



CHURCHILL  
MINING PLC

Incorporated in England and Wales  
with Registered Number 5275606

# ANNUAL REPORT

For the Period 2nd November 2004 to 30th June 2005

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Dear Shareholder,

It is with great pleasure that I present the 2005 Annual Report and Financial Statements.

This past year has been amongst the most exciting ever experienced in the global resources industry with both the mining and energy sectors booming on the back of improved investor sentiment, record commodity prices and enhanced sector profitability.

China's rampant growth which is underpinned by an emerging middle class has made it a large consumer of raw commodities and it is because of this situation that resource companies such as Churchill Mining Plc are presented with a unique opportunity to explore new projects in a climate of accelerating demand.

Whilst still a fledgling company, having only listed in April 2005, the team at Churchill has been working hard at growing shareholder value on two fronts: firstly, by exploring its South Woodie Woodie manganese project in Western Australia and secondly, by pursuing other niche mining opportunities in Asia.

Your board continues to be encouraged by its South Woodie Woodie manganese project on both a macro and micro level. On a macro level the price for quality lump manganese ore remains robust and should stay this way given manganese is a non-substitutable element used in the making of steel.

On a micro level, South Woodie Woodie early structural modeling and field work sampling has identified many new target areas to follow up, some of which sit under surface cover. Part of Churchill's program moving forward will be to use a combination of specialized aeromagnetic and ground gravity exploration techniques to further refine these targets for drilling.

Churchill has also made solid progress at South Woodie Woodie in the realms of resource title security and Native Title clearance. Exploration Licenses for the company's project area are now fully granted and at the time of writing, Churchill and the area's Traditional Owners have agreed a schedule under which heritage clearance for the first stage of our planned reverse circulation drilling exploration program at Enacheddong Creek will be progressed. The Enacheddong Creek prospect is an area where surface manganese grading up to 51% Manganese has been mapped and sampled over a strike distance of approximately 1.5km.

Given China's spiraling need for raw commodities (along with a fast-growing Indian economy) Churchill Mining has also been hunting for other niche investment opportunities in Asia. The company has already reviewed potential opportunities and we feel confident that another asset will be secured in the short-to-medium term.

For explorers and miners these are exciting times. I am very much looking forward to the year ahead.

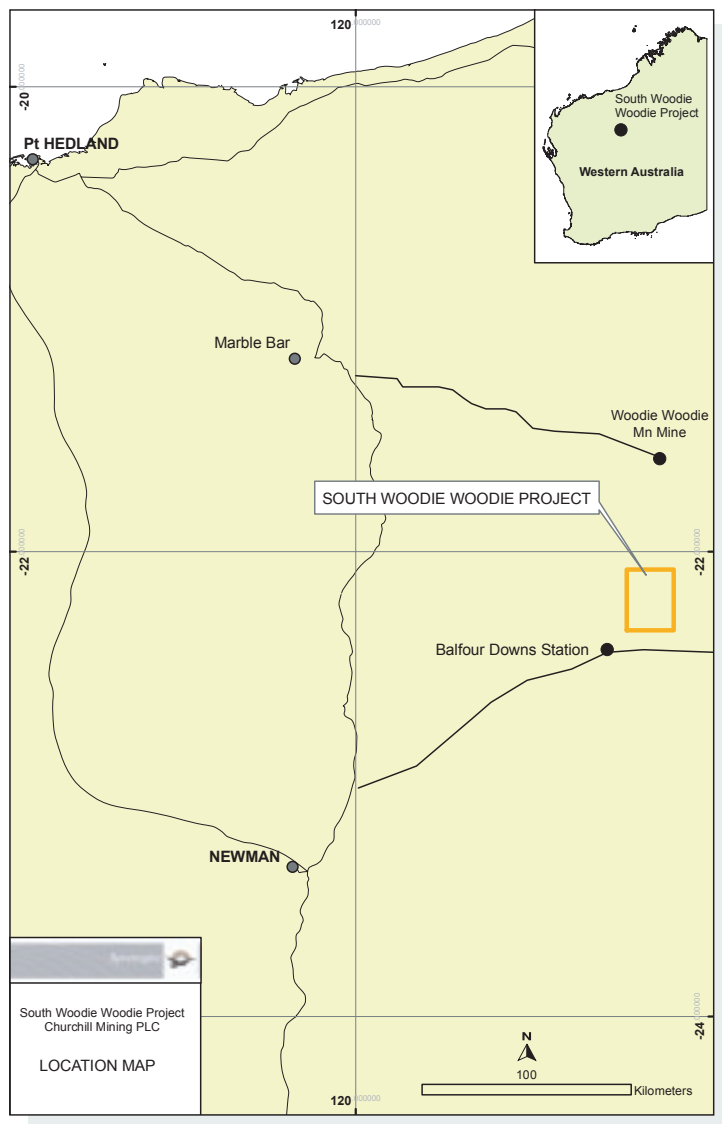
In conclusion, on behalf of the Directors I would like to thank you for your ongoing support of the Company's activities. I would also like to thank our joint Managing Directors, James Hamilton and Paul Mazak, for their untiring efforts.

**David Quinlivan**

Chairman

Churchill Mining plc

## The South Woodie Woodie Manganese Project



▲ Churchill Mining's South Woodie Woodie project is located within the highly prospective Pilbara manganese province of Western Australia

### BACKGROUND

The company's principal asset is three large exploration leases in the East Pilbara region of Western Australia covering approximately 490 square kilometres. Owned via Churchill Mining's wholly-owned subsidiary, Planet Mining Pty Ltd, the project sits approximately 400km southeast of Port Hedland in the highly prospective Pilbara manganese province.

The South Woodie Woodie manganese project was discovered in 1977 by the Australian and New Zealand Exploration Company (ANZECO) during an infra-red aerial survey. Follow-up reconnaissance mapping and sampling identified two areas of outcropping manganese mineralisation, the biggest of which is named Enacheddong Creek.

At Enacheddong Creek, ANZECO identified near-surface mineralisation extending over a strike length of approximately 700 metres. Surface sampling by ANZECO along three lines, each 100 metres long and 80 metres apart, returned averages of 34.2% Manganese, 40.3% Manganese and 41.7% Manganese. Six other shorter lines between 5 to 20 metres long returned a weighted average of 35.5% Manganese, with the best sample returning 51.1% Manganese.

Churchill Mining's primary objective since listing in April 2005 has been to revisit this historical work at South Woodie Woodie and to enhance it via the introduction of modern and systemised exploration techniques.



◀ Surface manganese at Enacheddong Creek

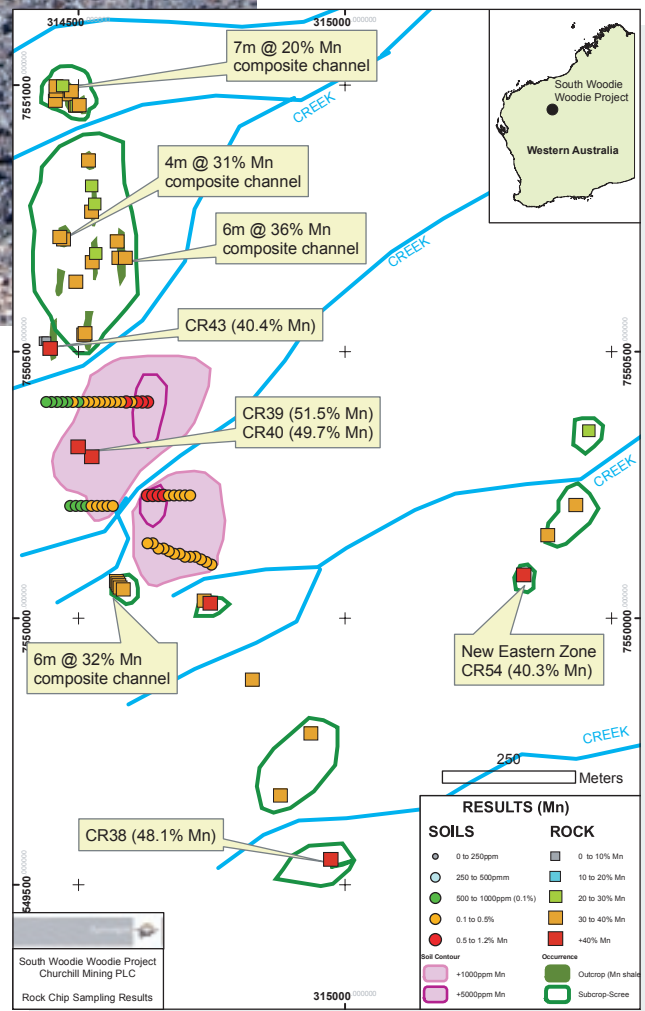
▼ Rock chip and soil sampling at Enacheddong Creek has more than doubled the strike length of the prospect

## ENACHEDDONG CREEK

In May 2005 Churchill Mining organised a field visit to Enacheddong Creek. The company's consulting geologists Ravensgate Pty Ltd ("Ravensgate") took 125 soil and rock chip samples.

The results were very encouraging for a number of important reasons:

- The anomaly returned high-grade results at surface with rock-chips grading up to 51.5% Manganese, with low concentrations of iron, phosphorus and silica. Of the 74 rock samples collected 77% (57 samples) had a manganese percentage of greater than 30%.
- Sampling under soil cover along the southern extension of the main outcropping zone returned manganese results 40 times higher than the soil background level indicating a high probability level of manganese mineralisation extending under thin soil cover.
- The results of soil sampling, coupled with further rock chip sampling to the south, more than doubled the known strike of manganese mineralisation to 1500m.
- A new anomaly of at least 300 metres in length was located approximately 500m to the east of the main Enacheddong Creek discovery. This discovery returned encouraging results including rock chip samples of up to 40.3% Mn.



# Operating Review



▲ Surface manganese at Disraeli North. Disraeli North was one of 33 target areas identified following a regional review by Churchill Mining.

Churchill's geological team has subsequently returned to Enacheddong Creek to plan a drilling program to test the manganese potential of the area at depth. This design has been worked-up in conjunction with obtaining the necessary ground disturbance approvals from the West Australian Department of Industry and Resources and Heritage Clearance from the region's Traditional Owners.

At time of going to press, the Directors were confident that all approvals would be granted and a suitable rig sourced so that drilling could start in December 2005 or by the beginning of calendar 2006 (weather permitting).

## REGIONAL REVIEW

Encouraged by both numerous sightings of manganese occurrences throughout the project area and the lack of previous exploration, from May through to July 2005, Churchill commissioned a regional study of the South Woodie Woodie area. The study had two aims, firstly to map these surface formations and secondly to identify prospective structural/lithological targets.

Historically, manganese concentrations in the Pilbara were thought to be primarily controlled by supergene enrichment in the weathering profile close to surface through the repeated ingress of manganese-rich groundwater into favourable sites.

However, more recent work in the area by other companies exploring for manganese has been driven by a new hydrothermal geological model. Churchill has done much investigative work into understanding more about this model whereby hydrothermal fluids permeate along fertile structures/faults and precipitate manganese into favourable lithological settings. This new model has important implications for manganese exploration. Firstly, manganese deposits may be found at some depth beneath younger cover and secondly, host rock other than the Carawine Dolomite are potential sources for ore.



◀ Dr Michael Jones explaining the project's structural orientation to a visiting geologist.

▼ Sampling of the Disraeli, Baldwin and Wilson prospects has continued to encourage Churchill's geological team

The review completed by Ravensgate found that Churchill's ground did have the necessary structural orientations and favourable lithological host rocks including Carawine Dolomite and shale. It also identified 33 new target areas to be visited and consequently the company prioritised seven anomalies – Baldwin, Callaghan, Disraeli North, Disraeli South, Disraeli West, Enacheddong Creek and Walpole - as "Priority 1" targets.

## TARGET REFINEMENT

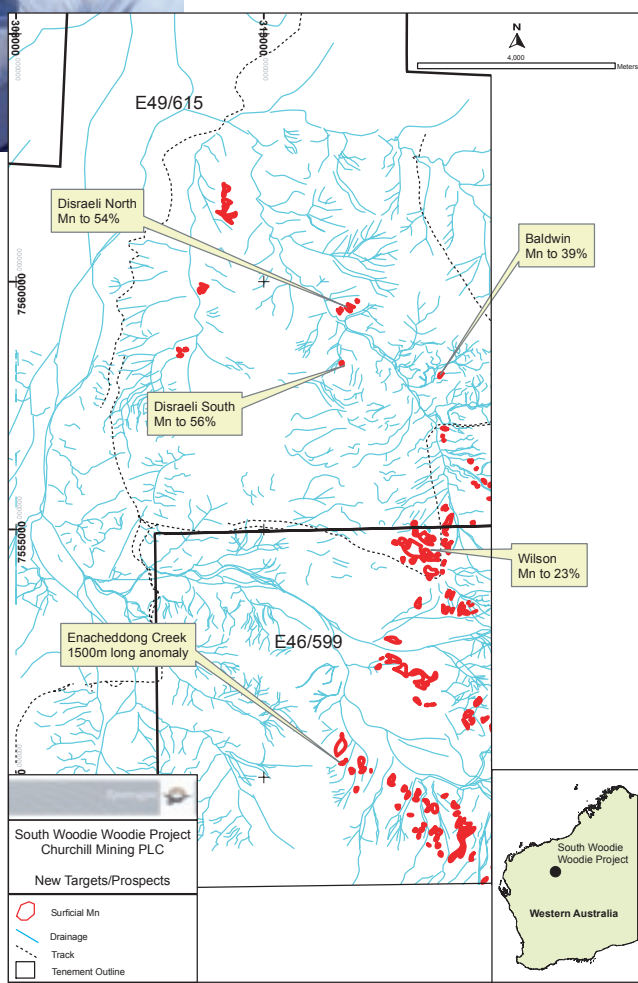
Following on from its Regional Review, Churchill conducted another round of field work in August 2005. The company's consulting geologists collected 101 rock chip, gravel and soil samples from 15 target areas predominantly in the northern portion of its tenement holdings.

Of these, three (Disraeli North, Disraeli South and Baldwin) returned best grades of 54.6% Manganese, 56% Manganese and 39% Manganese respectively. Other prospects, including the Wilson prospect, returned anomalous manganese to 23%, while several others yielded low grade, but anomalous manganese. Most encouraging was the fact that some of the areas lay proximal to outcropping dolomite that is intersected by regionally prospective fault zones.

In September 2005 Churchill commissioned another field visit using structural expert Dr Michael Jones from Lithofire Consulting Geologists to review the geological model and the targeting process.

## NATIVE TITLE AND HERITAGE

At listing, Churchill had two tenements still waiting granting via the Native Title process. These tenements have now been granted and therefore the whole land package is accessible to explore. In October 2005 the company participated in an ethnographic survey of the Enacheddong Creek area with representatives from the Yamatji Marla Barna Baba Maaja Aboriginal Corporation. This survey will help formalise the allowance of ground disturbing activities such as drilling in this particular area.



# Operating Review



## LOOKING AHEAD

The company remains optimistic about the future of manganese and manganese prices. Whilst new sources of manganese ore are being commissioned world-wide, few have the grade quality and low percentage of deleterious elements which makes product from the East Pilbara so desired.

Churchill's approach to South Woodie Woodie in calendar 2006 will focus on drilling and target generation. The company has made significant strides since listing in laying the groundwork for such a program. The company's first target, Enacheddong Creek, is almost ready for drilling and a number of other prospects are approaching a similar status.

The company remains committed to pursuing the new structural-hydrothermal geological model which has had such a big impact on manganese exploration in recent years. Consequently Churchill will be embarking on a campaign of airborne and ground geophysics to look "under cover" in 2006. Given the expanding parameters and attractiveness of South Woodie Woodie, Churchill may also consider using a joint venture partner to share some of costs/rewards of this program.

## OFFSHORE OPPORTUNITIES

Since listing, Churchill has continued to review other resource opportunities both in Australia and offshore. The company continues to be encouraged by Chinese and Indian growth forecasts and consequently has expanded its targeting requirements to include energy assets, most particularly coal. The company is optimistic that it will secure a second asset in calendar 2006.

**James T Hamilton**  
Joint Managing Director

**Paul G Mazak**  
Joint Managing Director



## David Quinlivan (aged 50), 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 programs. He recently oversaw (as a project management consultant) the expansion of Perseverance Deeps nickel mine expansion in Western Australia for BHP Billiton. He is currently assisting the Administrators with the operation and corporate reconstruction of Sons of Gwalia Ltd. Mr Quinlivan is a Fellow of the Australian Institute of Mining and Metallurgy, Member of the Australian Institute of Arbitrators & Mediators Australia and an Associate of the Securities Institute of Australia. He is also a non-executive director of ASX-listed gold explorer Avoca Resources Ltd and ASX listed oil and gas explorer Jupiter Energy Ltd. Mr Quinlivan is responsible for board performance and bringing technical excellence to Churchill Mining Plc.

## Paul Mazak (aged 47), Joint Managing Director

Mr Mazak is a business development specialist and managing director of Hastings and Associates Pty Ltd for the past 16 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 in-depth knowledge of the mining business, 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 mining consortium, which sort 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 also currently a director of Boston Noble Pty Ltd. Mr Mazak is responsible for project procurement and joint company management of Churchill Mining Plc.

## James Hamilton (aged 37), Joint Managing Director

Mr Hamilton is a former financial journalist who has specialised in covering the global resources industry. For 13 years Mr Hamilton traveled 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 Australian technical mining journal Australia's Mining Monthly. He has also been editor of dedicated mining investment magazine ResourceStocks and is the founder of 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. Mr Hamilton is jointly responsible for the day-to-day management of Churchill Mining Plc and its corporate development.

## Melissa Sturgess (aged 39), 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 Dwyka Diamonds Limited in 2001. She rose to become chief executive officer in July 2003 and in August this year was appointed executive chairman. Dwyka is in the middle of an aggressive growth program which includes the development of a diamond tailings re-treatment operation in South Africa with joint venture partner De Beers and the ramp-up of three recently purchased kimberlite mines – two already in production and the third to come on stream in calendar 2006. Ms Sturgess is also a director of emerging ASX-listed PGM producer Sylvania Resources Ltd.

# Directors' Report

for the period ending 30th June 2005

The Directors are pleased to present their report and the consolidated financial statements of the company and its subsidiary for the period 2nd November 2004 to 30th June 2005.

## PRINCIPAL ACTIVITIES

The principal activities of the group are to explore for manganese and other base metals and to acquire further projects and investments in the mining sector.

## 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 £100,329.

The Directors do not propose the payment of a dividend.

## DIRECTORS

The Directors of the company are shown on page 9 of this report.

The following have been Directors of the company during the financial year ended 30th June 2005.

David Quinlivan  
James Hamilton  
Paul Mazak  
Melissa Sturgess  
Andrew Bell (resigned 11th February 2005)

## REMUNERATION COMMITTEE

The remuneration committee consists of the independent non-executive directors who are David Quinlivan & 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 will be 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
Directors				
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

Summary	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 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. Boston is paid a base fee of £110,000 per annum for the provision of these services.

## 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

	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 2005 had, at that time, the following beneficial interests in the shares of the company:

	Ordinary shares
David Quinlivan (a)	3,779,528
James Hamilton	10,488,172
Paul Mazak	5,000,000
Melissa Sturgess (b)	1,259,823

(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.

There have been no changes in directors' interests in shares since the year-end.

# Directors' Report (continued)

for the period ending 30th June 2005

## DIRECTORS' SHARE OPTIONS

Executive Share Option Schemes	Date of grant	Number of options	Balance At end of year	Option exercise price pence	Expiry date
David Quinlivan	8/4/2005	1,000,000	1,000,000	2p	8/4/2010
James Hamilton	8/4/2005	3,000,000	3,000,000	2p	8/4/2010
Paul Mazak	8/4/2005	3,000,000	3,000,000	2p	8/4/2010
Melissa Sturgess	8/4/2005	2,000,000	2,000,000	2p	8/4/2010
Total		9,000,000	9,000,000		

The market price of the company's shares on 30th June 2005 was 2.12 pence and the range of closing prices from the 15th April 2005 to 30th June 2005 was 2.12 pence to 2.62 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:

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 period from incorporation to 30 June 2005 three board meetings were held. The directors attended as follows:

<b>Board of Directors</b>	<b>Number of meetings</b>	<b>Attendance</b>
David Quinlivan	3	1
James Hamilton	3	2
Paul Mazak	3	3
Melissa Sturgess	3	2

## **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 for meeting 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.

## **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 30th June 2005 represent 23 days purchases.

## **POLITICAL CONTRIBUTIONS**

During the year the company made no political contributions.

## **CHARITABLE DONATIONS**

During the year the group made no charitable donations.

# Directors' Report (continued)

for the period ending 30th June 2005

## MAJOR SHAREHOLDERS

As at 30th June 2005, 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
Pershing Keen Nominees Limited	10,364,016	9.35%
Willbro Nominees Limited	10,250,000	9.25%
The Wade Routeledge Superannuation Fund	7,716,535	6.96%
Bellmin Limited	5,000,000	4.51%
Morstan Nominees Limited	5,000,000	4.51%
The Hardwick Family Trust	4,976,378	4.49%

## AUDITORS

Chapman Davis LLP have indicated their willingness to accept reappointment as auditors of the company and a resolution proposing their 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 professional advisers in relation to implementation.

## 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

18th November 2005



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 Auditor's Report

## Independent Auditor's 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.

## **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 30th June 2005 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.

### **Chapman Davis LLP**

Chartered Accountants and Registered Auditors  
London

18th November 2005

# Group Profit and Loss Account

for the period from 2nd November 2004 to 30th June 2005

	Note	Group 2005 £
Group turnover		-
Administrative & operating expenses		(113,383)
<b>Group operating loss</b>	4	(113,383)
Other operating income		7,448
Interest receivable		5,606
<b>Loss on ordinary activities before taxation</b>	3,7	(100,329)
Taxation on profit on ordinary activities	6	-
<b>Loss on ordinary activities after taxation</b>		(100,329)
<b>(Loss) for the financial year</b>		(100,329)
<b>Earnings per share (pence)</b>		
Basic	7	(0.30p)
Diluted	7	(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 2005

	Note	Group 2005 £	Company 2005 £
<b>Fixed assets</b>			
Intangible fixed assets	8	21,788	-
Tangible fixed assets	9	53,419	16,000
Investments	10	-	239,479
Total Fixed Assets		75,207	255,479
<b>Current assets</b>			
Debtors	11	33,803	25,408
Cash at bank and in hand	12	751,106	635,125
Total Current Assets	15	784,909	660,533
Creditors due within one year	13,14	(33,304)	(17,940)
Net current assets		751,605	642,593
<b>Total assets less current liabilities</b>			
		826,812	898,072
Creditors due after one year		-	-
<b>Net assets</b>			
		826,812	898,072
<b>Capital and reserves</b>			
Called up share capital	18	110,800	110,800
Share premium reserve	19(a)	816,341	816,341
Profit and loss account	19(a)	(100,329)	(29,069)
<b>Equity shareholders' funds</b>			
	19(b)	826,812	898,072

Approved by the Board on 18th November 2005

James Hamilton / Paul Mazak  
Churchill Mining plc  
Joint Managing Directors

# Group Cash Flow Statement

for the period from 2nd November 2004 to 30th June 2005

	Note	2005 £
<b>Cash flows from operating activities</b>		
Net outflow from operating activities	20(a)	(101,900)
<b>Returns on investments and servicing of finance</b>		
Interest received		5,606
<b>Net cash inflow from returns on investment and servicing of finance</b>		5,606
<b>Capital expenditure and financial investment</b>		
Payments of tangible fixed assets		(5,878)
Purchase of mining assets and development		(28,036)
<b>Net cash outflow for capital expenditure and financial investment</b>		(33,914)
<b>Movement in liquid resources</b>		
Increase in short-term deposits with banks		(649,536)
<b>Cash outflow before financing</b>		(779,744)
<b>Financing</b>		
Issue of share capital		1,020,000
Expenses of share issues		(148,859)
Net cash from acquisition of subsidiary		10,173
<b>Net cash inflow from financing</b>		881,314
<b>Increase in cash in the period</b>	20(b)	101,570



## 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. No comparative information is disclosed as the Company was incorporated on 2nd November 2004 and these financial statements constitute the initial accounts.

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 2005 of £751,106 are adequate to undertake the exploration and development programme to beyond the end of the 2006 financial year.

## 2. ACCOUNTING POLICIES

### Accounting Conventions

The financial statements of the Company and its subsidiary undertaking are prepared under the historical cost convention 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. Goodwill represents the excess of the purchase consideration over the fair value of attributable net assets at the date of acquisition.

### 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
- (ii) exploration and evaluation activities in the area have not, at balance date, reached a stage which permit 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.

# Notes to the Accounts (continued)

## 2. ACCOUNTING POLICIES (continued)

### 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 amortised over their useful economic lives from the date that they are capitalised. 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.

### 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:

	<b>Loss on ordinary activities</b>	<b>Net Assets</b>
	<b>2005</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
United Kingdom	(29,070)	658,860
Australia	(71,259)	167,952
	<b>(100,329)</b>	<b>826,812</b>

### 4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	<b>2005</b>
	<b>£</b>
Loss on ordinary activities before taxation is stated after charging:	
Operating leases - Land and buildings	2,128
Depreciation of tangible fixed assets:	239
Auditors' remuneration for audit:	6,132
To Chapman Davis LLP (Company £5,000)	
Auditors' remuneration for non-audit services (other assurance and compliance services)	2,000

Total fees paid or payable to Rix Levy Fowler Fowler for audit of the subsidiary company was £1,132. Total fees paid or payable to Chapman Davis LLP for non-audit services in the year were £17,000 relating to accounting and taxation services of which £7,000 has been charged to the profit and loss account in the year and £10,000 has been written off to share premium in respect of costs relating to the Company's AIM listing.

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 £29,069.

### 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:-

	<b>2005</b>
	<b>£</b>
Directors' fees, salaries and taxable benefits	6,304
Fees for management consulting services	47,422
Total Directors' remuneration	53,736

The average number of employees in the Group was nil as the joint managing directors are employed under management consulting agreements.

# Notes to the Accounts (continued)

## 6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

### a) Analysis of charge in the period

	2005 £
Current tax	
UK corporation tax	-
Australian tax	-
Total	-

No deferred tax asset has been recognised on accumulated tax losses as the recoverability of any such assets is not likely in the foreseeable future. At the year end deferred tax assets totalling £40,907 were not recognised.

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

	2005 £
Loss on ordinary activities before tax	(100,329)
Loss on ordinary activities multiplied by standard rate of corporation tax in the U.K. of 30%	(30,099)
Effects of:	
Tax losses carried forward	30,099
Current tax	-

## 7. LOSS PER SHARE

	2005 £
Loss attributable to ordinary shareholders	(100,329)
	Number of Shares
Weighted average number of shares used in the calculation of basic loss per share	33,426,849
Effect of dilutive share options	172,267
Weighted average number of shares used in the calculation of diluted loss per shares	33,599,116
Basic loss per share	(0.30p)
Diluted loss per share	(0.30p)

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.



## 8. INTANGIBLE FIXED ASSETS

	Group 2005 £
<b>Deferred Development Expenditure</b>	
Additions during the year	21,522
Disposals	-
Amounts written off	-
As at 30th June 2005	21,522
<b>Goodwill</b>	
Additions during the year	266
Total Intangible Fixed Assets at 30th June 2005	21,788
Net Book amount at 30th June 2005	21,788
	<b>Company 2005 £</b>
Total Intangible Fixed Assets at 30th June 2005	Nil

## 9. TANGIBLE FIXED ASSETS

GROUP	Mining Assets £	Property, Plant and Equipment £	Total £
<b>Cost</b>			
Additions during the year	47,780	5,878	53,658
<b>Depreciation</b>			
Charge for the year	-	239	239
Disposals	-	-	-
Impairment	-	-	-
At 30th June 2005	-	239	239
<b>Net book amount</b>			
At 30th June 2005	47,780	5,639	53,419
	<b>Mining Assets £</b>	<b>Property, Plant and Equipment £</b>	<b>Total £</b>
<b>COMPANY</b>			
<b>Cost</b>			
Additions during the year	16,000	-	16,000
At 30th June 2005	16,000	-	16,000
<b>Net book amount</b>			
At 30th June 2005	16,000	-	16,000

# Notes to the Accounts (continued)

## 10. FIXED ASSET INVESTMENTS

### Company – Interests in Group Companies

Interests  
in Group  
companies  
£

Additions during the period ending 30th June 2005

239,479

#### Notes:

- On 11th February 2005 following completion of an agreed offer for the entire issued capital of Planet Mining Limited registered in Australia 40,000,000 new ordinary shares of 0.1p each were issued to the shareholders of Planet.
- On the 27th June 2005 the company subscribed for 4,900,000 fully paid ordinary shares in Planet Mining Limited at an issue price of A\$0.10 each.

There was no difference between the book value and the fair value of the assets acquired.

	£
The net assets acquired were as follows:-	
Cash at bank and in hand	10,173
Mining Assets	25,267
Debtors	5,663
Creditors	(1,369)
Total	39,734

## 11. DEBTORS

	Group 2005 £	Company 2005 £
Amounts falling due within one year:		
Other debtors	25,049	16,654
Prepayments and accrued income	8,754	8,754
Deferred tax assets	-	-
Total debtors	33,803	25,408

## 12. CASH AT BANK AND IN HAND

Cash at bank and in hand includes cash in transit, cash deposits and bank balances of £751,106 (Company £635,125)

## 13. CREDITORS DUE WITHIN ONE YEAR

	Group 2005 £	Company 2005 £
Amounts falling due within one year:		
Trade Creditors	13,242	637
Owed to subsidiary undertakings	-	6,341
Other creditors and accruals	20,062	10,962
Total debtors	33,304	17,940



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

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

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

	Floating rate assets £	Fixed rate assets £	Non-interest bearing assets £	Total financial assets £
<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
Gross financial assets	101,570	649,536	33,803	784,909

#### 16. CURRENCY RISK

The group does not hedge its exposure to foreign investments held in foreign currencies. The group is exposed to translation and transaction foreign exchange risk and takes profits or losses as they arise. The group seeks to minimise its exposure to currency risk by closely monitoring exchange rates.

#### 17. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

#### 18. SHARE CAPITAL

Ordinary Shares	Number of shares	£
<b>Group and Company</b>		
<b>Authorised</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>		
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 the company's operations:-

On incorporation 2nd November 2004 – two ordinary shares were issued.

On 11th February 2005 19,999,998 ordinary shares of 0.1p each were issued, fully paid at par to raise £20,000

On 11th February 2005 40,000,000 ordinary shares of 0.1p each were issued, fully paid at par value to acquire the entire issued share capital of Planet Mining Limited.

# Notes to the Accounts (continued)

## 18. SHARE CAPITAL (continued)

On 15th April 2005 50,000,000 ordinary shares of 0.1p each were issued fully paid at 2p per share pursuant to placing and admission to the Alternative Investment Market. The total funds raised before expenses were £1,000,000. The difference between the total consideration of £1,000,000 and the total nominal value of £50,000 has been credited to the share premium account. On the same date 800,000 ordinary shares of 0.1p were issued for non-cash consideration for the purchase of Mining Assets at 2p per share.

### OPTIONS

The company has granted options to subscribe for ordinary 0.1p shares as follows

Date Granted/ Start of exercise period	Number of options	Exercise price	Expiry date
8/04/2005	9,000,000	2p	8/04/2010
15/4/2005	3,000,000	2p	15/04/2010
15/4/2005	960,000	2p	15/04/2010

## 19. CAPITAL AND RESERVES

### a) Shareholders' Funds

	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

### b) Reconciliation of Movement in Shareholders' Funds

	Group 2005 £
Loss for the financial year	(100,329)
Issues of share capital (net of expenses)	927,141
Closing equity shareholders' funds	826,812



## 20. CONSOLIDATED CASH FLOW

### a) Reconciliation of Operating Loss to Net Cash Flow from Operating Activities

	30th June 2005 £
Group operating loss	(113,383)
Add/less non cash items in operating loss	
Depreciation, amortisation and impairment	239
Foreign exchange differences	7,448
Increase in debtors	(28,147)
Increase in creditors	31,943
Net cash outflow from operating activities	(101,900)

### b) Analysis of Changes in Net Funds

	30th June 2005 £
Cash and current bank accounts	101,570
Deposit with banks	649,536
Net funds at the end of the year	751,106

### c) Reconciliation of Net Cash Flow to Movement in Net Funds

	30th June 2005 £
Increase in cash in the year	751,106
Net funds at the start of the year	-
Net funds at the end of the year	751,106
Comprising	
Liquid resources – term deposits	649,536
Cash	101,570

## 21. COMMITMENTS

### a) Operating Lease Commitments

	2005 Land and buildings £
Annual commitments under non-cancellable operating leases expiring:	
Within one year	13,046
Within two to five years	6,523
After five years	-

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.

# Notes to the Accounts (continued)

## 21. COMMITMENTS (continued)

### b. Exploration Commitments

	2005 £
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	46,307
– later than 1 year but not later than 5 years	218,423
– later than 5 years	-
	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.

## 22. CONTINGENT ASSETS AND LIABILITIES

There were no contingent liabilities or assets at 30th June 2005.

## 23. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year ending June 2005.

	2005 £
a) Boston Noble Pty Ltd – a company associated with Mr James Hamilton and Mr Paul Mazak	
– Consulting/management fees	47,423
b) Bushvale Holdings Pty Ltd – a company associated with Mr Russell Hardwick who is a director of Planet Mining Limited	
– Consulting & secretarial services	4,223
c) Churchill Mining plc	
– Management Fees received by the parent entity	4,071



## 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.

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