

SHAW RIVER RESOURCES LTD

ABN 85 121 511 886

INTERIM FINANCIAL REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2006

SHAW RIVER RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

31 December 2006 INTERIM FINANCIAL REPORT

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DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the period ended 31 December 2006.

DIRECTORS

The names of the directors who held office during or since the end of the period are:

NON EXECUTIVE

Mr Rick Cullen

Mr David Flanagan

Mr Denis O'Meara

PERIOD OF DIRECTORSHIP

Director appointed 8.9.06 - Chairman

Director appointed 8.9.06

Director appointed 8.9.06

EXECUTIVE

Mr Vincent Algar

Director appointed 8.9.06– Managing Director

REVIEW AND RESULTS OF OPERATIONS

The operating loss of the Consolidated Entity after income tax for the period ended 31 December 2006 amounted to \$580,475.

Operations for the period consisted of listing the company on ASX and preparing to conduct exploration for base metals, gold and other economic mineral deposits in the Pilbara region of Western Australia.

DIVIDENDS

No dividends were paid or declared during the period. No recommendation for payment of dividends has been made.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration to the directors of Shaw River Resources Ltd is set out on page 4 and forms part of the Directors' Report for the period ended 31 December 2006.

This report is signed in accordance with a resolution of the Board of Directors.



V Algar, Director

Dated this 14 day of February 2007

Perth, Western Australia.

14 February 2007

Board of Directors
Shaw River Resources Limited
25 Richardson Street
WEST PERTH WA 6005

Dear Sirs

RE: SHAW RIVER RESOURCES LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Shaw River Resources Limited.

As Audit Director for the audit of the financial statements of Shaw River Resources Limited for the period 8 September 2006 to 31 December 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

STANTONS INTERNATIONAL
(Authorised Audit Company)



John Van Dieren
Director

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**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2006**

	For the period 8 September 2006 to 31 December 2006 \$
Revenues	16,163
Corporate and Administrative expense	(137,567)
Exploration expense	(64,068)
Equity based compensation	<u>(395,003)</u>
Loss before income tax expense	(580,475)
Income tax	-
Loss for the period	<u>(580,475)</u>
Basic loss per share (cents)	(5.9)
Diluted loss per share (cents)	(5.9)

The income statement is to be read in conjunction with the condensed notes to the Consolidated interim financial report set out on pages 9 to 17.

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CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AS AT 31 DECEMBER 2006

	31 December 2006 \$
CURRENT ASSETS	
Cash and cash equivalents	5,734,800
Receivables and prepayments	93,631
TOTAL CURRENT ASSETS	5,828,431
NON-CURRENT ASSETS	
Property, plant and equipment	4,889
Mineral acquisition cost	1,264,500
TOTAL NON-CURRENT ASSETS	1,269,389
TOTAL ASSETS	7,097,820
CURRENT LIABILITIES	
Trade and other payables	(731,578)
TOTAL CURRENT LIABILITIES	(731,578)
TOTAL LIABILITIES	(731,578)
NET ASSETS	6,366,242
EQUITY	
Issued capital	6,463,584
Option reserve	483,133
Accumulated losses	(580,475)
TOTAL EQUITY	6,366,242

The balance sheet is to be read in conjunction with the condensed notes to the Consolidated interim financial report set out on pages 9 to 17.

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ATTRIBUTED TO
EQUITY HOLDERS OF THE PARENT FOR THE PERIOD ENDED
31 DECEMBER 2006**

	Share Capital ordinary \$	Accumulated losses \$	Option Reserve \$	Total \$
Opening balance at 8 September 2006	-	-	-	-
Shares issued during the period	7,144,301	-	-	7,144,301
Capital raising costs	(680,717)	-	-	(680,717)
Cost of share based payments	-	-	483,133	483,133
Loss for the period	-	(580,475)	-	(580,475)
Balance as at 31 Dec 2006	6,463,584	(580,475)	483,133	6,366,242

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2006

	For the period 8 September 2006 to 31 Dec 2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers and employees	(170,121)
Interest received	16,164
Payments for exploration	(252)
Net cash used in operating activities	<u>(154,209)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Payment of property, plant and and equipment	(5,212)
Net cash used in investing activities	<u>(5,212)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issue of shares	6,025,281
Cost of capital raising	(131,060)
Net cash provided by financing activities	<u>5,894,221</u>
Net increase in cash and cash equivalents	5,734,800
Cash at beginning of the period	-
Cash and cash equivalents at end of the period	<u><u>5,734,800</u></u>

The statement of cash flows is to be read in conjunction with the condensed notes to the Consolidated interim financial report set out on pages 9 to 17.

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CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT

NOTE 1 – REPORTING ENTITY

Shaw River Resources Limited (the “Company”) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the period ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the “Consolidated entity”) and the Consolidated entity’s interest in associates and jointly controlled entities.

The company was incorporated on the 8th September 2006 and hence this is the first Financial Report prepared by the company. No comparative figures are therefore included in this report.

NOTE 2- STATEMENT OF COMPLIANCE

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

This consolidated interim financial report was approved by the Board of Directors on 14 February 2007.

NOTE 3 –SIGNIFICANT ACCOUNTING POLICIES

The interim financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Consolidated entity as the full financial report.

It is also recommended that the interim financial report be considered together with any public announcements made by Shaw River Resources Limited and its controlled entities during the period ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

The accounting policies applied by the Consolidated entity in this consolidated interim financial report are as follows:

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. The interim financial report has been prepared on the historical cost basis.

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(b) Basis of Consolidation

During the current period the Company incorporated a subsidiary. The Company's policy on accounting for investments in Subsidiaries is as follows:

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) *Transactions Eliminated on Consolidation*

Intragroup balances and any unrealised gains and losses or income and expenses arising from transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal.

The expected net cash flows have been discounted to their present values in determining recoverable amounts. The cost of fixed assets constructed within the Consolidated entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated entity and the cost of the item can be measured reliably.

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All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

Depreciation of plant and equipment is calculated on a prime cost basis so as to write off the net costs of each asset over the expected useful life at a rate ranging from 5% to 40%.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(d) Impairment of assets

At each reporting date, the Consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(e) Exploration and evaluation costs

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Where an area of interest is abandoned or the directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

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Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

(f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership transfer to the company are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(g) Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(i) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(j) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Share-based payments

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by

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reference to the fair value at the date on which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled no further expense is recognised. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(k) Revenue recognition

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(l) Issued capital

Ordinary shares are classified as equity.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(m) Earnings per share (EPS)

Basic earnings per share

Basic EPS is calculated as the profit / (loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the financial period, adjusted for any bonus elements in ordinary shares issued during the period.

Diluted earnings per share

Diluted EPS adjusts the figures used in the determination of basic EPS to take

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into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(n) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

(o) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period. No comparative figures are included in this report as the company was incorporated on 8 September 2006.

(p) Critical accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 8.

Exploration and evaluation costs

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current.

These costs are carried forward in respect of an area that has not at balance sheet date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

NOTE 4: ESTIMATES

The preparation of the interim financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

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CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT

NOTE 5: SEGMENT INFORMATION

The group operates predominately in one business and geographical segment, being mineral exploration in Australia.

NOTE 6: ISSUED CAPITAL

Summary Table

	31 December 2006	
	\$	
59,496,501 Ordinary fully paid shares		<u>6,463,584</u>
	Number of Shares	\$
Issue date and nature of shares issued during the period		
8 September 2006: Initial Share	1	1
18 December 2006: Vendor Shares	22,500,000	1,125,000
19 December 2006: Conversion of converting notes	9,200,000	460,000
20 December 2006: Initial Public Offering	27,796,500	5,559,300
Capital Raising Costs		(680,717)
	<u>59,496,501</u>	<u>6,463,584</u>

Options on issue as at 31 December 2006

6,400,000 Exercisable at 20 cents, on or before 30 November 2011	483,183
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NOTE 7: ACQUISITION AND DISPOSAL OF SUBSIDIARIES

A new wholly owned subsidiary company, Mount Minnie Mining Company Ltd, was incorporated during the period. The company was incorporated in Australia.

NOTE 8: SHARE-BASED PAYMENTS

Employee and Contractors Options

The Company provides benefits to employees (including directors) and contractors of the Company in the form of share-based payment transactions, whereby options to acquire ordinary shares are issued as an incentive to improve employee and shareholder goal congruence. The exercise price of the options granted in the current period is 20 cents per option, and have an expiry date of 30 November 2006 with vesting periods up to 12 months.

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Set out below is a summary of the options granted during the period:

5,400,000 20 cent options granted November 2006. These options expire 30 November 2011 and vest immediately with the exception of 1 million which vest after completion of 12 months service by Vincent Algar.

Corporate Services Options

The company issued 1,000,000 20 cent options to Peregrine Corporate, the Corporate Advisor to the Initial Public Offering. These options vest immediately and expire 30 November 2011.

Expenses arising from share-based payment transactions

The weighted average fair value of the options granted during the period was 8.813 cents per option. The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

Weighted average exercise price (cents): 20 cents
Weighted average life of the option (years): 5 Years
Weighted average underlying share price (cents): 20 cents
Expected share price volatility: 70%
Weighted average risk free interest rate: 6.00%
Adjustment for Unlisted Nature: 30%

NOTE 9: RELATED PARTIES

During the period ended 31 December 2006 the Company purchased rights to minerals other than iron ore from a related party, Atlas Iron Ltd in return for 22,500,000 shares at 5c each. Atlas Iron Ltd provided office facilities and management services over the period. The total paid to Atlas Iron Ltd over the period for these services was \$60,200.

NOTE 10: SUBSEQUENT EVENTS

No matter or circumstance has arisen since 31 December 2006 which has significantly affected, or may significantly affect, the operations of the Consolidated entity, the results of the operations, or the state of affairs of the Consolidated entity in subsequent financial years.

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DIRECTORS' DECLARATION

In the opinion of the directors of Shaw River Resources Ltd ("The Company")

1. The financial statements and notes, as set out on pages 5 to 17 are in accordance with the Corporations Act 2001 including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - b. giving a true and fair view of the Consolidated entity's financial position as at 31 December 2006 and of its performance as represented by the results of its operations and cash flows for the period ended on that date.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Vincent Algar
Managing Director

Dated this 14th day of February 2007

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SHAW RIVER RESOURCES LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Shaw River Resources Limited, which comprises the consolidated condensed balance sheet as at 31 December 2006, and the consolidated condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the period 8 September 2006 to 31 December 2006 ("half year"), a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Shaw River Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Stantons International

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Shaw River Resources Limited on 14 February 2007.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Shaw River Resources Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

STANTONS INTERNATIONAL
(An authorised audit company)



J P Van Dieren
Director

West Perth, Western Australia
14 February 2007