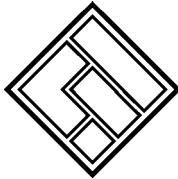


**lodging party or agent name** Atlantic Gold NL  
 office, level, building name or PO Box no. Suite 701  
 street number & name 220 Pacific Highway  
 suburb/city Crows Nest state/territory NSW postcode 2065  
 telephone ( 02 ) 9929 6633  
 facsimile ( 02 ) 9929 9366  
 DX number \_\_\_\_\_ suburb/city \_\_\_\_\_

	ASS. <input type="checkbox"/>	REQ-A <input type="checkbox"/>
	CASH. <input type="checkbox"/>	REQ-P <input type="checkbox"/>
	PROC. <input type="checkbox"/>	



Australian Securities & Investments Commission

**copy of financial statements and reports**

form **388**

Corporations Law  
 294, 295, 298-300, 307, 308, 319, 321, 322

Name ATLANTIC GOLD NL  
 ACN / ARBN / ARSN/PIN 062 091 909

**Reason for lodgement of statements and reports**

- tick the appropriate box  A public company or a disclosing entity which is not a registered scheme or prescribed interest undertaking (A)  
 A registered scheme\* (B)  
 Amendment of financial statements or directors' report (company) (C)  
 Amendment of financial statements or directors' report (registered scheme)\* (D)  
 A large proprietary company that is not a disclosing entity (H)  
 A small proprietary company that is controlled by a foreign company for all or part of the period and where the company's profit or loss for the period is not covered by the statements lodged with ASIC by a registered foreign company, company, registered scheme, or disclosing entity (I)  
 A small proprietary company that is requested by ASIC to prepare and lodge statements and reports (J)  
 A prescribed interest undertaking that is a disclosing entity (K)

Financial year ended (d/m/y) 31 / 12 / 2005 Date of Annual General Meeting (if applicable) 26/ 05 /2006

**Details of large proprietary company**

If the company is a large proprietary company that is not a disclosing entity, please complete the following information as at the end of the financial year for which the financial statements relate:

- A What is the consolidated gross operating revenue of the large proprietary company and the entities that it controls?
- B What is the value of the consolidated gross assets of the large proprietary company and the entities that it controls?
- C How many employees are employed by the large proprietary company and the entities that it controls?
- D How many members does the large proprietary company have?.....

**Details of current auditor\***

name (family & given names) \_\_\_\_\_  
 Auditor Registration no: \_\_\_\_\_  
 or  
 if a firm, name of firm KPMG  
 office level \_\_\_\_\_ building name The KPMG Centre  
 street number & name 10 Shelley Street  
 suburb / city Sydney state / territory NSW postcode 2000  
 Business Registration number (if applicable) R2862638 State / Territory registered in NSW  
 date of appointment (d/m/y) 15/ 12 / 1993

\* NOTE: Where a new auditor has been appointed to a Registered Scheme, **Form 5137 - Appointment of Scheme Auditor** must be lodged

## Auditor report

Were the financial statements audited? Yes  No

If yes: Does the auditor's report (section 308) for the financial year contain a statement of:

\* reasons for the auditor not being satisfied as to the matters referred to in section 307? Yes  No

\* details of the deficiency, failure or shortcoming concerning any matter referred to in section 307? Yes  No

If no: Is there a class order exemption current for audit relief? Yes  No

## Statements and reports to be attached to this form

Financial statements for the year (as per ss295(2))

*profit and loss statement for the year*

*balance sheet as at the end of the year*

*statement of cash flows for the year*

*if required by accounting standards - consolidated profit & loss statement, balance sheet and statement of cash flows*

Notes to financial statements (as per ss295(3))

*disclosures required by the regulations*

*notes required by the accounting standards*

*any other information necessary to give a true and fair view (see s297)*

The directors' declaration about the statements and notes (as per ss 295(4))

The directors' report for the year (as per s 298 to 300)

Auditor's report required under sections 308 and 314

## Certification

I certify that the attached documents marked ( A ) are a true copy of the annual reports required under Section 319.

print name	Walter Ralph Bucknell	capacity	Director
sign here		date	31 March 2006

Small Business (less than 20 employees), please provide an estimate of the time taken to complete this form

**Include**

- The time actually spent reading the instructions, working on the question and obtaining the information
- The time spent by all employees in collecting and providing this information

hrs mins



## **Consolidated Financial Statements 31 December 2005**

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This is the annexure marked A of 27 pages referred to in  
form 388 *Copy of financial statements and reports*

A handwritten signature in black ink, appearing to read "Walter R Bucknell".

*Walter R Bucknell, Director, 31 March 2006*

# Directors' report

The Directors present their report together with the financial report of Atlantic Gold NL ("the Company") and the Consolidated Entity, being the Company and its Controlled Entities, for the year ended 31 December 2005, and the Auditors' Report thereon.

## Directors

The names of Directors in office at any time during or since the end of the financial year are shown below.

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated



**Mr Ronald J Hawkes**

BSc, FAusIMM, FGAC  
Non-executive chairman

*Qualifications and experience*

Board member since 18 January 1999

Mr Hawkes has 41 years' experience in the mining industry and was formerly the Managing Director of Plutonic Resources Limited.

He is a member of the Audit Committee and the Remuneration Committee.



**Mr Wally R Bucknell**

BSc (Hons), FAusIMM, FGAC, MSEG

Executive director

*Qualifications and experience*

Board member since 18 January 1999

Mr Bucknell has 37 years' experience in the mining industry and was formerly the General Manager – Exploration of Plutonic Resources Limited.

He is a member of the Audit Committee and the Remuneration Committee.



**Mr Don L Cooper**

LLB  
Non-executive director

*Qualifications and experience*

Board member since 18 January 1999

Resigned 31 December 2005  
Mr Cooper was formerly the senior partner in the law firm Deacons Graham and James in Melbourne and was a director of Plutonic Resources Limited for 12 years. At the time of his resignation, Mr Cooper was a director of various proprietary companies and was a solicitor in private practice.

He was a member of the Audit Committee and the Remuneration Committee.



**Mr Robert H N Symons**

BA LLB (Hons)  
Non-executive director

*Qualifications and experience*

Board member since 31 December 2005

Mr Symons is a senior partner of the law firm Deacons. He has extensive experience in many aspects of corporate and commercial legal practice with particular expertise in resources, energy and infrastructure. He is a member of the Audit Committee and the Remuneration Committee.

## Company Secretaries

**Grahame Clegg** BCom CA

Mr Clegg was appointed to the position of company secretary on 18 January 1999.

**Julie Fidler**

Ms Fidler was appointed to the position of company secretary on 10 December 2003.

There are no officers of the Company during the financial year who were previously partners of the current audit firm, KPMG, at a time when KPMG undertook an audit of the Company.

# Directors' report

## Directors' meetings held

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

<b>Directors meetings held</b>		<b>4</b>
Directors meetings attended:	R J Hawkes	4
	W R Bucknell	4
	D L Cooper	4
	R H N Symons	0 (appointed 31 December 2005)

All matters relating to Audit and Remuneration Committees were discussed at main board meetings and as a result no separate Audit and Remuneration Committee meetings were held.

## Principal activities

The principal activities of the Consolidated Entity during the financial year were precious minerals exploration, primarily for gold and diamonds. There were no changes in the nature of the Consolidated Entity's principal activities during the financial year.

## Operating results

The loss of the Consolidated Entity after income tax amounted to \$911,895 (2004 loss \$821,513).  
A comprehensive review of operations which forms part of this report is set out on pages 4 to 11.

## Dividends paid or recommended

No dividends have been paid or declared during the year. The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2005.

## State of affairs

The Company made the following issue of shares during the year to provide additional working capital:

- Issue of 32,045,889 ordinary shares at 9 cents per share pursuant to share placements raising \$2,884,130
- Issue of 2,975,972 ordinary shares at 9 cents per share pursuant to Share Purchase Plan raising \$267,837.

## Events subsequent to balance date

On 16 February 2006 the Company announced a call of 2 cents per share in respect of 30,296,342 ordinary partly paid shares issued at 20 cents per share and currently paid to 5 cents per share to raise \$605,927.

On 20 March 2006 the Company announced that it has sold its 53% controlling interest in Ellendale tenement (E04/813) to Blina Diamonds NL (BDI), its co-venturer in the tenement, for a consideration of 1.5 million fully paid BDI shares.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.

## Likely developments

The Consolidated Entity will continue to focus on the further advancement of the Touquoy Gold Project and gold exploration.

## Environmental regulation

The Consolidated Entity's operations are subject to significant environmental regulation under the law of the Commonwealth and State. The Directors are not aware of any breaches of the legislation during the financial year which are material in nature.

## Share options

The following options are held by the Directors and associates of the Directors to subscribe for fully paid ordinary shares. There are time restrictions on when the Directors may exercise the options.

	EXERCISE PRICE	ISSUE DATE	EXPIRY DATE	NUMBER OF OPTIONS
<b>Directors</b>				
R J Hawkes	0.20	21 Nov 2004	31 Dec 2008	1,000,000
W R Bucknell	0.10	17 July 2002	30 June 2006	250,000
		25 Nov 2003	30 June 2006	800,000
	0.20	21 Nov 2004	31 Dec 2008	1,000,000
				2,050,000
<b>Directors' associates</b>				
Associates of R J Hawkes	0.10 <sup>1</sup>	3 July 2002	30 June 2006	2,061,540
Associates of W R Bucknell	0.10 <sup>1</sup>	3 July 2002	30 June 2006	774,360
Associates of DL Cooper	0.10 <sup>1</sup>	3 July 2002	30 June 2006	309,744
	0.20	21 Nov 2004	31 Dec 2008	200,000
				509,744

<sup>1</sup> Options acquired by subscription to a non-renounceable rights issue.

At the date of this report, unissued ordinary shares of the Company under option are:

	EXPIRY DATE	EXERCISE PRICE	NUMBER OF SHARES
<b>Listed</b>	30 June 2006	\$0.10	23,299,937
<b>Unlisted</b>	31 Dec 2008	\$0.20	2,200,000

## Remuneration report

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies applicable to Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting and retaining appropriately qualified and experienced directors and executives.

No part of the remuneration of Directors or senior executives is performance related.

The emoluments of each Director and executive officer are as follows:

Parent Entity and Consolidated Entity

	SALARY	DIRECTORS' FEES	SUPERANNUATION CONTRIBUTIONS	TOTAL
	\$	\$	\$	\$
<b>Directors</b>				
Mr R J Hawkes	–	60,000	5,400	65,400
Mr W R Bucknell	140,000	–	15,300	155,300
Mr D L Cooper	–	30,000	2,700	32,700
	140,000	90,000	23,400	253,400
<b>Executive officer</b>				
Mr B H Bolton	120,000	–	10,800	130,800

# Directors' report

## Directors' interests

The relevant interest of each Director in the share capital of the companies within the Consolidated Entity as notified by the Directors to the Australian Stock Exchange in accordance with section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	FULLY PAID SHARES	PARTLY PAID SHARES	OPTIONS
Mr R J Hawkes	20,055,555	5,750,000	3,061,540
Mr W R Bucknell	4,191,880	1,036,860	2,824,360
Mr D L Cooper	1,238,974	400,000	509,744

## Indemnification and Insurance of Officers


The Company has entered into an agreement to indemnify the following current and former Directors of the Company, Mr Ronald J Hawkes, Mr Walter R Bucknell, Mr Donald L Cooper and Mr Robert H N Symons, and the Company Secretaries, Mr Grahame Clegg and Ms Juli Fidler, against any liability, including costs and expenses incurred in defending such actions, incurred by that person that may arise from their position as Directors or officers of the Company and its Controlled Entities, except where the liability arises out of conduct involving a lack of good faith.

During the year to 31 December 2005 the Company has paid insurance premiums in respect of the Directors and officers liability and legal expenses insurance contracts for current Directors and officers of the Company and its Controlled Entities. The insurance policy prohibits disclosure of the amount of the premium and of the nature of the liabilities covered.

## Lead Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 21 and forms part of the Directors' Report for the year ended 31 December 2005.

Signed in accordance with a resolution of the Board of Directors.



W R Bucknell, Director  
Sydney, 23 March 2006

# Lead auditor's independence declaration

## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

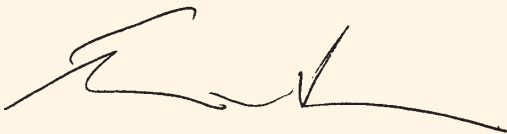
To the Directors of Atlantic Gold NL

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



KPMG



Trent van Veen  
Partner

Sydney  
23 March 2006

# Income statements

For the year ended 31 December 2005

	NOTE	CONSOLIDATED		THE COMPANY	
		2005	2004	2005	2004
			\$	\$	\$ \$
Revenue		–	5,455	283,451	336,899
Foreign exchange gain		–	–	217,560	14,348
Net financial income	3	61,967	47,742	60,801	47,284
Exploration expenditure written off		(409,632)	(488,695)	–	–
Impairment of loan to Controlled Entity		–	–	(506,621)	(544,577)
General and administrative expenses	2	(564,230)	(386,015)	(763,343)	(675,467)
<b>Loss before tax</b>	2	(911,895)	(821,513)	(708,152)	(821,513)
Income tax expense relating to ordinary activities	4	–	–	–	–
<b>Loss for the year</b>		(911,895)	(821,513)	(708,152)	(821,513)
Basic earnings per share (cents per share)	7	(0.58)	(0.62)		
Diluted earnings per share (cents per share)	7	(0.58)	(0.62)		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 26 to 40.

# Balance sheets

As at 31 December 2005

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Current assets</b>					
Cash and cash equivalents	8	675,501	478,287	566,310	471,758
Trade and other receivables	9	120,280	85,154	1,401	2,149
Other	10	16,319	14,807	15,037	13,581
<b>Total current assets</b>		<b>812,100</b>	<b>578,248</b>	<b>582,748</b>	<b>487,488</b>
<b>Non-current assets</b>					
Receivables	11	–	–	5,125,113	2,838,164
Other financial assets	12	–	–	103	103
Property, plant and equipment	13	105,113	13,106	–	–
Exploration and evaluation expenditure	14	4,956,308	2,770,798	–	–
<b>Total non-current assets</b>		<b>5,061,421</b>	<b>2,783,904</b>	<b>5,125,216</b>	<b>2,838,267</b>
<b>Total assets</b>		<b>5,873,521</b>	<b>3,362,152</b>	<b>5,707,964</b>	<b>3,325,755</b>
<b>Current liabilities</b>					
Trade and other payables	15	195,593	71,341	30,036	34,944
Employee benefits	16	16,400	15,100	16,400	15,100
<b>Total current liabilities</b>		<b>211,993</b>	<b>86,441</b>	<b>46,436</b>	<b>50,044</b>
<b>Non-current liabilities</b>					
Employee benefits	17	16,550	–	16,550	–
<b>Total non-current liabilities</b>		<b>16,550</b>	<b>–</b>	<b>16,550</b>	<b>–</b>
<b>Total liabilities</b>		<b>228,543</b>	<b>86,441</b>	<b>62,986</b>	<b>50,044</b>
<b>NET ASSETS</b>		<b>5,644,978</b>	<b>3,275,711</b>	<b>5,644,978</b>	<b>3,275,711</b>
<b>Equity</b>					
Issued capital	18	21,573,672	18,496,253	21,573,672	18,496,253
Reserves	20	203,743	–	–	–
Accumulated losses	21	(16,132,437)	(15,220,542)	(15,928,694)	(15,220,542)
<b>TOTAL EQUITY</b>		<b>5,644,978</b>	<b>3,275,711</b>	<b>5,644,978</b>	<b>3,275,711</b>

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 26 to 40.

# Statements of changes in equity

For the year ended 31 December 2005

	CONSOLIDATED		COMPANY	
	2005 \$	2004 \$	2005 \$	2004 \$
Total equity at the beginning of the year	3,275,711	3,338,890	3,275,711	3,338,890
Foreign exchange translation differences recognised directly in equity	203,743	–	–	–
Loss for the year	(911,895)	(821,513)	(708,152)	(821,513)
Total recognised income and expense for the year	(708,152)	(821,513)	(708,152)	(821,513)
<b>Transactions with equity holders in their capacity as equity holders:</b>				
Contributions of equity, net of transaction costs	3,077,419	758,334	3,077,419	758,334
Total equity at the end of the year	5,644,978	3,275,711	5,644,978	3,275,711
Attributable to equity holders of the parent	5,644,978	3,275,711	5,644,978	3,275,711

The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 26 to 40.

# Statements of cash flows

For the year ended 31 December 2005

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Cash flows from operating activities</b>					
Receipts from customers		–	5,455	–	–
Payments to suppliers and employees		(490,212)	(409,062)	(250,098)	(322,666)
Interest received		62,008	47,814	60,835	47,349
Financial expenses		(41)	(72)	(34)	(65)
Net cash used in operating activities	29(b)	(428,245)	(355,865)	(189,297)	(275,382)
<b>Cash flows from investing activities</b>					
Purchase of plant and equipment		(90,550)	(3,970)	–	–
Payments for exploration expenditure		(2,361,410)	(1,707,340)	–	–
Loan to controlled entity		–	–	(2,793,570)	(1,656,399)
Net cash used in investing activities		(2,451,960)	(1,711,310)	(2,793,570)	(1,656,399)
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares		3,151,967	762,061	3,151,967	762,061
Share issue costs		(74,548)	(3,727)	(74,548)	(3,727)
Net cash provided by financing activities		3,077,419	758,334	3,077,419	758,334
<b>Net increase (decrease) in cash held</b>		197,214	(1,308,841)	94,552	(1,173,447)
Cash and cash equivalents at 1 January 2005		478,287	1,787,128	471,758	1,645,205
<b>Cash and cash equivalents at 31 December 2005</b>	29(a)	675,501	478,287	566,310	471,758

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 26 to 40.

# Notes to the financial statements

For the year ended 31 December 2005

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Atlantic Gold NL ("Company") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Consolidated Entity") and the Consolidated Entity's interest in associates and jointly controlled entities.

### a. Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards adopted by the Australian Accounting Standards Board, being Australian equivalents to IFRS ("AIFRS"). The financial reports of the Consolidated Entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the Consolidated Entity's first financial report prepared in accordance with AIFRS and AASB 1 First Time Adoption of AIFRS has been applied.

The transition to AIFRS has not resulted in any changes to the financial position, financial performance and cash flows of the Consolidated Entity and the Company previously reported under AGAAP.

### b. Basis of preparation

The financial report is prepared on the historical cost basis and is presented in Australian dollars.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Consolidated Entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Consolidated Entity plans to adopt AASB 7 and AASB 2005-10 in the financial year ending 31 December 2007. The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results as the standard and amendment are only concerned with disclosures

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 January 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by consolidated entities.

### c. Basis of consolidation

#### *Controlled Entities*

The financial statements of Controlled Entities are included from the date control commences until the date control ceases. Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

#### *Joint ventures*

A joint venture is either an entity or operation that is jointly controlled by the Consolidated Entity.

#### *Jointly controlled entities*

In the consolidated financial statements, investments in joint venture entities, including partnerships, are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The Consolidated Entity's share of the joint venture entity's net profit or loss is recognised in the consolidated income statement from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly on consolidated reserves.

#### *Jointly controlled operations and assets*

The Consolidated Entity's interest in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs and its share of income it earns from the sale of goods or services by the joint venture.

#### **Transactions eliminated on consolidation**

Unrealised gains and losses and intragroup balances resulting from transactions with or between Controlled Entities are eliminated in full on consolidation. Unrealised gains resulting from transactions with jointly controlled entities are eliminated to the extent of the Consolidated Entity's interest. Unrealised gains relating to jointly controlled entities are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

#### **d. Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### **e. Depreciation**

Depreciation is charged to the income statement. All assets have limited useful lives and are depreciated using the straight line method over their useful lives. Depreciation methods and useful lives, as well as residual values, are reassessed annually. Assets are depreciated from the date of acquisition.

The depreciation rates used for each class of depreciable assets are:

CLASS OF FIXED ASSET	DEPRECIATION	
	RATE	
Plant and equipment	20–40%	
Leasehold improvements	10%	

#### **f. Derivative financial instruments**

The Consolidated Entity does not use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes.

#### **g. Earnings per share** **Basic Earnings per share**

Basic earnings per share is calculated by dividing net profit/(loss) after income tax attributable to members of the Company, excluding any costs of servicing equity (other than ordinary shares), by the weighted average number of ordinary shares outstanding during the financial year.

The partly paid shares are classified as 'ordinary shares' for the purpose of calculating earnings per share.

#### **Diluted Earnings per share**

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

#### **h. Employee benefits** **Wages, salaries, annual leave and sick leave**

Liabilities for employee benefits for wages, salaries, annual leave and sick leave expected to be settled within 12 months of the year end, represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on current remuneration and salary rates that the Consolidated Entity expects to pay as at the reporting date including related on-costs.

#### **Superannuation**

Obligations for contributions to defined contribution superannuation plans are recognised as an expense in the income statement as incurred.

# Notes to the financial statements

For the year ended 31 December 2005

## **Long-term service benefits**

The Consolidated Entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Consolidated Entity's obligation.

## **i. Exploration and evaluation expenditure**

Pre-licence costs are recognised in the income statement as incurred.

Exploration and evaluation expenditure, including the costs of acquiring licences, are capitalised on a project by project basis. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Expenditure deemed to be unsuccessful is recognised in the income statement immediately.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that carrying amount exceeds the recoverable amount (refer note 11).

## **j. Foreign Currency Translation Transactions**

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At reporting date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current on that date. Resulting exchange differences are recognised in determining the profit and loss for the year.

## **Hedging**

The Consolidated Entity has not entered into any specific, general or speculative hedging arrangements.

## **Foreign controlled entities**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from the translation of the net investment in foreign operations and of related hedges are taken to translation reserve. They are released into the income statement upon disposal.

## **k. Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO).

In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

## **l. Impairment**

The carrying amounts of the Consolidated Entity's assets, other than deferred tax assets (refer note 1m), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (refer note 11(i)).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

**(i) Calculation of recoverable amount**

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(ii) Reversals of impairment**

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**m. Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. No temporary differences are recognised on the initial recognition of goodwill. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**Tax consolidation**

The Company is the head entity in a tax-consolidated group comprising the Company and all of its Australian wholly owned subsidiaries. The implementation date of the tax consolidations system for the tax-consolidated group was 1 July 2003.

The current and deferred tax amounts for the tax-consolidated group are allocated among the entities in the group using a separate taxpayer within group approach whereby each entity in the tax-consolidated group measures its current and deferred taxes as if it continued to be a separately taxable entity in its own right.

Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

**n. Investments**

**Controlled Entities**

Investments in Controlled Entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

**o. Leased assets**

Lease payments made under operating leases, where substantially all the risks and rewards of ownership remain with the lessor, are recognised in the income statement on a straight line basis over the term of the lease.

# Notes to the financial statements

For the year ended 31 December 2005

## **p. Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (refer note 1f).

Interest income is recognised in the income statement as it accrues, using the effective interest method.

## **q. Trade and other payables**

Trade and other payables are stated at amortised cost.

## **r. Property, plant and equipment**

All assets acquired including property, plant and equipment and intangibles other than goodwill are stated at cost or deemed cost of acquisition at the date of acquisition less accumulated depreciation (refer note 1e) and any impairment losses (refer note 1l).

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

## **s. Provisions**

A provision is recognised in the balance sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## **t. Revenue recognition**

The gross proceeds from asset sales are included as revenue of the Consolidated Entity. The profit or loss on disposal is brought to account at the date an unconditional contract of sale is signed.

## **u. Segment reporting**

A segment is a distinguishable component of the Consolidated Entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The business segments reported are precious mineral exploration in Australia and Canada.

## **v. Trade and other receivables**

Trade and other receivables are stated at their amortised cost less impairment losses (refer note 1l).

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>NOTE 2: LOSS BEFORE TAX</b>				
<b>Individually significant items included in loss before income tax expense</b>				
Impairment of loan to Controlled Entity	–	–	506,621	544,577
Exploration expenditure written off	409,632	488,695	–	–
Loss before income tax has been arrived at after charging/(crediting) the following items:				
Consulting fees	–	–	(283,451)	(336,899)
Option receipts	–	(5,455)	–	–
<b>General and administrative expenses</b>				
Administrative costs	127,068	101,667	92,374	71,436
Amounts set aside to/(written back from) provision for employee benefits	17,850	4,600	17,850	4,600
Corporate costs	37,245	32,586	37,245	32,586
Depreciation and amortisation expense	5,605	3,370	–	–
Employee and Director benefits expense	257,864	190,853	540,559	526,670
Net loss on disposal of plant and equipment	–	1,069	–	–
Occupancy expense	35,983	35,334	–	–
Other expenses	82,615	16,536	75,315	40,175
	564,230	386,015	763,343	675,467
<b>NOTE 3: NET FINANCIAL INCOME</b>				
Interest income	62,008	47,814	60,835	47,349
Financial expenses	(41)	(72)	(34)	(65)
Net financial income	61,967	47,742	60,801	47,284

# Notes to the financial statements

For the year ended 31 December 2005

## NOTE 4: INCOME TAX EXPENSE

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
Numerical reconciliation between tax benefit and pre-tax net loss	\$	\$	\$	\$
Loss before tax	(911,895)	(821,513)	(708,152)	(821,513)
Total income tax benefit calculated at 30% (2004: 30%)	(273,569)	(246,454)	(212,446)	(246,454)
Increase in income tax expense due to:				
– impairment of loan to Controlled Entity	–	–	151,986	163,373
– other non-allowable items	721	1,631	167	110
	(272,848)	(244,823)	(60,293)	(82,971)
Deferred tax asset not brought to account	272,848	244,823	60,293	82,971
Income tax expense on pre-tax loss	–	–	–	–
Deferred tax asset not taken to account				
Tax losses carried forward:				
– revenue losses	6,183,294	5,260,148	1,099,493	1,040,025
– deductible temporary differences	(1,460,710)	(810,412)	5,355	4,530
	4,722,584	4,449,736	1,104,848	1,044,555

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Consolidated Entity can utilise the benefits therefrom.

## NOTE 5: AUDITORS' REMUNERATION

Audit services – KPMG	30,000	23,000	30,000	23,000
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## NOTE 6: KEY MANAGEMENT PERSONNEL DISCLOSURES

### Remuneration of specified directors and specified executives by the Consolidated Entity

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies applicable to Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting and retaining appropriately qualified and experienced executives.

No part of the remuneration package is performance related.

The key management personnel remuneration was satisfied by way of the following short-term benefits:

		SALARY	DIRECTORS' FEES	SUPERANNUATION	TOTAL
				CONTRIBUTIONS	
		\$	\$	\$	\$
<b>Directors</b>					
	Mr R J Hawkes <sup>1</sup>				
	2005	–	60,000	5,400	65,400
	2004	–	60,000	11,880	71,880
Mr W R Bucknell	2005	140,000	–	15,300	155,300
	2004	96,000	–	8,640	104,640
Mr D L Cooper (resigned 31 December 2005)	2005	–	30,000	2,700	32,700
	2004	–	30,000	2,700	32,700
Mr R H Symons (appointed 31 December 2005)	2005	–	–	–	–
<b>Executive officer</b>					
	Mr B H Bolton				
	2005	120,000	–	10,800	130,800
	2004	83,250	–	7,493	90,743

1 Mr Hawkes received consulting fees of \$72,000 in 2004.

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>NOTE 7: EARNINGS/(LOSS) PER SHARE</b>				
<b>Classification of securities as ordinary shares</b>				
Ordinary fully paid shares and partly paid shares have been included in basic and dilutive ordinary earnings per share.				
<b>Earnings per share reconciliation</b>				
Net loss, basic and diluted earnings	(911,895)	(821,513)		
	NO.	NO.		
<b>Weighted average number of shares</b>				
Issued ordinary shares at 1 January	133,265,760	131,964,645		
Effect of shares issued in March	10,671,766	–		
Effect of shares issued in June	12,054,232	–		
Effect of shares issued in November	–	177,097		
	155,991,758	132,141,742		
Basic and dilutive ordinary earnings per share	(0.58 cents)	(0.62 cents)		
	\$	\$	\$	\$
<b>NOTE 8: CASH AND CASH EQUIVALENTS</b>				
Cash at bank	116,514	24,497	7,323	17,968
Bank short term deposits	558,987	453,790	558,987	453,790
	675,501	478,287	566,310	471,758
<b>NOTE 9: TRADE AND OTHER RECEIVABLES</b>				
Other receivables	90,181	32,789	1,401	2,149
Security deposits	30,099	52,365	–	–
	120,280	85,154	1,401	2,149
<b>NOTE 10: OTHER CURRENT ASSETS</b>				
Prepayments	16,319	14,807	15,037	13,581
<b>NOTE 11: NON-CURRENT RECEIVABLES</b>				
Loans to Controlled Entity	–	–	10,138,988	7,345,418
Provision for impairment	–	–	(5,013,875)	(4,507,254)
	–	–	5,125,113	2,838,164
<b>NOTE 12: OTHER FINANCIAL ASSETS</b>				
Investments in Controlled Entities				
– Unlisted shares at cost	–	–	1,577,105	1,577,105
– Provision for impairment	–	–	(1,577,002)	(1,577,002)
	–	–	103	103

# Notes to the financial statements

For the year ended 31 December 2005

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>NOTE 13: PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Property</b>				
At cost	74,067	–	–	–
<b>Plant and equipment</b>				
At cost	74,107	62,868	–	–
Accumulated depreciation	(45,339)	(52,718)	–	–
	28,768	10,150	–	–
<b>Leasehold improvements</b>				
At cost	6,784	6,784	–	–
Accumulated amortisation	(4,506)	(3,828)	–	–
Total leasehold improvements	2,278	2,956	–	–
Total property, plant and equipment	105,113	13,106	–	–
<b>Reconciliations</b>				
Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:				
<b>Property</b>				
Carrying amount at beginning of year	–	–	–	–
Additions	74,067	–	–	–
Disposals	–	–	–	–
Carrying amount at end of year	74,067	–	–	–
<b>Plant and equipment</b>				
Carrying amount at beginning of year	10,150	9,940	–	–
Additions	23,545	3,970	–	–
Disposals	–	(1,069)	–	–
Depreciation	(4,927)	(2,691)	–	–
Carrying amount at end of year	28,768	10,150	–	–
<b>Leasehold improvements</b>				
Carrying amount at beginning of year	2,956	3,635	–	–
Additions	–	–	–	–
Disposals	–	–	–	–
Amortisation	(678)	(679)	–	–
Carrying amount at end of year	2,278	2,956	–	–
<b>NOTE 14: EXPLORATION AND EVALUATION EXPENDITURE</b>				
Costs carried forward in respect of areas of interest in:				
Exploration and evaluation phases	4,956,308	2,770,798	–	–
<b>Reconciliations</b>				
Carrying amount at the beginning of year	2,770,798	1,625,644	–	–
Expenditure incurred during current year	2,595,142	1,633,849	–	–
Less write offs	(409,632)	(488,695)	–	–
Carrying amount at the end of year	4,956,308	2,770,798	–	–
<b>NOTE 15: TRADE AND OTHER PAYABLES</b>				
Trade payables	175,788	53,877	10,231	17,479
Other payables	19,805	17,464	19,805	17,465
	195,593	71,341	30,036	34,944

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
<b>NOTE 16: EMPLOYEE BENEFITS – CURRENT</b>	\$	\$	\$	\$
Employee benefits	16,400	15,100	16,400	15,100
	NO.	NO.	NO.	NO.
Number of employees at year end	3	3	3	3

**NOTE 17: EMPLOYEE BENEFITS – NON-CURRENT**

	\$	\$	\$	\$
Employee benefits	16,550	–	16,550	–

**NOTE 18: CONTRIBUTED EQUITY**

137,991,279 (2004: 102,969,418) fully paid ordinary shares	20,058,845	16,981,426	20,058,845	16,981,426
30,296,342 (2004: 30,296,342) partly paid ordinary shares	1,514,827	1,514,827	1,514,827	1,514,827
	21,573,672	18,496,253	21,573,672	18,496,253

**Movements in ordinary share capital**

Balance at beginning of year	18,496,253	17,737,919	18,496,253	17,737,919
Shares issued:				
– 32,045,889 shares at 9 cents per share pursuant to placements	2,884,130	–	2,884,130	–
– 2,975,972 shares at 9 cents per share pursuant to Share Purchase Plan	267,837	–	267,837	–
– 1,301,115 shares at 12 cents per share on exercise of options	–	156,134	–	156,134
– call of 2 cents per share in respect of 30,296,342 shares at 20 cents per share now partly paid to 5 cents per share	–	605,927	–	605,927
Less cost of issues	(74,548)	(3,727)	(74,548)	(3,727)
	21,573,672	18,496,253	21,573,672	18,496,253

Holders of ordinary shares are entitled to receive dividends as declared from time to time irrespective of the amounts paid or credited as paid on the shares. Holders of fully paid ordinary shares are entitled on a show of hands to one vote for each fully paid share held. Holders of partly paid ordinary shares are entitled on a show of hands to one vote, and on a poll to such number of votes as results from applying the ratio of the amount of the issue price of shares paid to the total issue price, to the number of those partly paid shares held.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

**NOTE 19: OPTIONS**

EXPIRY DATE	EXERCISE PRICE	OUTSTANDING AT 31 DEC 2004	ISSUED DURING YEAR	EXERCISED DURING YEAR	LAPSED DURING YEAR	OUTSTANDING AT 31 DEC 2005
<b>Listed</b>						
30 June 2006	\$0.10	23,615,931	–	–	–	23,615,931
<b>Unlisted</b>						
31 December 2008	\$0.20	2,200,000	–	–	–	2,200,000
		25,815,931	–	–	–	25,815,931

# Notes to the financial statements

For the year ended 31 December 2005

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>NOTE 20: RESERVES</b>				
<b>Foreign currency translation reserve</b>				
Balance at beginning of the year	–	–	–	–
Current year foreign exchange translation differences	203,743	–	–	–
Balance at end of the year	203,743	–	–	–
<b>NOTE 21: ACCUMULATED LOSSES</b>				
Accumulated losses at beginning of the year	15,220,542	14,399,029	15,220,542	14,399,029
Net loss	911,895	821,513	708,152	821,513
Accumulated losses at end of the year	16,132,437	15,220,542	15,928,694	15,220,542

## NOTE 22: COMMITMENTS

### Operating Lease Commitments

The Consolidated Entity leases property and equipment. Leases generally provide the Consolidated Entity with a right of renewal at which time all terms are re-negotiated.

Future operating lease commitments not provided for in the financial statements and payable:

– within 1 year	2,480	26,213	–	–
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### Exploration Tenement Commitments

In order to maintain current rights of tenure to exploration tenements, the Consolidated Entity is required to outlay in the year ending 31 December 2006 an amount of approximately \$26,640 (2005 \$1,171,500) in respect of exploration expenditure.

## NOTE 23: CONTINGENT LIABILITIES

### Native title

The value of the mining tenements is dependent on the discovery of commercially viable reserves and the successful development or alternatively sale, of the respective tenements. The Consolidated Entity's exploration properties may at some future time be subject to claims under native title or contain sacred sites or sites of significance to Aboriginal people. In the event of any such claim being made and the National Native Title Tribunal ratifying such claim, the Consolidated Entity's exploration properties or areas within the tenements may be subject to exploration and/or mining restrictions or compensation.

### Tenement litigation

Plaints have been lodged against tenements in respect of the Kookynie Project. All administrative requirements relating to the security of the tenement licences have been complied with and the complaints are regarded as opportunistic, without substance, and will be vigorously defended.

## NOTE 24: SEGMENT INFORMATION

During the year the Consolidated Entity operated predominantly in one business segment being precious mineral exploration in two geographical segments being Australia and Canada.

	AUSTRALIA		CANADA		ELIMINATIONS		CONSOLIDATED	
	2005	2004	2005	2004	2005	2004	2005	2004
Segment Revenue	–	5,455	–	–	–	–	–	5,455
Segment Result	(181,536)	(488,695)	(228,096)	–	–	–	(409,632)	(488,695)
Unallocated expenses	–	–	–	–	–	–	(564,230)	(386,015)
Net financing income	–	–	–	–	–	–	61,967	47,742
Loss before tax	–	–	–	–	–	–	(911,895)	(821,513)
Income Tax	–	–	–	–	–	–	–	–
Net Loss	–	–	–	–	–	–	(911,895)	(821,513)
Segment Assets	8,266,225	5,209,686	2,732,409	990,774	(5,125,113)	(2,838,308)	5,873,521	3,362,152
Segment Liabilities	2,353,021	1,921,195	3,000,635	1,003,554	(5,125,113)	(2,838,308)	228,543	86,441
Cash flows from operating activities	(407,750)	(341,721)	(20,495)	(14,144)	–	–	(428,245)	(355,865)
Cash flows from investing activities	(2,569,656)	(1,608,897)	(1,651,700)	(803,554)	1,769,396	701,141	(2,451,960)	(1,711,310)
Cash flows from financing activities	3,077,419	758,334	1,769,396	701,141	(1,769,396)	(701,141)	3,077,419	758,334
Capital expenditure	3,004	3,970	94,608	–	–	–	97,612	3,970
Exploration and evaluation expenditure	842,662	874,460	1,752,480	759,389	–	–	2,595,142	1,633,849

## NOTE 25: CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION	PERCENTAGE OWNED	
		2005	2004
		%	%
<b>Particulars in relation to Controlled Entities</b>			
Parent Entity			
Atlantic Gold NL	Australia		
Controlled Entities			
Atlantic Gold Exploration Pty Ltd	Australia	100	100
DDV Gold Limited	Canada	100	100

# Notes to the financial statements

For the year ended 31 December 2005

## NOTE 26: INTEREST IN JOINT VENTURE OPERATIONS

As at 31 December 2005 Controlled Entities had interests in the following exploration joint ventures :

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	%	%	%	%
Ellendale	53	53	–	–
Kookynie Development Area	50	50	–	–
Touquoy – Moose River	60	60	–	–
Caribou	50	–	–	–

Included in the assets and liabilities of the Consolidated Entity are the following items which represent the Consolidated Entity's interest in the assets and liabilities employed in the joint venture

	\$	\$	\$	\$
<b>Non-Current Assets</b>				
Exploration and evaluation expenditure	3,770,847	1,759,913	–	–

## NOTE 27: RELATED PARTIES

### Directors

The names of each person holding the position of Director of Atlantic Gold NL during the financial year are:

Ronald J Hawkes

Walter R Bucknell

Donald L Cooper (resigned 31 December 2005)

Robert H N Symons (appointed 31 December 2005)

Details of Directors' remuneration are set out in Note 6.

Robert H N Symons is a partner of Deacons. During the financial year Deacons provided legal services to the Consolidated Entity on normal commercial terms.

Apart from the details disclosed in this Note, no Director has entered into a material contract with the Company or the Consolidated Entity since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

### Key management personnel disclosures

The aggregate interests of Directors and the Executive Officer of the reporting entity and their Director-related entities in shares and share options of entities within the Consolidated Entity at year end are set out below.

	HELD AT		PURCHASES	HELD AT	
	1 JAN 2005			31 DEC 2005	
<b>Fully paid ordinary shares</b>					
Directors					
R J Hawkes	20,000,000		55,555		20,055,555
W R Bucknell	4,147,436		44,444		4,191,880
D L Cooper	1,238,974		–		1,238,974
R H N Symons	–		–		–
Executive					
B H Bolton	1,890,000		50,000		1,940,000
	27,276,410		149,999		27,426,409

	HELD AT 1 JAN 2005	PURCHASES	HELD AT 31 DEC 2005
<b>Partly paid ordinary shares</b>			
Directors			
R J Hawkes	5,750,000	–	5,750,000
W R Bucknell	1,036,860	–	1,036,860
D L Cooper	400,000	–	400,000
R H N Symons	–	–	–
Executive			
B H Bolton	755,600	–	755,600
	<b>7,942,460</b>	<b>–</b>	<b>7,942,460</b>
<b>Options</b>			
Directors			
R J Hawkes	7,061,540	–	7,061,540
W R Bucknell	2,824,360	–	2,824,360
D L Cooper	509,744	–	509,744
R H N Symons	–	–	–
Executive			
B H Bolton	830,000	–	830,000
	<b>11,225,644</b>	<b>–</b>	<b>11,225,644</b>

#### **Non-Director related parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	COMPANY	
	2005	2004
	\$	\$
<b>Controlled Entities</b>		
The Parent Company provided management and related services to Controlled Entities	283,451	336,899
Balance of loans to Controlled Entities outstanding at year end	5,125,113	2,838,164
Impairment of loans during the year	506,621	544,577

All loans to Controlled Entities are unsecured and repayable on demand.

# Notes to the financial statements

For the year ended 31 December 2005

## NOTE 28: EVENTS SUBSEQUENT TO REPORTING DATE

On 16 February 2006 the Company announced a call of 2 cents per share in respect of 30,296,342 ordinary partly paid shares issued at 20 cents per share and currently paid to 5 cents per share to raise \$605,927.

On 20 March 2006 the Company announced that it has sold its 53% controlling interest in Ellendale tenement (E04/813) to Blina Diamonds NL (BDI), its co-venturer in the tenement, for a consideration of 1.5 million fully paid BDI shares.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>NOTE 29: NOTES TO THE STATEMENTS OF CASH FLOWS</b>				
<b>(a) Reconciliation of Cash</b>				
Cash at the end of the financial year as shown in the statements of cash flows is reconciled to items in the balance sheets as follows:				
Cash at bank	116,514	24,497	7,323	17,968
Bank short term deposits	558,987	453,790	558,987	453,790
	675,501	478,287	566,310	471,758

## **(b) Reconciliation of loss after income tax to net cash used in operating activities**

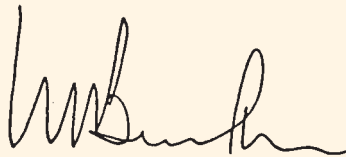
Loss from ordinary activities after income tax	(911,895)	(821,513)	(708,152)	(821,513)
Add/(less) non-cash items:				
Amortisation	678	679	–	–
Depreciation	4,927	2,691	–	–
Amounts set aside to provisions	17,850	4,600	17,850	4,600
Write-off of exploration expenditure	409,632	488,695	–	–
Impairment of loan to Controlled Entity	–	–	506,621	544,577
Loss on sale of non-current assets	–	1,069	–	–
Changes in assets and liabilities, net of the effects of purchase and disposal of Controlled Entities during the financial year:				
(Increase)/decrease in receivables	(35,126)	1,576	748	2,610
(Increase)/decrease in prepayments	(1,512)	(3,962)	(1,456)	(3,854)
Increase/(decrease) in payables	87,201	(29,700)	(4,908)	(1,802)
Net cash used in operating activities	(428,245)	(355,865)	(189,297)	(275,382)

# Directors' declaration

In the opinion of the Directors of Atlantic Gold NL:

- (a) the financial statements and notes set out on pages 22 to 40 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 31 December 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
  - (ii) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Walter R Bucknell  
Director

Sydney, 23 March 2006

# Independent audit report to the members of Atlantic Gold NL

## Scope

### *The financial report and directors' responsibility*

The financial report comprises the income statements, statements of changes in equity, balance sheets, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 22 to 41 for Atlantic Gold NL (the "Company") and Atlantic Gold NL and its controlled entities (the "consolidated entity"), for the year ended 31 December 2005. The Consolidated Entity comprises both the Company and consolidated entities it controlled during the year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*.

### *Audit approach*

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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

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

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

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

### *Audit opinion*

In our opinion, the financial report of Atlantic Gold NL is in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2005 and of their performance for the financial year ended on that date; and
  - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

Trent van Veen, Partner

Sydney, 23 March 2006