvested
30 June 2007							
<i>Directors</i>							
R M Tyson	-	2,500,000	1,250,000	-	3,750,000	3,750,000	-
M L Kiernan	-	2,500,000	1,500,000	-	4,000,000	4,000,000	-
S Hadfield	-	2,500,000	1,050,000	-	3,550,000	3,550,000	-
N T Hadfield	-	-	50,000	-	50,000	50,000	-
<i>Other key management personnel</i>							
D Hocking	-	-	-	-	-	-	-

Option holdings for Mr Kiernan are from date of appointment on 15 March 2007. Option holdings for Mr N T Hadfield are subsequent to his date of resignation as a director on 15 March 2007.

All vested options are exercisable at the end of the year.

There were no options held by or issued to directors for the period ended 30 June 2006.

Share holdings of key management personnel

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Shares in Peel Exploration Limited (number)

	Balance at 1 July 2006	Received during the year on the exercise of options	Other changes during the year	Balance at 30 June 2007
30 June 2007				
<i>Directors</i>				
R M Tyson	1,000,000	-	1,500,000	2,500,000
M L Kiernan	-	-	3,000,000	3,000,000
S Hadfield	1,000,000	-	1,100,000	2,100,000
N T Hadfield	100,000	-	-	100,000
<i>Other key management personnel</i>				
D Hocking	-	-	-	-

Shareholdings for Mr M L Kiernan are from date of appointment on 15 March 2007. Shareholdings for Mr N T Hadfield are up to the date of resignation as a director on 15 March 2007. There were no shares issued as compensation during the year.

	Balance at 1 July 2005	Received during the year on the exercise of options	Other changes during the year	Balance at 30 June 2006
30 June 2006				
<i>Directors</i>				
R M Tyson	-	-	1,000,000	1,000,000
M L Kiernan	-	-	-	-
S Hadfield	-	-	1,000,000	1,000,000
N T Hadfield	-	-	100,000	100,000

There were no key management personnel other than directors in the period ended 30 June 2006.

Other transactions with key management personnel

A director, R M Tyson, loaned the Company a total of \$57,029 during the year ended 30 June 2007. This amount was repaid during the year.

A director, S Hadfield, is a director of Resource Information Unit (RIU). RIU loaned the Company a total of \$37,985 during the year ended 30 June 2007. This amount was repaid during the year.

A director, S Hadfield, is a director of Salamar Pty Ltd. Salamar Pty Ltd loaned the Company a total of \$4,372 during the year ended 30 June 2006. This amount was repaid during the year.

A director, S Hadfield, is a director of Resource Information Unit (RIU). RIU charges the Company management fees on a monthly basis. Total fees charged to the Company by RIU for the year ended 30 June 2007 were \$3,000. This amount is included on the income statement within administration expenses and on the balance sheet within trade and other payables at year end.

The Company Secretary, D Hocking, provides accounting services to the Company. Fees for services rendered during the year ended 30 June 2007 totalled \$9,625. This amount has been included on the income statement within administration expenses. A payable to D Hocking of \$4,625 is included on the balance sheet within trade and other payables for accounting services received but unpaid as at year end.

Aggregate amounts of each of the above types of other transactions with key management personnel of Peel Exploration Limited:

	2007	2006
Amounts recognised as expense	\$	\$
Management fees	3,000	-
Accounting services	9,625	-
	<u>12,625</u>	<u>-</u>

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	2007	2006
	\$	\$
Aggregate amounts payable to key management personnel or their affiliates at balance date relating to the above types of other transactions:		
Current liabilities	7,625	-

15. REMUNERATION OF AUDITORS

Amounts paid or due and payable to the auditors for:

Auditing or reviewing the financial report	7,750	4,000
Other services	-	-
	7,750	4,000

16. CONTINGENCIES

The Company had no contingent assets or liabilities for the year ended 30 June 2007.

17. EXPENDITURE COMMITMENTS

Capital expenditure commitments

Under the terms of mineral tenement licences held by the company, minimum annual expenditure obligations are required to be expended during the forthcoming financial year in order for the tenements to maintain a status of good standing. This expenditure may be subject to variation from time to time in accordance with Department of Industry and Resources regulations.

Capital expenditure commitments contracted for at the reporting date but not recognised as liabilities are as follows:

	2007	2006
	\$	\$
Within one year	196,500	90,000
Later than one year but not later than five years	106,500	-
Later than five years	-	-
	303,000	90,000

18. RELATED PARTIES

Transactions with related parties

The son of M L Kiernan, a director, is a promoter for Bell Potter. Bell Potter is the brokering agency the Company used to list their shares on the Australian Stock Exchange. Amounts totalling \$150,000 were paid to Bell Potter during the year and have been recognised within transaction costs on raising equity in note 14.

19. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Company issued 15,000,000 \$0.20 listed options effective 31 July 2007.

There has not arisen in the interval between the end of financial year and the date of this report any other item, transaction or event of a material or unusual nature, which is likely in the opinion of the Directors, to affect substantially the operation of the company, the result of those operations and the state of affairs of the company in the financial year subsequent to 30 June 2007.

PEEL EXPLORATION LIMITED
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	2007	2006
	\$	\$
20. RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES TO LOSS AFTER INCOME TAX		
Net cash outflow from operating activities	(87,877)	(1,164)
Share-based payments	(322,500)	-
Depreciation	-	-
Changes in operating assets and liabilities		
Increase in receivables	21,850	-
Increase in payables	(21,197)	(4,000)
	(409,724)	(5,164)
Loss after income tax	(409,724)	(5,164)

21. EARNINGS PER SHARE

	2007	2006
	Cents	Cents
Basic earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(4.0)	(0.3)

Diluted earnings per share

There is no impact of dilutive shares as the company made a loss for the year, hence any dilution would reduce the loss per share.

Reconciliation of loss used in calculation earnings per share

Basic earnings per share

	2007	2006
	\$	\$
Loss from continuing operations and attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(409,724)	(5,164)

Weighted average number of shares used as the denominator

	2007	2006
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	10,200,000	2,100,000

There is no impact of dilutive shares as the company made a loss for the year, hence any dilution would increase the weighted average number of shares and reduce the loss per share.

22. SHARE-BASED PAYMENTS

Option plan

The Company does not have an employee option plan. However, the Board elected to issue 7,500,000 options to Directors for their services to the Company during the year ended 30 June 2007. No consideration was received for options granted.

30 June 2007

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
8 March 2007	30 November 2010	\$0.30	-	7,500,000	-	7,500,000	7,500,000

PEEL EXPLORATION LIMITED
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There were no options issued prior to 8 March 2007.

The remaining contractual life of share options outstanding at the end of the period was 3 years and 5 months.

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2007 was \$0.043 per option. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free rate for the term of the option.

Model inputs for the options granted during the year ended 30 June 2007 have been included in note 13.

Expenses arising from share based-payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2007	2006
	\$	\$
Options issued to directors	322,500	-

23. COMPARATIVES

The comparative figures relate to the period from 20 April 2006 to 30 June 2006.

PEEL EXPLORATION LIMITED

DIRECTORS DECLARATION

The Board of Directors of Peel Exploration Limited declares that:

- (a) the financial statements, associated notes and the additional disclosures included in the directors' report designated as audited of the Company, comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- (b) the financial statements, associated notes and the additional disclosures included in the directors' report designated as audited of the Company, give a true and fair view of the financial position as at 30 June 2007 and performance of the Company for the financial year ended on that date;
- (c) at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due;
- (d) the audited remuneration disclosures set out on pages 5 to 8 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the Corporations *Regulations 2001*.

The financial report has been made out in accordance with Australian Accounting Standards and the Corporations Act 2001.

This declaration has been made out after the Board of Directors received the declaration by the executive director and chief financial officer required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.



Rob Tyson

Director

Perth, Western Australia

Dated on this the 28th day of September 2007.

INDEPENDENT AUDITOR'S REPORT

To the members of Peel Exploration Limited

Report on the Financial Report and AASB 124 Remuneration Disclosures Contained in the Directors' Report

We have audited the accompanying financial report of Peel Exploration Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the consolidated entity has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" in the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the

directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion on the Financial Report

In our opinion the financial report of Peel Exploration Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls

Glyn O'Brien

Glyn O'Brien
Director

Signed at Perth this 28th day of September 2007.