



CHURCHILL  
MINING PLC

Incorporated in England and Wales  
with Registered Number 5275606

# ANNUAL REPORT

For the Period 2nd November 2005 to 30th June 2006

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*Cover: Night drilling at Churchill Mining's Sendawar Coal Project in Kalimantan, Indonesia.*

# CHAIRMAN'S STATEMENT



Dear Shareholder,

It is with great pleasure that I present the 2006 Annual Report and Financial Statements.

When I first wrote to you at this time last year Churchill was a newly-listed company looking to grow shareholder value in two ways – first, by exploring its South Woodie Woodie manganese project in Western Australia and secondly, targeting the acquisition of niche resource opportunities in Asia.

Twelve months on and Churchill has delivered on both of these objectives. Not only has your company continued to explore and refine targets at South Woodie Woodie in preparation for drilling but it has acquired a world-class coal exploration project called Sendawar in Kalimantan, Indonesia.

The acquisition of the Sendawar project in April 2006 was coupled with the injection of new monies into the company via a well-supported GBP5.25 million placement to London institutional investors. This capital injection ensures Churchill can support a dedicated physical presence in Indonesia and at the same time aggressively drill a tenement package covering more than 1000 square kilometres.

Given that Kalimantan is one of the fastest growing coal provinces in the world, Churchill has been careful to fully resource its exploration efforts. The Company has established a headquarters in Jakarta, built a modern field camp at site and now has 15 geologists and 50 support personnel actively traversing the Sendawar region. At the time of writing the Company's first drill rig had been commissioned and a second drill rig and more support personnel were being readied for deployment.

Churchill's management team has also been careful to put realistic staged goals in front of the Company. Whilst our geological advisors are very optimistic about the high value coal exploration prospectivity of the Company's Sendawar properties, Churchill's first target hurdle is a modest five million tonnes. At this threshold the Company believes it can start a profitable trial mining operation, income from which would be used to further accelerate its drilling program.

Most encouraging for the Sendawar coal project is the fact that the outlook for the thermal coal market has rarely looked better. China and numerous other Asian nations are keenly looking for new sources of supply. Indonesia, via its mines in Kalimantan, is perfectly positioned to fulfill this demand given its advantages of proximity to market and superior coal quality. Given these positive factors Churchill believes there is much to look forward to in the year ahead.

In summary, this past year has been an immensely rewarding period for Churchill – a time in which the company has grown rapidly on multiple fronts and in doing so has firmly positioned itself to become a future supplier of coal to an energy hungry world.

Finally, on behalf of the Directors I would like to thank you for your ongoing support of the Company's activities. I would also like to thank our joint Managing Directors, James Hamilton and Paul Mazak, for their untiring efforts.

David Quinlivan  
Chairman  
Churchill Mining Plc



## The Sendawar Coal Project

### BACKGROUND

Churchill's business plan is to find leverage points to the rampant economic growth being experienced by China and India.

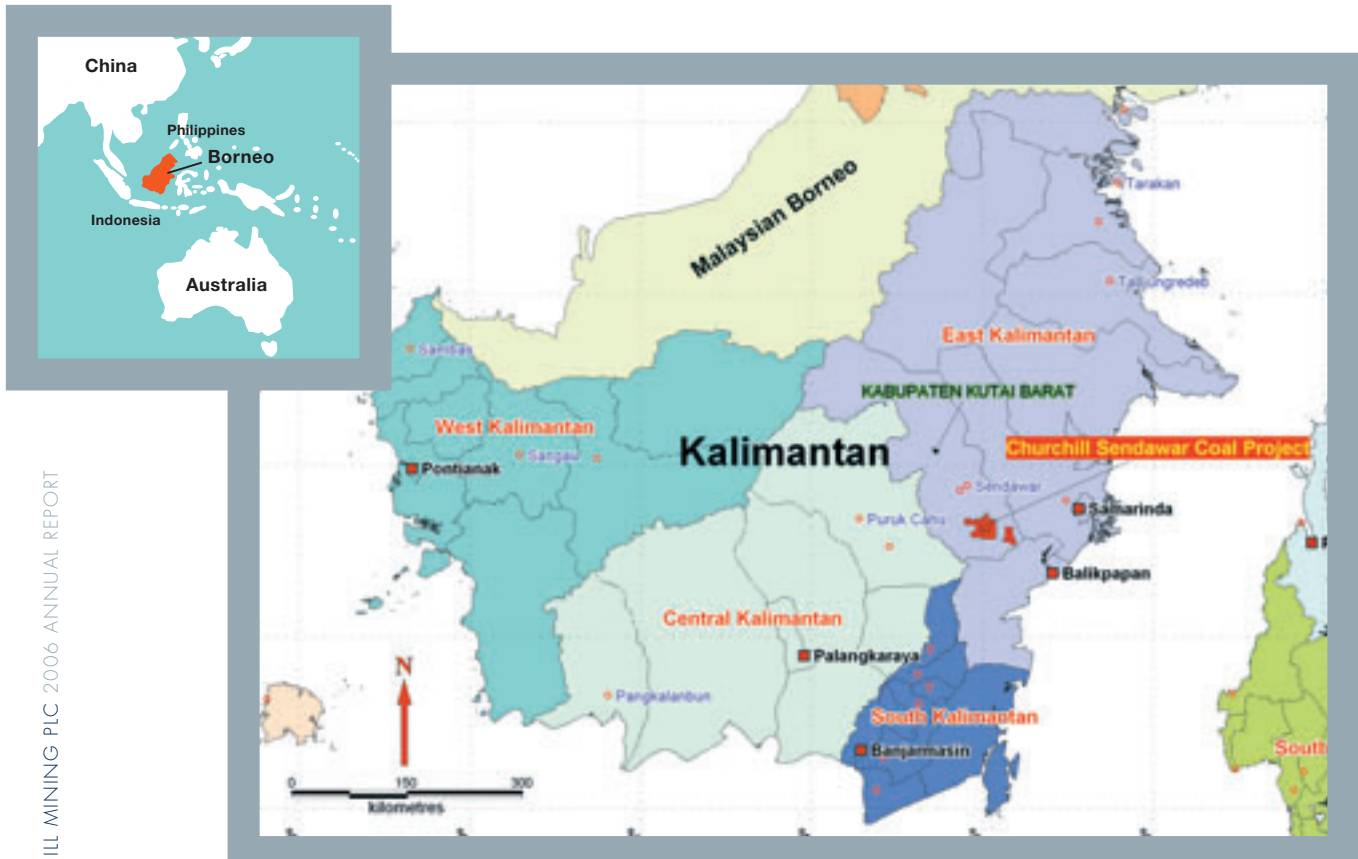
In particular, the Company is focused on giving investors exposure to the burgeoning steel and energy sectors of the world's most populated nations.

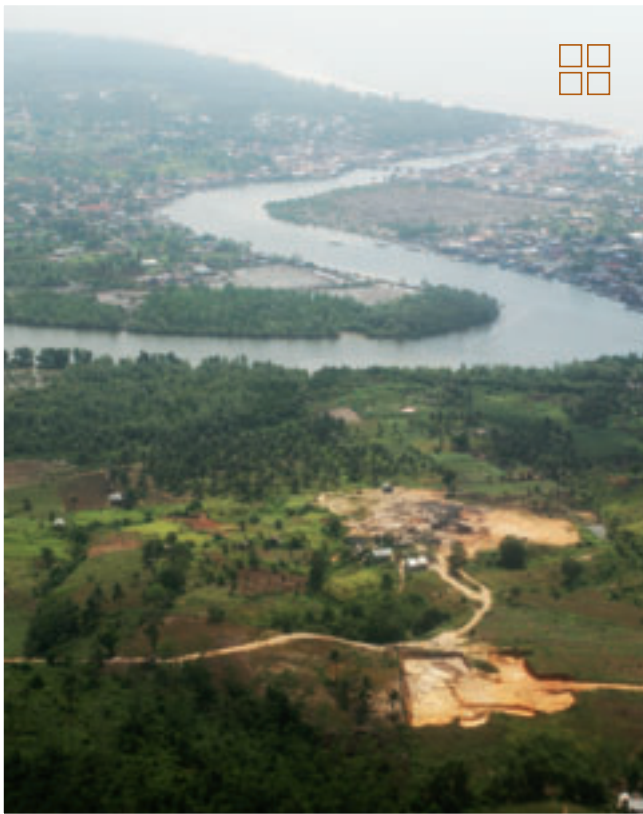
Consequently, in April 2006 after many months of due diligence, Churchill executed on this corporate vision and acquired the Sendawar Coal Project in East Kalimantan, Indonesia.

The Sendawar project takes in a very large tenement holding (more than 1000 square kilometres) in a world-renowned coal province whose production output has been estimated to be growing at approximately 20% per annum.

The reasons for this production boom in Kalimantan and the consequent appeal for the Company are multiple; including

- Coal demand for both metallurgical and thermal coal has risen sharply due to unprecedented demand from many parts of Asia;
- Governmental mandates to substitute existing oil-fired power stations with coal-fired power stations.
- Kalimantan coal has become increasingly attractive to purchasers because of its low ash and low sulphur content along with Indonesia's close proximity to markets; and
- Exploration, mining and transport logistics are well understood and now catered for given the major domestic and international coal mining investments made in Kalimantan during the first half of the 1990s and onwards.





#### TRANSACTION & CAPITAL RAISING

To acquire the Sendawar Coal Project, Churchill and its wholly-owned subsidiary Planet Mining Ltd, acquired the shares of PT Indonesia Coal Development (ICD), a private Indonesian company.

ICD controls 80% of five companies which have tenements totaling 106,000 hectares in the Kalimantan coal province. The residual 20% interest is free carried to Bankable Feasibility Study after which the minority owner must either contribute or dilute.

The consideration paid by the Company was GBP2.75 million which was met via the allotment of 100 million Churchill shares at 2.5 pence per share with the remainder in cash. The company also paid a commitment fee of US\$ 200,000 prior to the acquisition. The shares issued are subject to a one year lock-in period.

To adequately fund development plans for the new acquisition the company raised GBP5.25 million via the issue of 210 million shares at 2.5p. The company then completed a 1 for 10 share consolidation, resulting in the Company currently having 44.58 million shares in issue.

#### PROJECT LOCATION & NEIGHBOURS

The Sendawar Coal Project is located within the Mahakam River area of the Kalimantan Coal Province. In the past, most Kalimantan coal developments have taken place near the southern and eastern coasts. However, near-coast opportunities have thinned as ground positions shrink or are broken-up to accommodate existing and smaller new local miners.

Consequently, larger miners have begun a consolidated push inland, roughly following the Mahakam River looking for prospective positions large enough to provide the necessary economies of scale. The Sendawar Coal project is an example of this; however, it has the advantage of being near proven, world-class mines and in the right geological setting.

The project itself lies 50km south of the Mahakam River about 190km inland from the coast. The project is located in the same geological setting as the immediately adjacent Gunung Bayan mine which produces approximately 3.4 million tonnes of coal per annum ("Mtpa").

The project is also in close vicinity to the newly commissioned 6Mtpa Trubaindo mine operated by listed Thai miner Banpu Public. Banpu has built a 20Mtpa coal load-out facility on the Mahakam River to service Trubaindo and another discovery made by the company called Ekatama.

These nearby mines produce high quality thermal coal with high energy (6,000 to 8,000kcal/kg) and low ash (<4%), moisture (10%) and total sulphur (<1%). The coal is mined, trucked to the river, loaded onto barges which transport the coal to ocean-going vessels for delivery to customers in East and South East Asia. Coal barges used on the Mahakam most commonly range in size from 6000-8000 tonnes but more recently larger sizes of 10,000-12,000 tonnes have been employed.



## INFRASTRUCTURE & PERSONNEL

In order to manage its exploration program Churchill has invested time and money building the necessary operating bases to ensure success.

The Company has leased an office at the Wisma Kosgoro Building in Jakarta to house and run the corporate affairs of PT Indonesia Coal Development.

The Company has also rented a house in Melak in Kalimantan, the main population centre near the Sendawar project, which is being used as communications, stores and messing hub for field operations. This facility will also house the project's core farm.

Churchill has also been busy recruiting staff to run these bases and field operatives to assist the Company's senior geologists. The Company's field team now numbers 65 which includes expatriate and Indonesian geologists and community workers who have keenly volunteered to be involved with the project.

## TARGET REFINEMENT

Soon after acquisition of the project Churchill engaged the services of GMT Indonesia ("GMT") to manage the exploration programme. GMT has subsequently recruited 15 Indonesian geologists who have started an extensive ground traversing programme to follow up known outcrops in the area and map prospective rock formations.

In June, the Company announced the first results, albeit early stage and limited, from outcrop samples gathered in the northern portion of the project. These confirmed the presence of high calorific coal – coal with a calorific value above 6,300 Kcal/kg is deemed to be high calorific value thermal coal and at the time of announcement had a potential sale value of approximately US\$40.00 per tonne.

Subsequent ground traversing by the field team also revealed the presence of coal outcrops in the eastern portion of the tenement package. These were deemed a priority and Churchill moved to engage SRK Consulting to be technical supervisor to the project. SRK's consulting team is led by its principal coal geologist, Pat Hanna, along with the support of two senior Indonesian coal geologists. At the time of writing SRK had conducted training workshops for GMT's personnel to ensure world's best practice in terms of sample handling and core logging.



## EXPLORATION DRILLING

Churchill has designed a full exploration programme to be conducted over 18 months. The key goals for Year 1 are the delineation of a five million tonne ("Mt") resource and to conduct trial mining operations. It is planned that cashflow from such a mining operation could accelerate drilling in Year 2 in order to increase the resource tonnage to 50Mt and complete a feasibility study for a substantial coal mining and export operation. Given the world-class size of the resources defined in the district by Churchill's neighbours, the Company considers a longer term resource position of about 200 million tonnes not unachievable.

To reach its initial aim of establishing a JORC compliant resource of five Mt Churchill announced in August that it had contracted Indonesian drilling company PT Maxidrill Indonesia to sink an initial 5,000 metres of diamond core and open holes. This programme is the first in a campaign in which approximately 23,000 metres will be drilled.

A second rig had been due to start work on site in Q1 2007 but because of encouraging early geological field results this was brought forward and the second rig started work in October 2006. Churchill is sending its drill core to a world accredited assay laboratory in Samarinda, Kalimantan.

The rigs supplied by PT Maxidrill are typical of those used in Indonesia. Although they have the capacity to drill to a depth of 150m they are light-weight and man-portable making them ideal for operating in heavy jungle terrain.



## THE ROAD AHEAD

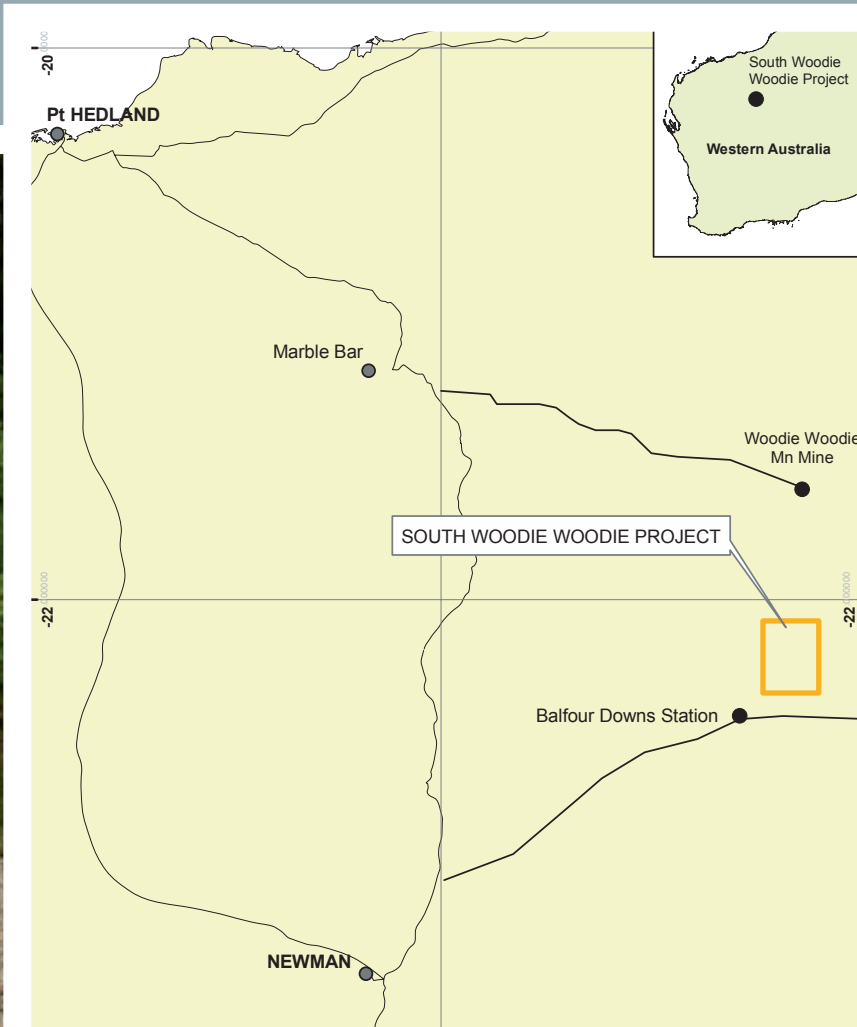
Due to the lack of modern exploration in many parts of Eastern Kalimantan Churchill's geological knowledge of its Sendawar project remains formative.

That said, the Company is aggressively looking to change this via a number of solutions:

- Community support: Churchill has engaged the services of a full-time community liaison officer to aid communication between the Company and local villagers. This has already proved to be extremely helpful with locals keenly helping to show the exploration team known areas of coal outcrop;
- More man power: Churchill will continue to recruit talented young Indonesian geologists with coal knowledge to aid its mapping and traversing initiatives. The Company hopes to have a total field complement (geologists and assistants) of 100 working in the field by the end of calendar 2006;
- Modern technology: Churchill understands that ground-borne geophysics have been used successfully by other companies in the area to trace coal seams under cover. This and other modern technologies will be applied to the Sendawar project as soon as practical; and
- More drill rigs: Churchill is keen to accelerate its planned drilling program and is in discussions with drilling companies about rig availability for the future.

## OTHER PROJECTS

Given Churchill's established infrastructure and geological network, the company is ideally placed to review other coal projects in Indonesia and has an ongoing watching brief for properties which the Company believes can bring value for its shareholders.



## The South Woodie Woodie Manganese Project

### BACKGROUND

The South Woodie Woodie Project Area is located in the highly prospective East Pilbara Manganese Province, Western Australia, about 1,200 km northeast of Perth and some 50km south of the Woodie Woodie manganese mining centre.

The project is owned 100% by Churchill and is covered by three large exploration leases which total nearly 490km<sup>2</sup>.

Although manganese was first discovered in the Project Area at Enacheddong Creek in 1977 there was no systematic exploration of the area until Churchill (through its subsidiary Planet Mining Limited) acquired the rights to 80% of the property in 2004 and subsequently 100% in 2005. Since that time Churchill has undertaken various exploration programmes aimed at identifying new targets for manganese mineralisation.



## PREVIOUS & CURRENT FIELD WORK

The Enacheddong Creek Prospect was discovered in 1977 by the Australian and New Zealand Exploration Company after they completed an airborne infra-red aerial photography survey.

Reconnaissance mapping and channel sampling identified outcrops of manganese over a strike length of 700 metres with grades of between 31% and 54% manganese. However, no follow up work was done and since that time there has been no further work reported. Most exploration in the East Pilbara Manganese Province was focussed further to the north around the Woodie Woodie Mining Centre.

Since 2005 Churchill Mining has completed the following systematic exploration work:

1. At Enacheddong Creek field checking was done and 51 soil samples and 74 rock chip samples were taken. This work indicated that outcrops of manganese mineralisation containing high grade manganese occurred over a strike length of 1.5km and that a second mineralised trend is present 500m further east. Both of these mineralised trends are overlain by younger cover rocks and it was concluded that the trends may be much more extensive than mapped;
2. A Surface Geology Map was compiled from Landsat TM satellite data and a stereoscopic interpretation of aerial photographs to help identify possible extensions of the known mineralised trends and any new mineralised occurrences. Areas of possible manganese outcrops were identified, mainly as dark areas on the aerial photographs, and a total of seven high priority, fifteen medium and twelve lower priority targets were identified. The high priority targets included the Enacheddong Creek Prospect;



3. Float and rock chip sampling of the seven high priority areas and five of the medium and three of the lower priority areas identified three areas as warranting further mapping and sampling: the Enacheddong Creek, Disraeli North and Disraeli South Targets. The twelve other targets comprised surficial gravels and scree with low manganese contents. The remaining areas have yet to be followed up;
4. Further field work indicated that of the three high priority areas Enacheddong Creek had the immediate potential and accordingly this was recommended for early drilling. A total of ten RC drill holes for 1064 m were drilled at Enacheddong Creek on a drill spacing of 50m on lines about 150m apart. The holes were designed to test the surface outcrops of manganese and better understand the geological setting of the prospect.
5. The recognition of the importance of structural controls on manganese mineralisation in the region indicated that an airborne magnetic and radiometric survey would be the best method of identifying and mapping out structures that may be mineralised. Accordingly a 6,600km airborne geophysics survey of the entire tenement package was completed. This new data combined with results from the drilling has significantly improved Churchill's understanding of the surface distribution of the basement rocks that host the manganese mineralisation and also the overlying regolith that has resulted in its physical and chemical remobilisation. Importantly, the extent of the regolith continues to demonstrate the potential for large, buried manganese deposits in the project area.



## LOOKING AHEAD

The combination of the detailed exploratory and interpretive work outlined leads the Company to believe that the South Woodie Woodie project indeed sits in a large mineralised system.

Churchill also believes that because of the blanket of surface cover in the area, it must continue using airborne and ground geophysics to refine its targeting process before drilling.

Interpretive work completed on the airborne magnetic and radiometric data shows a number of key areas that command follow up. To this end, Churchill has begun negotiations with Canadian company Geotech to fly a heli-borne program over these areas using its Versatile Time-Domain Electromagnetic (VTEM) system.



VTEM is a leading technology that can detect conductive mineralization and related structures to a depth of 400m below surface. Similar technologies have directly helped lead to the discovery of five manganese deposits at the nearby Woodie Woodie mining centre.

Given the expanding parameters and attractiveness of the South Woodie Woodie project, Churchill may consider using a joint venture partner to share some of the costs/rewards of exploring this project in the future.

James T Hamilton  
Joint Managing Director

Paul G Mazak  
Joint Managing Director

# BOARD OF DIRECTORS



## DAVID QUINLIVAN (AGED 51), CHAIRMAN

Mr Quinlivan is a mining engineer and principal of Borden Mining Services. With almost 30 years' experience on projects throughout the world, Mr Quinlivan is familiar with all aspects of resources developments from grass roots exploration through to bankable feasibility reviews and detailed mining programmes. He recently oversaw (as a project consultant) the expansion of the Perseverance Deeps nickel mine expansion in Western Australia for BHP Billiton. Most recently he served as CEO of Sons of Gwalia Ltd and helped the Administrators to that company with its operational and corporate restructure. Mr Quinlivan is a Fellow of the Australian Institute of Mining and Metallurgy, Member of the Australian Institute of Arbitrators & Mediators Australia and a fellow of the Financial Services Institute of Australia. He is also a non-executive director of ASX-listed gold explorer Avoca Resources Ltd and oil and gas explorer Jupiter Energy Ltd.

## PAUL MAZAK (AGED 48), JOINT MANAGING DIRECTOR

Mr Mazak is a business development specialist and has been managing director of Hastings and Associates for the past 17 years. Responsible for leading and managing financial, investment, consulting and governmental teams across the globe, Mr Mazak has an intimate knowledge of business practice in many parts of Asia, Africa and Europe. Due to his knowledge of the global mining sector, Mr Mazak specialises in securing projects for listed companies. In this regard, he was responsible for the creation and management of the successfully bidding B.Vijakumar Diamond Consortium, which sought to develop the world-class Madhya Pradesh diamond property in India. In addition, Mr Mazak sourced the mine assets and was part of the reconstruction team of ASX-listed Majestic Resources NL, where he served as a director between 2001 and 2003. He is currently a director of Boston Noble Pty Ltd.

## JAMES HAMILTON (AGED 38), JOINT MANAGING DIRECTOR

Mr Hamilton is a former financial journalist who has specialised in covering the global resources industry. For 13 years Mr Hamilton travelled extensively analysing exploration projects, mines and management teams across a variety of mineral commodities, including precious metals, ferrous metals, diamonds, energy minerals and industrial minerals. He is the former Editor of leading Australian technical mining journal Australia's Mining Monthly. He has also been editor of dedicated mining investment magazine Resource Stocks and is the founder of global mining information news service, MiningNews.net. He currently also serves as a director of Planet Mining Pty Ltd, Goldregis Corporation Pty Ltd and Boston Noble Pty Ltd.

## MELISSA STURGESS (AGED 40), NON-EXECUTIVE DIRECTOR

Ms Sturgess has an extensive background in corporate management, development and financing. After an early career with British Airways and lawyers Mallesons Stephen Jacques she was appointed to the Board of AIM and ASX-listed Dwyka Diamonds Limited in 2001. She rose to become chief executive officer in July 2003 and in August 2005 was appointed executive chairman. Ms Sturgess has been instrumental in turning Dwyka into a diamond producer of significance via the development of three mines in South Africa. Ms Sturgess currently also serves as a non-executive director of AIM-listed PGM producer Sylvania Resources Ltd and AIM-listed gold explorer Tanzania Gold Plc.

# DIRECTORS' REPORT

for the period ending 30th June 2006



The Directors are pleased to present their report and the consolidated financial statements of the Company and its subsidiaries for the period ended 30<sup>th</sup> June 2006.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are to explore for manganese, coal and to acquire further projects and investments in the mining sector. The company's two major assets are the South Woodie Woodie manganese project based in Western Australia and the Sendawar Coal project in Kalimantan Indonesia.

## REVIEW OF ACTIVITIES

A detailed review of the Group's activities and future plans is contained within the operating review.

## RESULTS AND DIVIDENDS

Loss on ordinary activities of the Group after taxation amounted to £562,547 (2005 loss: £100,329).

The Directors do not propose the payment of a dividend.

## DIRECTORS

The Directors of the Company are shown on page 14 of this report.

The following have been Directors of the company during the financial year ended 30<sup>th</sup> June 2006.

David Quinlivan

James Hamilton

Paul Mazak

Melissa Sturgess

## SHARE CONSOLIDATION

On the 28<sup>th</sup> April 2006 shareholders resolved that all of the ordinary shares of 0.1p in the capital of the Company be consolidated into ordinary shares of 1p on the basis of 10 ordinary shares of 0.1p for each new ordinary share of 1p. As at the date of this report the Company has 44,580,000 ordinary shares in issue.

# DIRECTORS' REPORT (CONTINUED)

for the period ending 30th June 2006



## REMUNERATION COMMITTEE

The remuneration committee consists of the independent non-executive directors who are David Quinlivan and Melissa Sturgess. The committee's aim is to ensure that the executive directors are rewarded for their contribution to the Group and are motivated to enhance the return to shareholders.

The remuneration committee is responsible for reviewing the performance of the executive directors, setting their remuneration, considering the grant of options under any share option scheme and, in particular the price per share and the application of performance standards which may apply to any such grant. The committee is chaired by Melissa Sturgess.

In addition, they have regard to pay and conditions for other employees in the Group especially the arrangements for directors of subsidiaries who are not directors of the Company. The remuneration committee meets on an "as required" basis.

## DIRECTORS' REMUNERATION

### Service Contracts - Directors

Summary	Effective date of contract	Notice period from Director	Notice period from Company	Special terms that apply on early termination
David Quinlivan	12/02/2005	6 months	6 months	none
James Hamilton	12/02/2005	6 months	6 months	none
Paul Mazak	12/02/2005	6 months	6 months	none
Melissa Sturgess	12/02/2005	6 months	6 months	none

### Non-Executive Directors

Non-executive directors' remuneration consists of an annual fee for their services as members of the Board and of selected committees. Non-executive directors' remuneration is determined by the Board

### Management Contracts - Directors

	Effective date of contract	Notice period from Director	Notice period from Company	Special terms that apply on early termination
James Hamilton	1/03/2005	6 months	6 months	Balance of outstanding fees for the notice period are payable.
Paul Mazak	1/03/2005	6 months	6 months	

The Company has entered into a management contract with Boston Noble Pty Ltd ("Boston") to provide the services of Mr James Hamilton and Mr Paul Mazak to manage and develop the business of the Company. Fees paid to Boston during the year are disclosed in the table on page 17.

# DIRECTORS' REPORT (CONTINUED)

for the period ending 30th June 2006



## Auditable information

The following information has been audited by the company's auditors, as required by Schedule 7A to the Companies Act 1985.

## Directors' Remuneration

2006	Directors Fees £	Management Consulting Fees £	2006 Total £
<b>Executive</b>			
James Hamilton	11,250	75,943	87,193
Paul Mazak	11,250	75,943	87,193
<b>Non-Executive</b>			
David Quinlivan	11,250	3,226	14,476
Melissa Sturgess	11,250	-	11,250
2005	Directors Fees £	Management Consulting Fees £	2005 Total £
<b>Executive</b>			
James Hamilton	1,576	23,711	25,287
Paul Mazak	1,576	23,711	25,287
<b>Non-Executive</b>			
David Quinlivan	1,576	-	1,576
Melissa Sturgess	1,576	-	1,576

## Directors' Interests in Shares

The directors who held office at 30th June 2006 had, at that time, the following beneficial interests in the shares of the Company:

	Ordinary shares
David Quinlivan (a)	377,952
James Hamilton	1,048,817
Paul Mazak	500,000
Melissa Sturgess (b)	125,984

(a) These shares are held in the name of Borden Holdings Pty Ltd which is a company controlled by Mr David Quinlivan.

(b) These shares are held in the name of Vail Capital Pty Ltd which is a company controlled by Ms Melissa Sturgess.

Since the year end Mr David Quinlivan purchased 100,000 ordinary shares and now has an interest in 477,952 ordinary shares.

# DIRECTORS' REPORT (CONTINUED)

for the period ending 30th June 2006



## Directors' Share Options

Directors	Date of grant	Number of options	Balance at end of year	Option exercise price pence	Expiry date
David Quinlivan	8/4/2005	100,000	100,000	20p	8/4/2010
	18/4/2006	101,140	101,140	35p	18/4/2011
	23/5/2006	650,000	650,000	35p	23/5/2011
James Hamilton	8/4/2005	300,000	300,000	20p	8/4/2010
	18/4/2006	140,914	140,914	35p	18/4/2011
	23/5/2006	1,157,100	1,157,100	35p	23/5/2011
Paul Mazak	8/4/2005	300,000	300,000	20p	8/4/2010
	18/4/2006	140,914	140,914	35p	18/4/2011
	23/5/2006	1,157,100	1,157,100	35p	23/5/2011
Melissa Sturgess	8/4/2005	200,000	200,000	20p	8/4/2010
	18/4/2006	140,914	140,914	35p	18/4/2011
	23/5/2006	650,000	650,000	35p	23/5/2011
Total		5,038,082	5,038,082		

The effect of the share consolidation on the share options was that the number of options is reduced by a factor of ten and the exercise price is increased by a factor of ten. The market price of the Company's shares on 30<sup>th</sup> June 2006 was 31.5 pence and the range of closing prices during the year was 21.25 pence to 43 pence.

### RE-ELECTION OF DIRECTORS

The Articles of Association require one-third of the directors who are subject to retirement by rotation to retire and submit themselves for re-election each year.

### ANNUAL GENERAL MEETING

Details of the Company's forthcoming annual general meeting are set out in a separate circular that will be sent to all shareholders with the annual report and accounts.

### CORPORATE GOVERNANCE

The Company recognises the importance of, and is committed to, high standards of corporate governance. The Company's shares are traded on the AIM market of the London Stock Exchange and the Company is not therefore required to report on compliance with the combined Combined Code appended to the listing rules.

Compliance with the general principles of good governance has been effected by the Company in the following way:

# DIRECTORS' REPORT (CONTINUED)

for the period ending 30th June 2006



The Board comprises the non-executive chairman, the two joint managing directors and one non-executive director. The Board is satisfied that, having considered the background and current circumstances of each of the non-executive directors, there are no relationships or other matters which could affect their respective judgement in carrying out their duties. Accordingly, the non-executive directors are considered by the Board to be independent of management.

David Quinlivan is the senior independent non-executive director. The non-executive directors have disclosed to the chairman and the Company Secretary their significant commitments other than their directorship of the Company. All directors have access to the Company Secretary and may take independent professional advice at the Company's expense. Each director may also receive appropriate training as necessary and a record of training undertaken is maintained by the Company Secretary.

The Board receives detailed proposal papers in advance of meetings, together with management presentations to facilitate proper consideration and debate of matters brought before it. The Board is primarily responsible for the strategic direction of the Group. Major strategic initiatives involving significant cost or perceived risk are only undertaken following their full evaluation by the Board. Matters of an operational nature are delegated to the Group's management.

Progress on key initiatives is reported regularly and minuted, together with routine matters such as financial performance and current trading.

During the year ended 30 June 2006 seven Board meetings were held. The directors attended as follows:

<b>Board of Directors</b>	<b>Number of meetings</b>	<b>Attendance</b>
David Quinlivan	7	6
James Hamilton	7	7
Paul Mazak	7	7
Melissa Sturgess	7	5

## INTERNAL AUDIT

Due to the size of the Group it is not economically viable or considered necessary to employ Internal Auditors.

## AUDIT COMMITTEE

Chaired by David Quinlivan the committee comprises the independent non-executive directors. The audit committee is responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported on and where required meet with the Group's auditors and reviewing their reports on the accounts and the Group's internal controls.

It also reviews the performance of the Group's auditors to ensure an independent, objective, professional and cost-effective relationship is maintained. As well as reviewing the Company's published financial results, the committee reviews the Group's corporate governance processes (including risk analysis), accounting policies and procedures, reporting to the Board on any control issues identified. The audit committee meets twice per year to review the interim and annual financial statements and to consider any other associated matters.

# DIRECTORS' REPORT (CONTINUED)

for the period ending 30th June 2006



## SUPPLIER PAYMENT POLICY

The Group's policy, in relation to all of its suppliers, is to negotiate its terms of payment when agreeing the terms of the transactions, to ensure that those suppliers are made aware of the terms of payment and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any universal code or standard on payment practice but subsidiary companies are expected to establish payment terms consistent with local procedures, custom and practice. Trade Creditors of the group at 30<sup>th</sup> June 2006 represent 58 days' purchases.

## POLITICAL CONTRIBUTIONS

During the year the Company made no political contributions.

## CHARITABLE DONATIONS

During the year the Group made no charitable donations.

## MAJOR SHAREHOLDERS

As at 30<sup>th</sup> September 2006, the directors were aware of the following shareholdings in three per cent or more of the Company's shares (excluding those of the directors).

	Number of ordinary shares	Per cent
Profit Point Group Limited	9,500,000	21.31%
BBHISL Nominees Limited	4,458,000	10.00%
GLG European Opportunity Fund	3,000,000	6.73%
BBHISL Nominees Limited	2,100,000	4.71%
Willbro Nominees Limited	1,999,496	4.49%
Morstan Nominees Limited	1,908,670	4.28%
J M Finn Nominees Limited	1,841,378	4.13%
Pershing Keen Nominees Limited	1,558,817	3.50%

## AUDITORS

Chapman Davis LLP has indicated its willingness to accept reappointment as auditors of the Company. A resolution proposing the reappointment is contained in the notice of annual general meeting and will be put to the shareholders at the annual general meeting.

## CONVERSION TO IFRS

The Company is preparing to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) and is working closely with its auditors and professional advisers in relation to implementation.

# DIRECTORS' REPORT (CONTINUED)

for the period ending 30th June 2006



## DIRECTORS STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Each of the Directors, who were all members of the Board at the time of approving the Annual Report, confirms that having made enquiries of fellow Directors and of the Company's auditors:

- so far as the Director is aware, there is no relevant information of which the Company's auditors are unaware, and
- he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

## GOING CONCERN

The Directors confirm that, after making enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these accounts.

By Order of the Board

Churchill Mining plc  
James Hamilton  
Director

9th October 2006

# STATEMENT OF DIRECTORS' RESPONSIBILITIES



Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit and loss for that period. In preparing those financial statements, the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They have general responsibility for taking such steps as are reasonable to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Financial information is published on the Company's website. The maintenance and integrity of this website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may occur to the financial statements after they are initially presented on the website.

It should be noted that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# INDEPENDENT AUDITORS' REPORT

to the members of Churchill Mining plc



We have audited the financial statements which comprise the Group Profit and Loss Account, the Balance Sheets, the Group Cash Flow Statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Report relating to Director's Remuneration ('the auditable part').

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Report relating to Directors' Remuneration in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Report relating to Directors' Remuneration have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Operating Review.

## BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards 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 and the auditable part of the Directors' Report relating to Directors' Remuneration. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 and the auditable part of the Directors' Report relating to Directors' Remuneration 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.

# INDEPENDENT AUDITORS' REPORT (CONTINUED)

to the members of Churchill Mining plc



## OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30<sup>th</sup> June 2006 and of the loss and cash flows of the Group for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Report relating to Directors' Remuneration required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.
- the information given in the Directors report is consistent with the financial statements.

Chapman Davis LLP  
Chartered Accountants and Registered Auditors  
London

9<sup>th</sup> October 2006

# PROFIT AND LOSS ACCOUNT

for the period ending 30th June 2006



	Note	Year ended 30 June £	Period 2nd November 2004 to 30 June 2005 £
Group turnover		-	-
Administrative & operating expenses		(640,986)	(113,383)
<b>Group operating loss</b>	4	(640,986)	(113,383)
Other operating income		10,613	7,448
Interest receivable		67,826	5,606
<b>Loss on ordinary activities before taxation</b>	3, 7	(562,547)	(100,329)
Taxation on profit on ordinary activities	6	-	-
<b>Loss on ordinary activities after taxation</b>		(562,547)	(100,329)
<b>(Loss) for the financial year</b>		(562,547)	(100,329)
<b>Loss per share (pence)</b>			
Basic	7	(2.81p)	(0.30p)
Diluted	7	(2.81p)	(0.30p)

All results relate to continuing operations. There are no recognised gains or losses other than the loss for the period.

# CONSOLIDATED AND COMPANY BALANCE SHEET

as at 30th June 2006



	Note	Group		Company	
		30 June 2006 £	30 June 2005 £	30 June 2006 £	30 June 2005 £
<b>Fixed assets</b>					
Intangible fixed assets	8	6,504,000	21,788	218,832	-
Tangible fixed assets	9	15,839	53,419	-	16,000
Investments	10	-	-	3,464,611	239,479
Debtors non-current	12	3,855	-	143,491	-
Total Fixed Assets		6,523,694	75,207	3,826,934	255,479
<b>Current assets</b>					
Debtors	12	89,052	33,803	47,995	25,408
Cash at bank and in hand	13	5,229,499	751,106	5,083,096	635,125
Total Current Assets		5,318,551	784,909	5,131,091	660,533
Creditors due within one year	14	(284,389)	(33,304)	(175,309)	(17,940)
Net current assets		5,034,162	751,605	4,955,782	642,593
<b>Total assets less current liabilities</b>					
		11,557,856	826,812	8,782,716	898,072
Creditors due after one year		-	-	-	-
Net assets		11,557,856	826,812	8,782,716	898,072
<b>Capital and reserves</b>					
Called up share capital	19	445,800	110,800	445,800	110,800
Share premium reserve	20	6,200,382	816,341	6,200,382	816,341
Merger reserve	20	2,400,000	-	2,400,000	-
Other reserves	20	3,174,550	-	-	-
Profit and loss account	20	(662,876)	(100,329)	(263,466)	(29,069)
<b>Equity shareholders' funds</b>		<b>11,557,856</b>	<b>826,812</b>	<b>8,782,716</b>	<b>898,072</b>

Approved by the Board on 9th October 2006

James Hamilton / Paul Mazak  
Churchill Mining plc  
Joint Managing Director

# CASH FLOW STATEMENT

for the period ending 30th June 2006



	Note	2006 £	2005 £
<b>Cash flows from operating activities</b>			
Net outflow from operating activities	21(a)	(473,383)	(101,900)
<b>Returns on investments and servicing of finance</b>			
Interest received		67,826	5,606
<b>Net cash inflow from returns on investment and servicing of finance</b>		67,826	5,606
<b>Capital expenditure and financial investment</b>			
Payments for intangible mining assets		(424,278)	-
Purchase of mining assets and development		(223,412)	(28,036)
Payments for tangible fixed assets		(12,401)	(5,878)
<b>Net cash outflow for capital expenditure and financial investment</b>		(660,091)	(33,914)
<b>Movement in liquid resources</b>			
Increase in short-term deposits with banks		(4,487,490)	(649,536)
<b>Cash outflow before financing</b>		(5,553,138)	(779,744)
<b>Financing</b>			
Issue of share capital		5,800,000	1,020,000
Expenses of share issues		(255,959)	(148,859)
Net cash from acquisition of subsidiary		-	10,173
<b>Net cash inflow from financing</b>		5,544,041	881,314
<b>(Decrease)/Increase in cash in the period</b>	21(b)	(9,097)	101,570

# NOTES TO THE GROUP FINANCIAL STATEMENTS

for the period ending 30th June 2006



## 1. BASIS OF PREPARATION AND CONSOLIDATION

The financial statements of the Company and its subsidiaries are made up to 30th June and the 31st December each year.

A separate Company Profit and Loss Account dealing with the results of Churchill Mining plc (the Company) has not been presented, as permitted by Section 230 of the Companies Act 1985.

In common with many exploration companies, the Company raises its finance for exploration and development programmes in discrete tranches. Further funding will be raised as and when required.

The Directors are of the opinion that the existing cash reserves at the 30th June 2006 of £5,229,499 are adequate to undertake the exploration and development programme to beyond the end of the 2007 financial year.

## 2. ACCOUNTING POLICIES

### Accounting Conventions

The financial statements of the Company and its subsidiary undertakings are prepared under the historical cost convention except for certain mineral properties that are included in the financial statements at valuation, and are prepared in accordance with applicable accounting standards in the United Kingdom and the Companies Act 1985.

### Basis for Consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiary undertakings and associated undertakings.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with group accounting policies. Goodwill represents the excess of the purchase consideration over the fair value of attributable net assets at the date of acquisition.

In the Company's balance sheet the investment in PT Indonesia Coal Development includes the fair value of shares issued together with the cash element of the consideration and applicable associated costs. As required by sections 131 and 133 of the Companies Act no premium was recognized on the share issue. The difference between nominal and fair value of the shares issued was credited to the merger reserve.

### Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- (i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 2. ACCOUNTING POLICIES (continued)

- (ii) exploration and evaluation activities in the area have not, at balance date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

### Foreign Currencies

Transactions denominated in foreign currencies are translated into sterling at contracted rates or, where no contract exists, at average monthly rates. Monetary assets and liabilities denominated in foreign currencies which are held at the year-end are translated into sterling at year-end exchange rates. Exchange differences on monetary items are taken to the Profit and Loss Account.

### Intangible Fixed Assets and Amortisation

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably. Mining rights and similar assets are capitalised where they are considered to have an enduring benefit and are carried as intangible assets until such time as it is determined that there are economically exploitable reserves within each area of interest, at which time such costs are transferred to tangible fixed assets to be amortised over the expected productive life of the asset and are amortised over their useful economic lives. Other licences are written off to the profit and loss account as incurred.

### Depreciation

Tangible fixed assets are stated at cost/valuation less accumulated depreciation. Depreciation of tangible fixed assets is provided where it is necessary to reflect a reduction from book value to estimated residual value over the estimated useful life of the asset to the Group.

Depreciation of tangible fixed assets is calculated by the straight-line method and the annual rates applicable to the principal categories are:

Plant and machinery	between 5 per cent and 25 per cent
Fixtures and fittings	between 15 per cent and 33 per cent
Computers and electronic equipment	between 20 per cent and 50 per cent

### Impairment of Fixed Assets and Goodwill

For acquired goodwill an impairment review is carried out at the end of the first full year following an acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by comparison of the carrying value of the asset against the higher of net realisable value or value in use. The value in use is determined from estimated discounted future cash flows.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 2. ACCOUNTING POLICIES (continued)

### Operating Leases

All operating lease payments are charged to the Profit and Loss Account on a straight line basis over the life of the lease.

### Deferred Taxation

Deferred taxation is accounted for in respect of all timing differences. A deferred tax asset is only recognised when it is more likely than not, the asset will be recoverable in the foreseeable future, out of suitable taxable profits from which the underlying timing differences can be recovered. Deferred tax assets are not discounted.

## 3. SEGMENTAL ANALYSIS

The loss on ordinary activities and net assets are attributable to the following geographical segments:

	Loss on ordinary activities		Net Assets	
	2006 £	2005 £	2006 £	2005 £
United Kingdom	(234,396)	(29,070)	5,157,057	658,860
Australia	(302,765)	(71,259)	3,428,335	167,952
Indonesia	(25,386)	-	2,972,464	-
	<u>(562,547)</u>	<u>(100,329)</u>	<u>11,557,856</u>	<u>826,812</u>

## 4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2006 £	2005 £
Loss on ordinary activities before taxation is stated after charging:		
Operating leases - Land and buildings	13,011	2,128
Depreciation of tangible fixed assets:	2,334	239
Auditors' remuneration for audit:	8,642	6,132
To Chapman Davis LLP (Company £6,000)		
Auditors' remuneration for non-audit services (other assurance and compliance services)	1,000	2,000

Total fees paid or payable for audit of the subsidiary companies was £2,642. Total fees paid or payable to Chapman Davis LLP for non-audit services in the year were £1,000 relating to accounting and taxation services.

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company loss for the year was £234,396.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 5. EMPLOYEES AND DIRECTORS' REMUNERATION

A detailed analysis of Directors' remuneration, including salaries, performance-related bonuses and long-term incentives, is provided in the Directors' Remuneration Report. A summary of the total remuneration of the Directors is comprised as follows:-

	2006 £	2005 £
Directors' fees , salaries and taxable benefits	45,000	6,304
Fees for management consulting services	155,112	47,422
<b>Total Directors' remuneration</b>	<b>200,112</b>	<b>53,726</b>

The number of employees in the group at year end was five. The joint managing directors are engaged under management consulting agreements.

## 6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

### a) Analysis of charge in the period

	2006 £	2005 £
Current tax		
UK corporation tax	-	-
Australian tax	-	-
Indonesian tax	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

No deferred tax asset has been recognised on accumulated tax losses as the recoverability of any such assets is not virtually certain in the foreseeable future. At the year end deferred tax assets totalling £216,104 were not recognised.

### b) Factors affecting tax charge for the period

	2006 £	2005 £
Loss on ordinary activities before tax	(562,547)	(100,329)
Loss on ordinary activities multiplied by standard rate of corporation tax in the U.K. of 30%	(168,764)	(30,099)
Effects of :		
PERMANENT DIFFERENCES		
Non-deductible expenses	568	-
Effects of:		
TIMING DIFFERENCES		
Interest receivable	(10,703)	-
Foreign exchange differences	2,824	-
Tax losses carried forward	176,075	30,099
<b>Current tax for the period</b>	<b>-</b>	<b>-</b>

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 7. LOSS PER SHARE

	2006 £	2005 £
Loss attributable to ordinary shareholders	(562,547)	(100,329)
	Number of Shares	Number of Shares
Weighted average number of shares used in the calculation of basic loss per share (See note below)	19,970,959	33,426,849
Effect of dilutive share options	410,572	172,267
Weighted average number of shares used in the calculation of diluted loss per shares	20,381,531	33,599,116
Basic loss per share	(2.81p)	(0.30p)
Diluted loss per share	(2.81p)	(0.30p)

Note : On the 28th April 2006 shareholders resolved that all of the ordinary shares of 0.1p in the capital of the Company be consolidated into ordinary shares of 1p on the basis of 10 ordinary shares of 0.1p for each new ordinary share of 1p. As at the date of this report the Company has 44,580,000 ordinary shares on issue.

Basic earnings per share is computed by dividing the profit or loss after taxation for the year available to ordinary shareholders by the sum of the weighted average number of ordinary shares in issue. The calculation for diluted earnings per share uses the weighted average number of ordinary shares on issue adjusted by the effects of all dilutive potential ordinary shares that were outstanding during the year. No diluted loss per share is presented as the effect of the exercise of outstanding options is to decrease loss per share.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 8. INTANGIBLE FIXED ASSETS

	<b>Group 2006 £</b>	<b>Company 2006 £</b>
<b>Deferred Development Expenditure</b>		
At 1 July 2005	21,522	-
Additions during the year	182,904	17,777
Amounts written off	-	-
As at 30th June 2006	204,426	17,777
<b>Mineral Properties</b>		
At 1 July 2005	-	-
Additions during the year	2,862,997	-
Revaluation to fair value	3,174,550	-
Reclassified from tangible assets	47,780	16,000
Additions during the year	213,981	185,055
As at 30th June 2006	6,299,308	201,055
<b>Goodwill</b>		
At 1 July 2005	266	-
Additions during the year	-	-
Amounts written off	-	-
As at 30th June 2006	266	-
Total Intangible Fixed Assets at 30th June 2006	6,504,000	218,832
Net Book amount at 30th June 2006	6,504,000	218,832
As at 30th June 2005	21,788	Nil

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 9. TANGIBLE FIXED ASSETS

<b>Group</b>	<b>Mining Assets £</b>	<b>Property , Plant and Equipment £</b>	<b>Total £</b>
<b>Cost</b>			
At 1 July 2005	47,780	5,878	53,658
Additions during the year	-	12,534	12,534
Reclassified as intangible assets	(47,780)	-	(47,780)
As at 30 June 2006	-	18,412	18,412
<b>Depreciation</b>			
At 1 July 2005	-	239	239
Charge for the year	-	2,334	2,334
At 30th June 2006	-	2,573	2,573
Total Tangible Fixed Assets at 30th June 2006	-	15,839	15,839
Net Book amount at 30th June 2006	-	15,839	15,839
As at 30th June 2005	47,780	5,639	53,419
<b>Company</b>			
<b>Cost</b>			
At 1 July 2005		16,000	16,000
Reclassified as intangible assets		(16,000)	(16,000)
Total Tangible Fixed Assets at 30th June 2006		-	-
<b>Net book amount</b>			
At 30th June 2006		-	-
As at 30 June 2005		16,000	16,000

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 10. FIXED ASSET INVESTMENTS

<b>Company – Interests in Group Companies</b>	<b>Interests in subsidiary companies £</b>
<b>Cost</b>	
At 1 July 2005	239,479
Shares issued by subsidiary companies	384,773
Acquisitions during the year	2,840,359
At 30 June 2006	3,464,611
<b>Net book amount</b>	
At 30 June 2006	3,464,611
At 30 June 2005	239,479

### Notes:

- During the year the Company subscribed to 9,150,000 fully paid shares in its wholly owned subsidiary Planet Mining Pty Ltd for the amount of £384,773.
- On 3rd April 2006 the Company and its wholly owned subsidiary Planet Mining Ltd, acquired 100% of the shares of PT Indonesia Coal Development, a private Indonesian company which controls the Sendawar coal project. The investment is held by the Company (95%) and Planet Mining Pty Ltd (5%).

## 11. ACQUISITIONS

The fair value of the assets and liabilities of PT Indonesia Coal Development at the date of acquisition

	<b>Churchill Mining plc (95%) £</b>	<b>Planet Mining Pty Ltd (5%) £</b>
The net assets of PT Indonesia Coal Development acquired were as follows:-		
Net assets	-	-
Fair value adjustment on acquisition – Mining properties – Sendawar	2,725,505	137,491
Acquisition of share capital in PT Indonesia Coal Development	114,854	-
Total	2,840,359	137,491

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 12. DEBTORS

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Amounts falling due within one year:				
Other debtors	17,058	25,049	4,138	16,654
Prepayments and accrued income	71,994	8,754	38,137	8,754
Intercompany loans	-	-	5,720	-
<b>Total debtors</b>	<b>89,052</b>	<b>33,803</b>	<b>47,995</b>	<b>25,408</b>
Amounts falling due after one year:				
Other debtors	3,855	-	-	-
Intercompany loans	-	-	143,491	-
<b>Total debtors</b>	<b>3,855</b>	<b>-</b>	<b>143,491</b>	<b>-</b>

## 13. CASH AT BANK AND IN HAND

Cash at bank and in hand includes cash in transit, cash deposits and bank balances of £5,229,499 (Company £5,083,096).

## 14. CREDITORS DUE WITHIN ONE YEAR

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Amounts falling due within one year:				
Trade Creditors	109,553	13,242	7,284	637
Other creditors and accruals	174,836	20,062	168,025	10,962
Owed to subsidiary undertakings	-	-	-	6,341
<b>Total creditors</b>	<b>284,389</b>	<b>33,304</b>	<b>175,309</b>	<b>17,940</b>

## 15. INTEREST RATE AND CURRENCY PROFILE OF GROSS FINANCIAL LIABILITIES

	Floating rate liabilities £	Fixed rate liabilities £	Non-interest bearing liabilities £
<b>At 30th June 2006</b>			
Sterling	-	-	175,309
Australian Dollar	-	-	99,355
Indonesian Rupiah	-	-	9,725
<b>Gross financial liabilities</b>	<b>-</b>	<b>-</b>	<b>284,389</b>

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 15. INTEREST RATE AND CURRENCY PROFILE OF GROSS FINANCIAL LIABILITIES (continued)

<b>At 30th June 2005</b>	<b>Floating rate liabilities</b> £	<b>Fixed rate liabilities</b> £	<b>Non-interest bearing liabilities</b> £
Sterling	-	-	11,599
Australian Dollar	-	-	21,705
<b>Gross financial liabilities</b>	-	-	<b>33,304</b>

## 16. INTEREST RATE AND CURRENCY PROFILE OF GROSS FINANCIAL ASSETS

	<b>Floating rate assets</b> £	<b>Fixed rate assets</b> £	<b>Non-interest bearing assets</b> £	<b>Total Financial Assets</b> £
<b>At 30th June 2005</b>				
Sterling	26,472	5,056,624	42,275	5,125,371
Australian Dollar	20,578	80,402	44,297	145,277
Indonesian Rupiah	45,423	-	2,480	47,903
<b>Gross financial assets</b>	<b>92,473</b>	<b>5,137,026</b>	<b>89,052</b>	<b>5,318,551</b>
<b>At 30th June 2005</b>				
Sterling	78,587	556,538	25,408	660,533
Australian Dollar	22,983	92,998	8,395	124,376
<b>Gross financial assets</b>	<b>101,570</b>	<b>649,536</b>	<b>33,803</b>	<b>784,909</b>

## 17. CURRENCY RISK

The group has recently engaged an independent consultant to assist in managing its exposure to investments held in foreign currencies. During the year the group was exposed to translation and transaction foreign exchange risk and takes profits or losses as they arise.

## 18. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of the Group's financial instruments approximate to their book value.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 19. SHARE CAPITAL

Ordinary Shares	Number of shares	£
<b>Group and Company Authorised</b>		
<b>2006</b>		
Ordinary shares of 1 pence each at 30th June 2006	1,000,000,000	10,000,000
<b>2005</b>		
Ordinary shares of 0.1 pence each at 30th June 2005	10,000,000,000	10,000,000
<b>Called up and fully paid</b>		
<b>2006</b>		
Ordinary shares of 1 pence each	44,580,000	445,800
<b>2005</b>		
Ordinary shares of 0.1 pence each At 30th June 2005	110,800,000	110,800

During the year the Company issued the following ordinary shares of 0.1p to provide funding for the Company's operations:-

Date	Description	Number	After 10:1 consolidation	Value £
02/12/2005	Placement at 2.5p per share (cash)	22,000,000	2,200,000	22,000
28/12/2005	Purchase of mining assets (non-cash)	3,000,000	300,000	3,000
03/04/2006	Purchase of shares in PT Indonesia Coal Development (non-cash)	100,000,000	10,000,000	100,000
03/04/2006	Placement at 2.5p per share (cash)	210,000,000	21,000,000	210,000

On the 28th April 2006 shareholders resolved that all of the ordinary shares of 0.1p in the capital of the Company be consolidated into ordinary shares of 1p on the basis of 10 ordinary shares of 0.1p for each new ordinary share of 1p.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## OPTIONS

The Company has granted options to subscribe for ordinary 1p shares as follows

Date Granted/ Start of exercise period	Number of options	Exercise price	Expiry date
8/04/2005	900,000	20p	8/04/2010
15/4/2005	396,000	20p	15/04/2010
22/3/2006	135,800	25p	22/03/2007
18/04/2006	568,200	35p	18/04/2011
10/05/2006	135,800	35p	10/05/2009
23/05/2006	3,864,200	35p	23/05/2011

## 20. CAPITAL AND RESERVES

Shareholders' Funds 2006	Called up share capital £	Share premium reserve £	Merger reserve £	Other Reserves £	Profit and loss account £	Total £
<b>Group</b>						
At 1 July 2005	110,800	816,341	-	-	(100,329)	826,812
Issue of share capital	335,000	5,640,000	2,400,000	-	-	8,375,000
Expenses of share issues	-	(255,959)	-	-	-	(255,959)
Revaluation reserve	-	-	-	3,174,550	-	3,174,550
Loss for the financial year	-	-	-	-	(562,547)	(562,547)
At 30th June 2006	445,800	6,200,382	2,400,000	3,174,550	(662,876)	11,557,856

Shareholders' Funds 2006	Called up share capital £	Share premium reserve £	Merger reserve £	Profit and loss account £	Total £
<b>Company</b>					
At 1 July 2005	110,800	816,341	-	(29,069)	898,072
Issue of share capital	335,000	5,640,000	2,400,000	-	8,375,000
Expenses of share issues	-	(255,959)	-	-	(255,959)
Loss for the financial year	-	-	-	(234,397)	(234,397)
At 30th June 2006	445,800	6,200,382	2,400,000	(263,466)	8,782,716

Upon the acquisition of PT Indonesia Coal Development, a merger reserve was created to deal with the excess of fair value over nominal value of shares issued in accordance with the merger relief provisions in the Companies Act 1985.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 20. CAPITAL AND RESERVES (continued)

Shareholders' Funds 2006	Called up share capital £	Share premium reserve £	Profit and loss account £	Total £
<b>Group</b>				
Issue of share capital	110,800	965,200	-	1,076,000
Expenses of share issues	-	(148,859)	-	(148,859)
Loss for the financial year	-		(100,329)	(100,329)
At 30th June 2005	110,800	816,341	(100,329)	826,812
<b>Company</b>				
Issue of share capital	110,800	965,200	-	1,076,000
Expenses of share issues	-	(148,859)	-	(148,859)
Loss for the financial year	-	-	(29,069)	(29,069)
At 30th June 2005	110,800	816,341	(29,069)	898,072

## 21. CONSOLIDATED CASH FLOW

a) Reconciliation of operating loss to net cash flow from operating activities	30th June 2006 £	30th June 2005 £		
Group operating loss	(494,721)	(113,383)		
Add/less non cash items in operating loss				
Depreciation, amortisation and impairment	2,334	239		
Payments for exploration and evaluation	(186,646)	-		
Foreign exchange differences	8,186	7,448		
Increase in debtors	(53,620)	(28,147)		
Increase in creditors	251,084	31,943		
Net cash outflow from operating activities	(473,383)	(101,900)		
<b>b) Analysis of Changes in Net Funds</b>				
	At 1 July 2005 £	Cashflow £	Purchase of short term deposits £	At 30 June 2006 £
Cash and current bank accounts	101,570	(9,097)	-	92,473
Deposit with banks	649,536	-	4,487,490	5,137,026
	751,106	(9,097)	4,487,490	5,229,499

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 21. CONSOLIDATED CASH FLOW (continued)

<b>c) Reconciliation of Net Cash Flow to Movement in Net Funds</b>	<b>30th June 2006</b>	<b>30th June 2005</b>
	<b>£</b>	<b>£</b>
Increase in cash in the year	4,478,393	751,106
Net funds at the start of the year	751,106	-
Net funds at the end of the year	5,229,499	751,106
Comprising		
Liquid resources – term deposits	5,137,026	649,536
Cash	92,473	101,570

## 22. COMMITMENTS

<b>a. Operating Lease Commitments</b>	<b>Land and buildings</b>	<b>Land and buildings</b>
	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Annual commitments under non-cancellable operating leases expiring:		
Within one year	6,023	13,046
Within two to five years	-	6,523
After five years	-	-
<p>The Company has a property lease for the First Floor, Churchill Court, Unit 8 331-335 Hay Street, Subiaco Western Australia which is a non-cancellable sub lease with a 1.5 year term, with rent payable monthly in advance. An option exists to renew the lease at the end of the term for an additional term of 1.5 years.</p>		
<b>b. Exploration Commitments</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
In order to maintain current rights of tenure to exploration tenements the Company has the following discretionary exploration expenditure up until the expiry of leases. These obligations are not provided for in the financial statements and are payable:		
– not later than 1 year	46,834	46,307
– later than 1 year but not later than 5 years	164,154	218,423
– later than 5 years	-	-
	210,988	264,730

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

# NOTES TO THE GROUP FINANCIAL STATEMENTS

(CONTINUED)

for the period ending 30th June 2006



## 23. CONTINGENT ASSETS AND LIABILITIES

There were no contingent liabilities or assets at 30<sup>th</sup> June 2006.

## 24. RELATED PARTY TRANSACTIONS

The Group had the following material transactions (excluding Director's fees) with related parties during the year ending June 2005.

		2006 £	2005 £
a.)	Boston Noble Pty Ltd – a company associated with Mr James Hamilton and Mr Paul Mazak. – Consulting /management fees	151,886	47,423
b.)	Borden Holdings Pty Ltd – a company associated with Mr David Quinlivan. – Consulting & technical fees	3,226	-
c.)	Bushvale Holdings Pty Ltd – a company associated with Mr Russell Hardwick who is a Director of Planet Mining Limited. – Consulting & secretarial services	16,939	4,223
d.)	Planet Mining Pty Ltd and PT Indonesia Coal Development – Management and consulting fees received or receivable from subsidiary companies.	18,000	4,071
e.)	Loan repayable by Mr Grant Brown who is a Director of PT Indonesia Coal Development.	2,711	-

# SHAREHOLDER INFORMATION



## SHAREHOLDER INFORMATION ON THE INTERNET

The Company maintains a website which allows access to certain useful Investor information. The website address is [www.churchillmining.com](http://www.churchillmining.com)

Churchill Mining plc is registered in England and Wales (Number 5275606).

A copy of this Annual Report is being sent to all shareholders. Copies are also available from the registered office shown below.

## SHAREHOLDER INFORMATION

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### Registered Office

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### Brokers

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Arthur House  
Chorlton Street  
Manchester  
M1 3FH

### Bankers

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### Auditors

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London  
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### Nominated Adviser

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### Solicitors

Ronaldsons Solicitors  
55 Gower Street  
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### Company Secretary

Stephen F Ronaldson  
Russell P Hardwick



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