



CAPITAL MINING LIMITED

annual
Annual Report 2007
report

Contents

Chairman's Report	2
Managing Director's Report	3
Review of Operations	4
Director's Report	20
Income Statement	26
Balance Sheet	27
Statements of Cash Flows	28
Statement of Changes in Equity	29
Notes to and Forming Part of the Accounts	30
Directors' Declaration	42
Auditor's Independence Declaration	43
Independent Auditor's Report	44
Corporate Governance Statement	45
Shareholder Information	47
Corporate Directory	Inside Back Cover

Chairmans Report

The past year has been a landmark one for your company and has seen it take further steps toward its goal of becoming a gold and base metals producer. Your support as shareholders has been very much appreciated from the outset and I would like to take this opportunity to thank each and every one of you personally for that support. My fellow Directors are likeminded and we trust that you will be able to participate in and benefit from the company's Bonus Loyalty Option Scheme by way of reward for your support.

On behalf of the Board I would also like to extend special thanks to our highly dedicated group of corporate advisers, technical consultants, financial advisers and employees for their efforts throughout the year. Their contribution has been essential to the successful management of the company and to the advances that have been made during the year.

In the first half of the reporting period, our work programmes were put largely on hold as efforts centred on production of the IPO Prospectus and its launch in November 2006. Since listing in March 2007 however, you will see from our announcements that your company has been very active in implementing its work programmes and so pursuing its goals. Work has included resource re-estimation, conceptual mine planning, technical reviews, detailed topographic surveys, geological mapping, geophysical surveying and surface sampling. Drill sites have been marked out, official approvals have been obtained and all is readiness for drilling in the Chakola (Harnett), Narraburra and Porters Mount project areas. The work has however, been delayed by the sustained boom in the minerals industry, which has placed a very high demand on rigs. Nevertheless, contracts are in place and we are awaiting start up of our highest priority jobs soon. Obstacles to obtaining official approval to carry out the alluvial gold bulk sampling at Craigie also appear to have been overcome by a modification to the proposal and the processing plant will be shipped to the site as soon as this confirmation is received.

Three new exploration licences were granted through July and August 2007 in a move which has at the same time broadened the company's target commodity base to include platinum, nickel and uranium and also expanded its sphere of operations into the far northwest of New South Wales and eastern South Australia. These are exciting acquisitions that have the potential to create excellent opportunities for expansion through green-fields discoveries and through joint ventures in the future.

In the coming year, we will on one hand be pursuing work programmes that have been designed to build on encouraging results to date and on the other, be breaking completely new ground where at Milparinka for instance, there has never been any previous exploration of the very large conceptual target zone.

We look forward to generating tangible results from all of our projects in the year ahead and I once again thank everyone for their contributions and support in 2007.



Rick Hine
Executive Chairman

Managing Director's Report



Dear Shareholders of Capital Mining Limited,

Amongst the great achievements for Capital Mining over the past year has been its transformation from a private company to a public company listed on the Australian Securities Exchange and the 270% upgrade of our resource at Chakola. Our company was firstly supported and backed by our original 17 shareholders who contributed over half a million dollars to form the solid foundations of Capital Mining. On behalf of the Board of Directors I would like to thank those original shareholders and also the 500 plus new shareholders for their backing and continuing support through the IPO.

Capital Mining has a diverse portfolio of tenements at varying stages of exploration development. They compliment each other with time frames and sizes that will allow Capital to continue to grow at a sustainable rate through adding value to our portfolio of leases.

We are awaiting approval from the NSW Department of Primary Industries to carry out bulk sampling exploration for alluvial gold from the historic Craigie Goldfield. The mobile gold processing plant has been tested and all is in readiness to produce our first gold. Once up and running, our aim is for this cash from Craigie to cover most of our exploration and administration expenditure.

Work at Chakola is continuing towards the approval of the Mining Lease Application and further follow up drilling is scheduled soon at the Harnett prospect as well as initial drilling of promising targets at both the Harnett South and Stonehenge North prospects. Rock chip samples with Gold values of 18g/t and 12g/t from the Stonehenge North prospect were reported in our announcement on 25 September 2007. Chakola is Capital's flagship development with a proposed open-cut mine expected to process approximately 200,000 tonnes of ore per annum over at least a 15 year mine life. The target commodities are gold, copper, zinc, silver and lead.

Recent analytical results reported for the Narraburra Project are very encouraging and ground radiometric and magnetic surveys are planned to identify the best sites for drilling. Some of the results reported in our announcement on 27 July 2007 were high values for zirconium at an average of 3.5% (in the range 0.2% - 12.9%), thorium to 133ppm and uranium to 1100ppm. Extensions to the inferred resource at the Narraburra prospect, which were outlined by surface sampling and RC drilling, as reported in the IPO prospectus, remains under evaluation.

Capital recently acquired three additions to its portfolio at Milparinka (platinum, nickel, copper, gold) in north western NSW; Mundaerno South (uranium, copper, gold, rare earth elements) 20km south of the Honeymoon Uranium Mine in SA and the Coonalpyn Project (uranium, gold copper, zinc, silver, lead, tin) in south eastern South Australia. These are quality additions to our portfolio and assessment of historic exploration results and regional datasets has begun.

Last but certainly not least, a promising deep drill target has been identified at Porters Mount (gold, copper, molybdenum) and drilling is scheduled to commence in February 2008. This tenement has enormous 'blue sky' potential. It should be noted that Barrick's world class Lake Cowal gold mine is only 30 km to the west of the Porters Mount project. It is also interesting to note that that the world's second largest gold miner, Newmont and now Australia's largest gold miner, Newcrest have both recently closed out their gold hedge books and so are now fully exposed to the prevailing spot price of gold. This action reinforces the fact that both of these companies are obviously very bullish on the future price of gold which all bodes very well for Capital Mining.

Capital Mining remains rock solid with over 3 million dollars cash, nil debt and controls 100% of its tenements. Our philosophy has always been to put as much of our capital into growth and earning activities; keep an "eye-out" for quality acquisitions whilst minimizing expenditure on administration and other items. This direction has worked very well for us in the past and I'm sure it will continue to work well for us into the future.

Yours faithfully

A handwritten signature in black ink, appearing to read 'R. McCauley', written over a horizontal line.

Robert J. McCauley

Managing Director and CEO

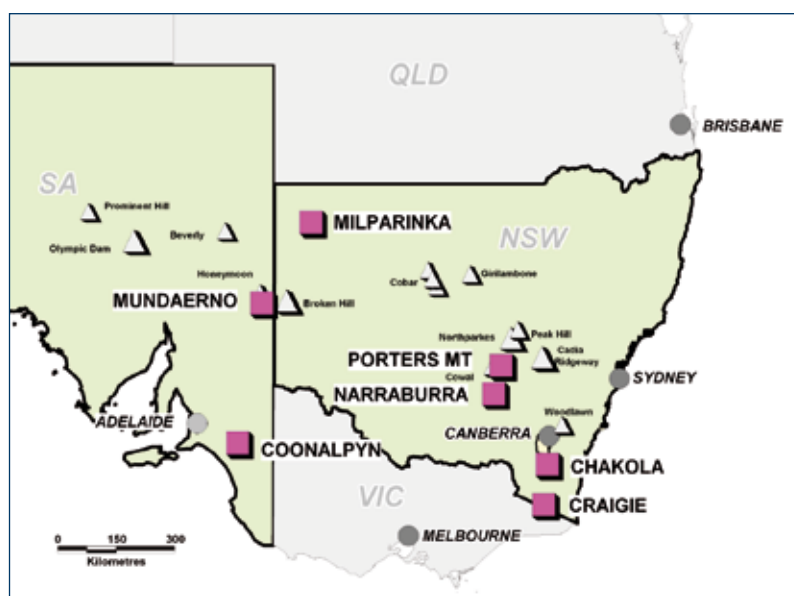
Review of Operations

Capital's exploration successes since 1999 have underpinned the remarkable growth in the Company and enabled us to take advantage of the opportunities presented by applying for new ground in an expanded sphere of operations.

In a year that saw a significant upsurge in exploration activity across the board we suffered from not being able to get drill rigs on to our programmes despite having drill ready targets in no less than four of our exploration licences. Nevertheless we continued to make good progress on several fronts.

With several new tenement acquisitions, our projects now range across New South Wales from Milparinka in the far northwest to Craigie in southeast and across the border to Coonalpyn in South Australia's southeast.

CAPITAL MINING LIMITED SOUTHEAST AUSTRALIA PROJECT LOCATION MAP



Our activities range from advanced exploration at Chakola, where mine scoping and feasibility studies are in progress, through to conceptual exploration at Porters Mount, Coonalpyn and Milparinka, where completion of a successful drill hole could be a Company maker.

Tenement Portfolio Details

Project	State	Licence Number	Graticular Units	Area Square km	Granted	Term Years	Renewal Due
Narraburra	NSW	EL 5629	4	11	1-Oct-99	2	03-Nov-07
Narraburra	NSW	EL 6787	30	85	23-May-07	2	22-May-09
Craigie	NSW	EL 5654	15	29	14-Dec-99	2	13-Dec-07
Chakola	NSW	EL 5697	24	66	9-Mar-00	2	08-Mar-08
Chakola_Harnett	NSW	MLA 269	-	3.3	-	-	application
Porters Mount	NSW	EL 6591	23	65	29-Jun-06	2	28-Jun-08
Milparinka	NSW	EL 6832	372	1112	6-Jul-07	2	5-Jul-09
Mundaerno Sth	SA	EL 3853	18	52	23-Jul-07	1	22-Jul-08
Coonalpyn	SA	EL 3881	214	625	6-Aug-07	1	5-Aug-08

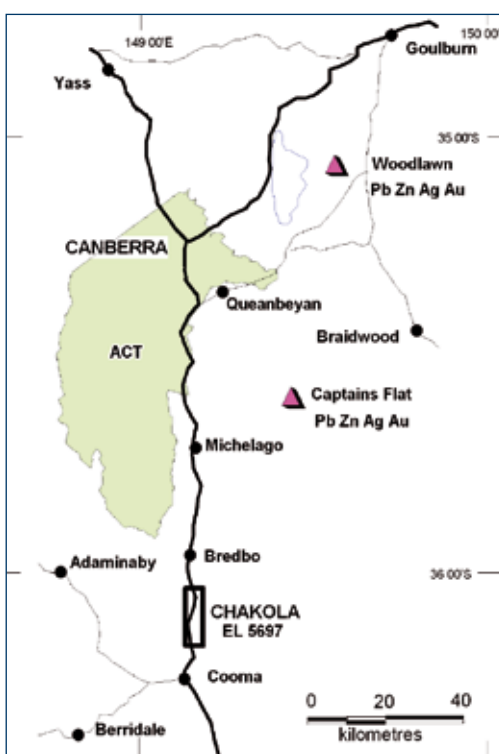
NEW SOUTH WALES

Chakola Gold and Base Metals Project

EL 5697 - 66.4 km²; MLA 269 - 332 hectares - Capital Mining 100%
(Harnett, Stonehenge, Gamma-Delta, Driscolls Hill Prospects)

Target commodity	Gold, copper, zinc, silver, lead
Target type	Volcanogenic massive sulphide deposits from surface
Metallogenic Province	Woodlawn-Captains Flat Silurian Volcanic Belt

Exploration at Chakola continued to be the main focus of the Company's efforts through the year and significant advances were made in a number of areas. An update of the gold-copper-silver-zinc-lead resource at the Harnett prospect, as set out below, was announced in April 2007 on the back of strong gold, silver and base metal prices.



All is in readiness for a third campaign of resource outline and exploration drilling, which is designed to test predicted extensions of the mineralization along strike and at depth. Drill core samples will also be obtained for further metallurgical testing and geotechnical study.

A detailed contour survey of proposed mine infrastructure sites was completed and site visits were made by our consultant technical advisory team towards the end of the reporting period. As a result, the Harnett Conceptual Mine Plan was refined and improved. Acquisition of the data required to support a Development Application (DA) continued along with mine scoping studies. Baseline environmental studies have commenced with a flora and fauna survey and geotechnical studies to support the DA are planned.

An update on this project is covered in an ASX announcement dated 25 September 2007, with the headline "Gold Values to 18g/t Recorded in Chakola Rock Chip Samples – EL 5697, NSW."

Harnett Prospect - Primary Resource to 70m Depth

1.0 g/t gold equivalent cut-off; to 740RL; April 2007

Resource Category	Tonnes	Grade g/t Gold Equivalent	Grade				
			Au g/t	Cu %	Ag g/t	Pb %	Zn %
Measured	926,000	3.5	0.60	0.41	6.8	0.33	0.57
Indicated	1,068,000	3.1	0.41	0.22	5.1	0.30	0.79
Inferred	1,137,000	2.4	0.33	0.21	5.1	0.28	0.53
TOTAL	3,131,000	3.0	0.44	0.27	5.6	0.30	0.63

Review of Operations

NEW SOUTH WALES (Continued)

Harnett Prospect - Primary Resource to 100m Depth

1.0 g/t gold equivalent cut-off; to 710RL; April 2007

Resource Category	Tonnes	Grade					
		g/t Gold Equivalent	Au g/t	Cu %	Ag g/t	Pb %	Zn %
Measured	926,000	3.5	0.60	0.41	6.8	0.33	0.57
Indicated	1,110,000	3.1	0.40	0.22	5.0	0.30	0.79
Inferred	2,596,000	2.7	0.39	0.22	5.4	0.28	0.59
TOTAL	4,632,000	2.9	0.43	0.26	5.6	0.30	0.63

Harnett Prospect - Oxide Resource

0.5 g/t gold equivalent cut-off; April 2007

Resource Category	Tonnes	Grade		
		g/t Gold Equivalent	Au g/t	Ag g/t
Measured	130,500	1.4	1.14	10.5
Indicated	19,000	0.9	0.63	11.2
Inferred	45,500	1.3	1.12	5.3
TOTAL	195,000	1.3	1.1	9.3

Harnett Resource - Metal Prices used in Estimates

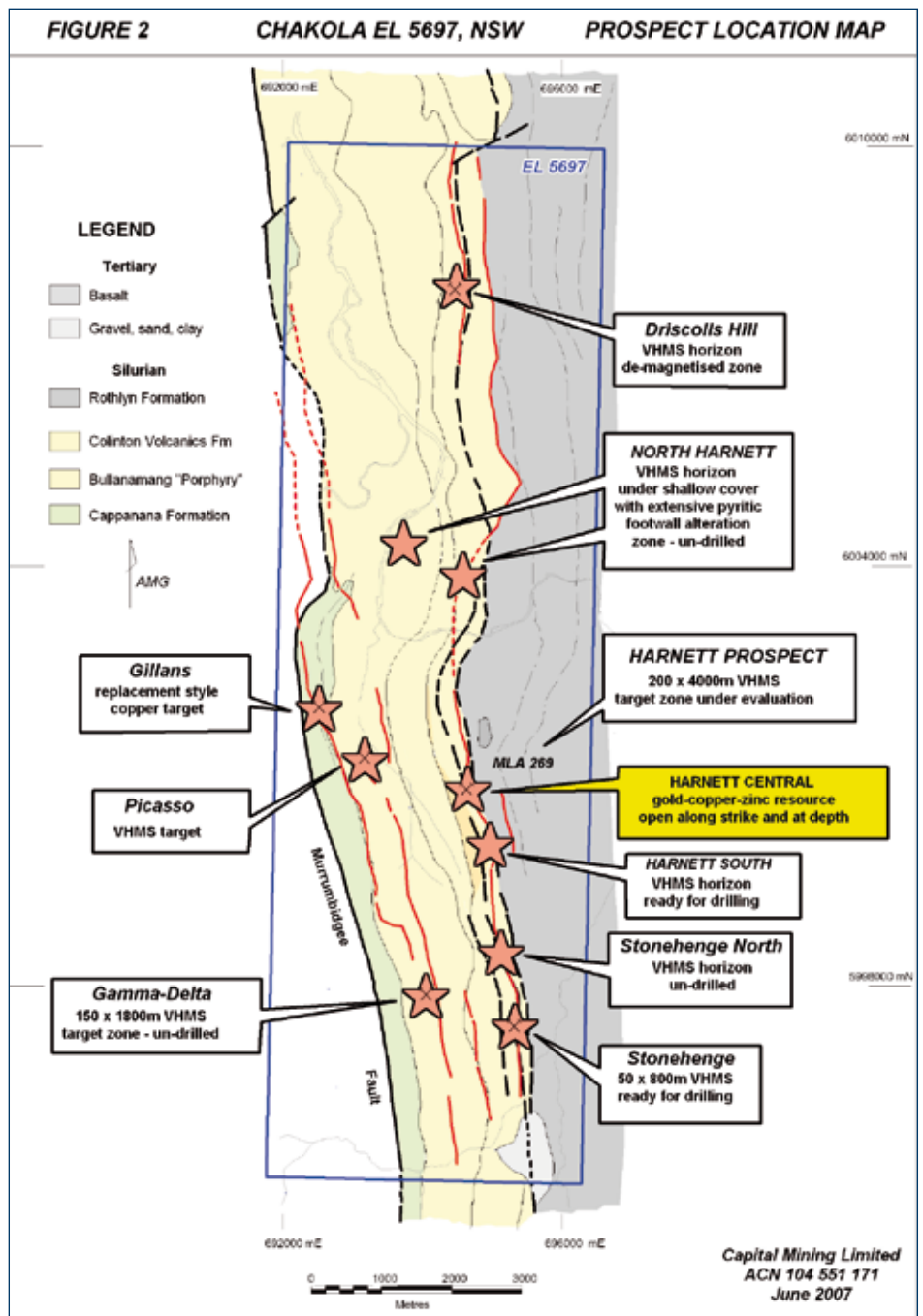
Spot prices at January 2007

Commodity	Gold	Silver	Copper	Lead	Zinc
Symbol	Au	Ag	Cu	Pb	Zn
Price used in estimate \$USD	630/oz	12.7/oz	6300/tonne	1670/tonne	4200/tonne

Following an expert review of metallurgical test results as reported and summarised in the IPO Prospectus, another series of tests was commissioned with the aim of producing a separate zinc concentrate from the bulk sulphide flotation concentrate. Surface analysis of zinc sulphide (sphalerite) particles is in progress at the University of Adelaide's Ian Wark Research Institute. Results are awaited.

In other work, detailed geological mapping was completed at the Gamma-Delta prospect, which lies on a second mineralised horizon some 1200m to the west of the main Harnett – Stonehenge horizon in the southern part of the licence. The most promising exploration target here is a 400m long by 2 to 8m wide zone of banded gossanous material associated with strong sericitic and chloritic alteration zones. Historic drill holes put down in the eighties were not drilled deep enough to intersect the gossanous zone which remains untested and which potentially includes gold, copper and zinc-bearing massive sulphide mineralization at shallow depth.

Rock chip sampling along 1.8km of the line of lode at the Gamma-Delta prospect was completed in July 2007 in conjunction with sampling along 2.8 km of the gossanous line of lode at the Harnett South and Stonehenge prospects. Long laboratory turn-around times have been experienced and assays results are still to be received. Surface indications of mineralization, similar in character and width to that seen at the Harnett prospect, were identified on the mineralised horizon at both the Harnett South and Stonehenge North prospects. Drill targets have been delineated and will be tested as soon as a rig can be obtained to carry out the work.



Review of Operations

NEW SOUTH WALES (Continued)

Narraburra Zirconium - Rare Metals Project

EL 5629 - 11.3 km² ; EL 6787 - 84.7 km²

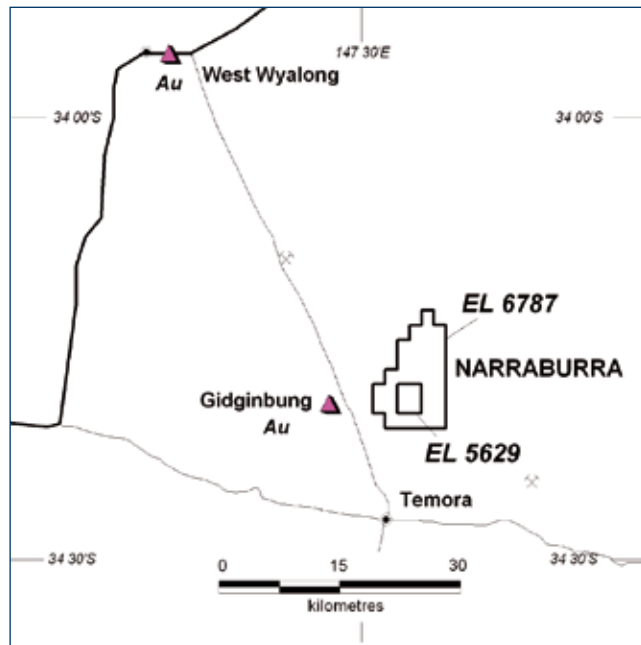
(Narraburra, Trungley Prospects - Capital Mining 100%)

Target commodity Zirconium, niobium, yttrium, thorium, REE, beryllium

Target type Intrusion-hosted rare metals; zircon-enriched heavy mineral sands

Metallogenic Province Tumut Trough Post-Orogenic Igneous Belt

Exploration of EL's 5629 and 6787 (formerly EL 5985) continued during the year for bulk disseminated, granitic intrusion-hosted deposits containing a wide range of commodities with high unit value (i.e. zirconium, hafnium, yttrium, thorium, gallium, tantalum, lithium, beryllium, rubidium and Rare Earth Elements (REE)).

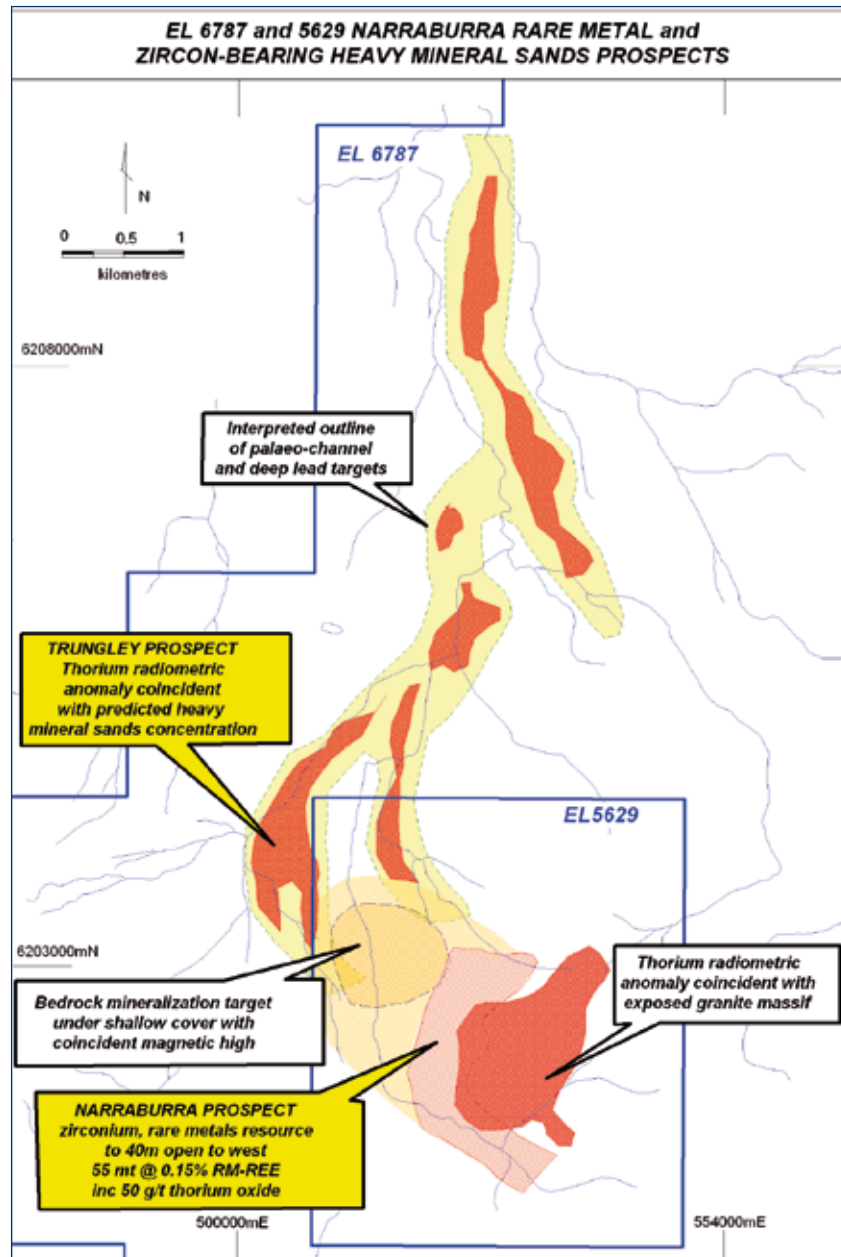


Extensions to the inferred resource at the Narraburra prospect, which were outlined by surface sampling and RC drilling, as reported in the IPO prospectus, remain under evaluation. The resource, which consists of oxide material is entirely in the Inferred category and has been estimated at 55 million tonnes at a grade of 1000 g/t ZrO₂, 60 g/t Y₂O₃, 300 g/t REO, 40 g/t HfO₂, 80 g/t NbO₂ and 50 g/t ThO₂ to a depth of 40 to 50m.

The inferred resource is contained within an area 2100m long by up to 600m wide and is open to the west for much of its length. The bulk of the material is soft

enough to be extracted by strip mining, whereas extraction of any underlying primary material, which is yet to be drill tested and has not been included in the resource.

In EL 6787, the potential for discovery of zircon-bearing heavy mineral sands in Tertiary to Quaternary palaeochannels was confirmed by prospecting and ground radiometric survey at the Trungley prospect to the north.



Key heavy minerals such as zircon, hydrated zirconium silicate, monazite and iron oxides with adsorbed rare metals were identified by microscopic and microprobe analysis of chip samples obtained from the March 2006 drill programme. Heavy mineral separates made from the drill chip material by heavy liquid separation returned high values for zirconium (up to 12.9%), hafnium (up to 0.3%), niobium, yttrium, REE, thorium and uranium.

These positive results confirmed that there is potential to make a gravity concentrate of around 3-5 weight percent from the free-digging, oxidised material which constitutes the resource at the Narraburra prospect.

Drill testing of both weathered bedrock and palaeochannel targets by a combination of auger, aircore and RC drilling methods is proposed.

Review of Operations

NEW SOUTH WALES (Continued)

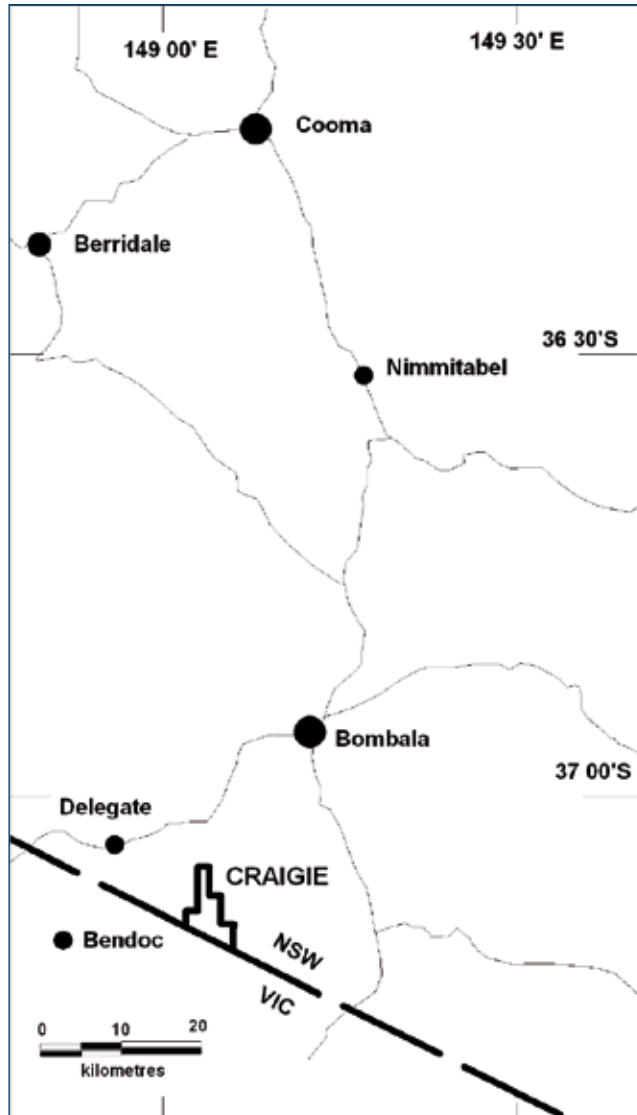
Craigie Alluvial Gold Project

EL 5654 - 29.5 km²

(Shiralee, Little Bog Creek, Craigie Bog Creek - Capital Mining 100%)

Target commodity	Alluvial gold at surface
Target type	Active placer and perched terrace deposits
Metallogenic Province	Southern Highlands Tertiary plateau uplift

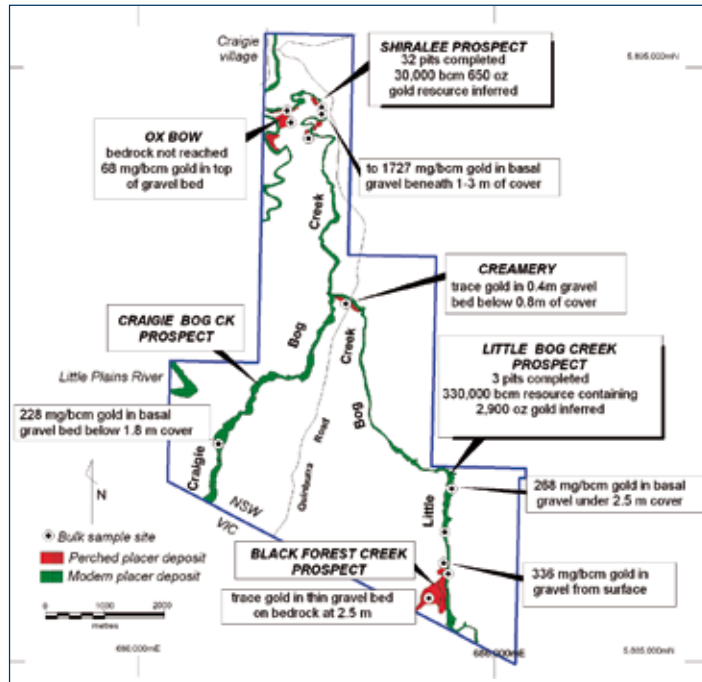
At Craigie, evaluation of alluvial gold deposits is in progress in the historic Craigie Goldfield with a view to establishing reserves for a series of low-cost mining operations. Previous bulk sampling has yielded positive results from gravel deposits on dry terraces and in active stream beds. Grades comparable with those of operating alluvial mines elsewhere in the region have been recorded and medium to coarse native gold grains of high purity (i.e. high fineness) have been recovered. Inferred resources have been outlined.



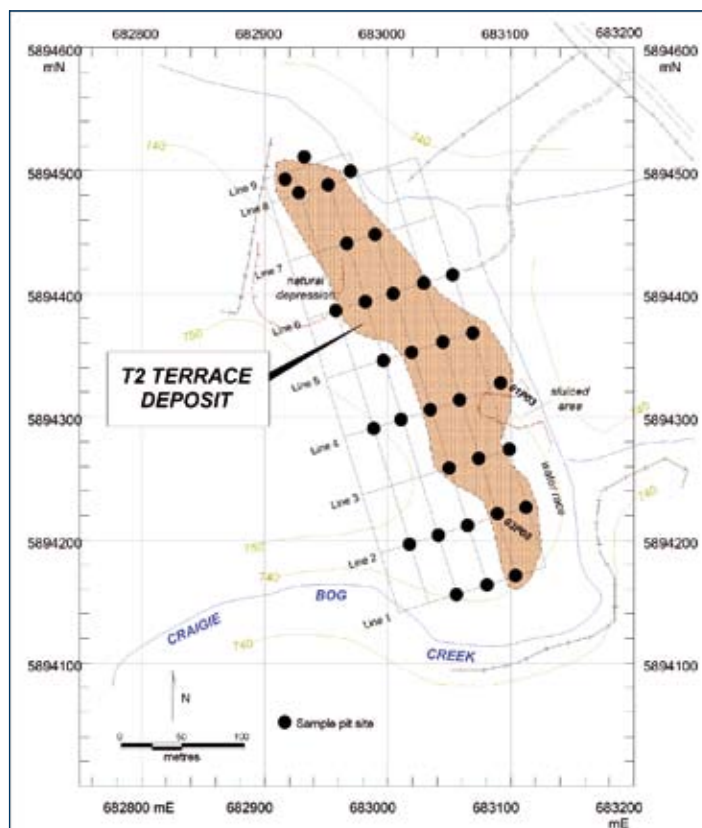
In April 2007, soon after listing, a second-hand mobile alluvial gold processing plant was purchased to facilitate ongoing evaluation of prospects within the tenement. The plant is in excellent condition and is to be used to process samples obtained from a fourth stage of bulk sampling at the two most promising prospects within the licence, the Shiralee and North Little Bog Creek prospects. Work will be concentrated on the Shiralee deposit where the processing plant will be set up and where trenching to depths of from 2 to 5m is proposed.

A flora and fauna survey of the North Little Bog Creek prospect was completed in March 2007 at the request of the Department of Primary Industries. No threatened species were found during the survey and official approval to carry out the proposed Category 3 bulk sampling exploration is awaited. Work programmes have been modified to minimize any potential environmental impact.

CRAIGIE EL 5654, NSW
Prospect Location



CRAIGIE EL 5654, NSW
Shiralee Prospect - Sample Location



Review of Operations

NEW SOUTH WALES (Continued)

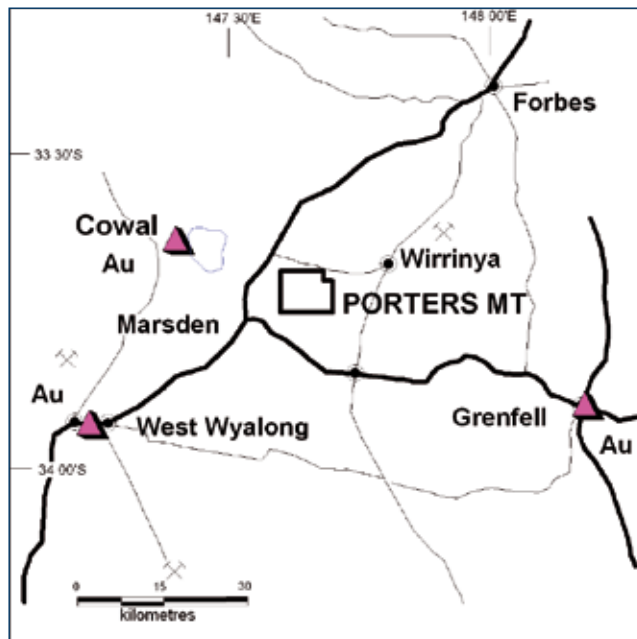
Porters Mount Gold-copper-molybdenum Project

EL 6591 - 65.7 km²

(Capital Mining 100%)

Target commodity	Gold, copper, silver, molybdenum
Target type	Porphyry copper-gold
Metallogenic Province	Temora - Forbes- Parkes Porphyry Copper-Gold Belt

Exploration in EL 6591 is being directed towards the location of gold-copper and copper-molybdenum ore-shells at depth within a large breccia and intrusion related porphyry-style system. The hydrothermal system is highly fractionated and appears to be vertically zoned. The target is a deep, world-class copper-gold-molybdenum deposit that would be amenable to extraction by bulk underground mining methods. Such a target is predicted to lie beneath a cap of mineralised hydrothermal breccias, silica-tourmaline flooded metasediments and felsic intrusions that range in composition from tonalite to quartz monzonite.



A comprehensive review of historic exploration results was completed during the year. The highest ranked target, which was delineated by the study, was a zone of magnetite destructive alteration which is coincident with an Induced Polarization (IP) electrical geophysical anomaly.

The target is interpreted to be a sericite-pyrite (i.e. phyllic) alteration zone surrounding a copper-gold mineralised intrusion with a possible footprint of around 250m diameter. An 800m long diamond core hole, which will provide information on any appreciable changes in indicative mineral alteration

assemblages and key metal ratios with depth, has been designed to test the zone. Drilling has been scheduled for February 2008.

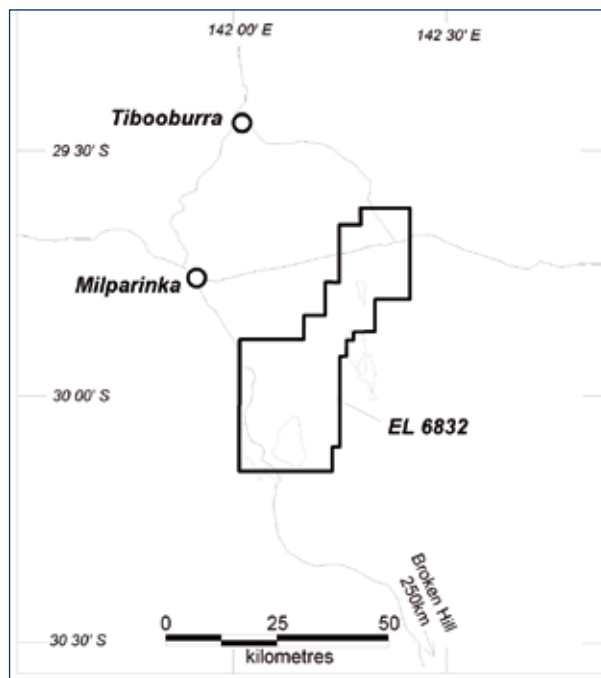
Milparinka Platinum-nickel Project

EL 6832 - 1105 km²

(Capital Mining 100%)

Target commodity	Platinum Group Elements (PGE), nickel, copper, gold
Target type	Layered magmatic and diatreme hosted deposits
Metallogenic Province	Thompson Fold Belt; Bulloo Overflow Depression

The Milparinka licence is an exciting recent addition to the Company's tenement portfolio being located arguably in Australia's last major exploration frontier. World-class platinum-nickel and copper-gold deposits are being targeted within what has been modelled as a very large mafic to ultramafic igneous complex that is totally unexplored.



Located closer to Adelaide than Sydney, the potential magmatic PGE-nickel-copper prospect, which is based on modelling of regional geophysical data, has considerable blue sky potential. The main target zone, an interpreted buried mass of ultramafic to mafic rocks, has a total strike length of 70 kilometres and there is potential for mineral deposits to be located both in the basement and in the overlying sedimentary cover sequence.

EL 6832 is within the recently announced *New Frontiers Thompson Orogen Project Area*¹ of the NSW Department of Primary Industries where work has commenced on a two year programme of investigation to acquire regional geophysical

and remote sensing data sets that are aimed at lowering exploration risk. This focus by the Department will be of considerable advantage to the Company during its ongoing assessment of the tenement.

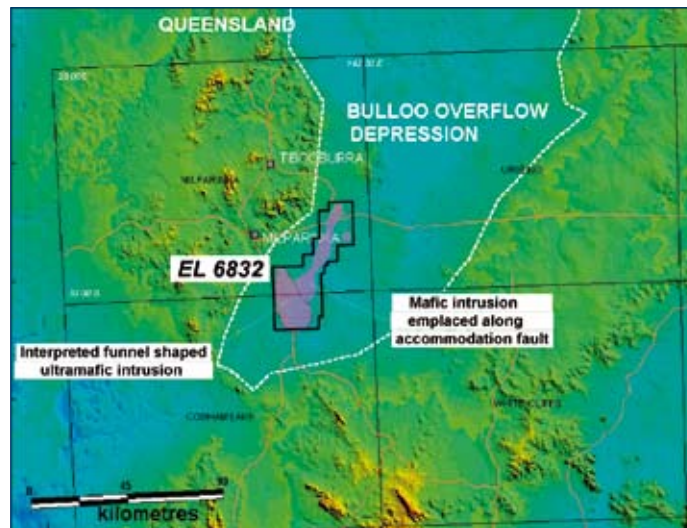
The new licence encompasses a total area of 1,105 square kilometres and covers a complex of coincident gravity and magnetic anomalies that lie beneath sedimentary cover at the south-western end of the Bulloo Accommodation Zone. The latter is a long-lived depositional feature that leads from the Curnamona Craton in South Australia into the Eromanga Basin in southern Queensland.

¹ The New Frontiers Initiative, MINFO, April 2007, NSW Dept. of Primary Industries, Maitland, p4.

Review of Operations

NEW SOUTH WALES (Continued)

Milparinka EL 6832, NSW Conceptual Target Zone on Digital Terrain Map Image



According to interpretations documented in NSW Geological Survey Open File reports dating from 2003, the gravity and magnetic anomalies coincide with a series of mafic and ultramafic masses, the largest of which has been modelled as a funnel shaped intrusion with a density similar to that of material in the upper mantle. The interpreted intrusions appear to have been emplaced into a dilational flexure

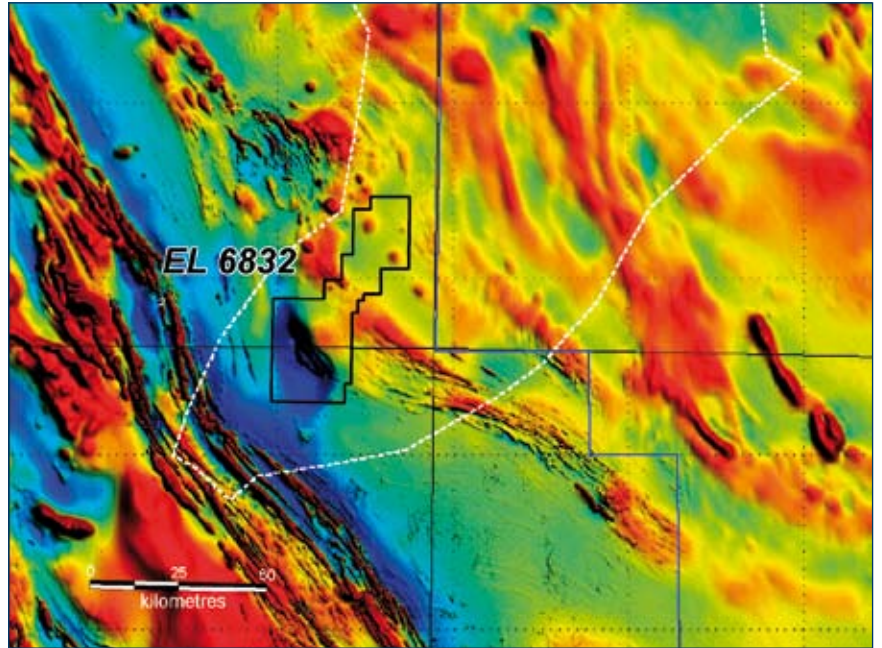
in the basement and also along the Bulloo Overflow Transfer Zone, a major NE trending shear zone. This structural setting is considered to be a very favourable one for the deposition of precious and base metals in a range of different environments.

The modelled funnel shaped intrusion is 20km across and has a cross sectional area of 330km². From this a 50 km long sill or dyke of similar material appears to emanate in a north easterly direction. Such very voluminous magmatic bodies have the potential to host very large nickel-PGE sulphide deposits in breccias (e.g. Aguablanca, Spain) and in layered, magmatic PGE-nickel-copper deposits (e.g. Noril'sk, Russia; Jinchuan, China).

The modelled intrusions in EL 6832 have never been drilled and the nearest recorded exploration hole is 40km to the north of the licence. This hole intersected what was interpreted to be an alkaline, mafic to ultramafic volcanic diatreme (i.e. a pipe or funnel shaped intrusive breccia) at a depth of 414m. Stratabound gold-pyrite mineralisation was also recorded in sediments from the overlying Jurassic cover sequence and the drilling, to a large extent, confirmed the validity of the conceptual model.

The addition of EL 6832 to its portfolio is enthusiastically welcomed by the Board and gives Capital Mining the opportunity to participate in the search for world-class PGE-nickel deposits in one of Australia's totally unexplored "New Frontiers". Evaluation of regional geophysical data and remote sensing imagery has commenced and a drill program aimed at testing this very promising target zone will be implemented as soon as practicable.

Milparinka EL 6832, NSW
Regional Airborne Magnetics Image



Review of Operations

SOUTH AUSTRALIA

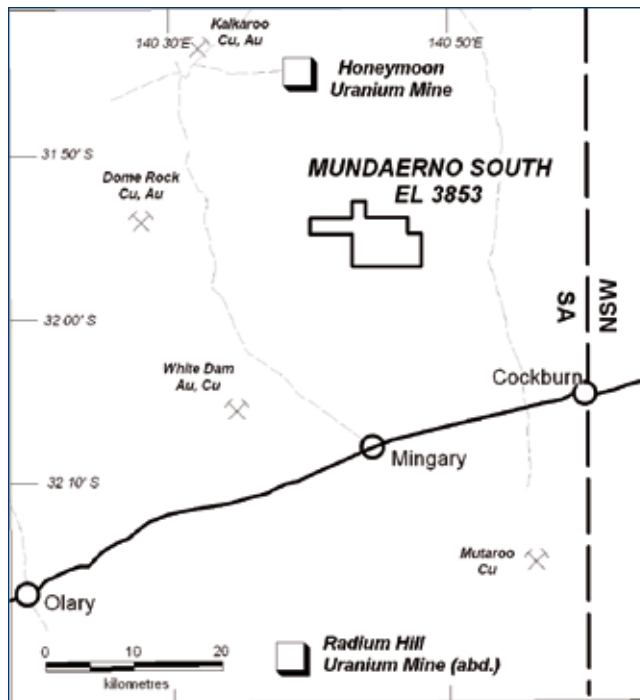
Mundaerno South Project

EL 3853 - 52 km²

(Capital Mining 100%)

Target commodity	Uranium, copper, gold, Rare Earth Elements (REE)
Target type	Calcrete and roll-front sandstone hosted sedimentary uranium deposits; and iron oxide breccia and diatreme copper-gold-uranium-REE deposits
Metallogenic Province	Southern Curnamona Craton

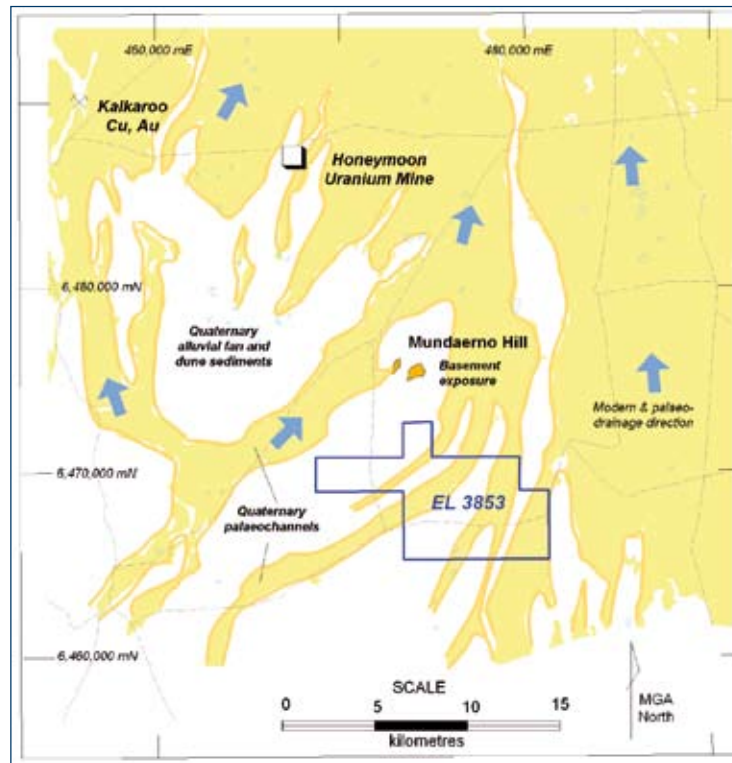
The Mundaerno South licence is another recent addition to the Company's tenement portfolio. Its acquisition represents a move into the search for uranium in a province that includes the world-class deposits of the Honeymoon uranium mine and the former uranium mine at Radium Hill. The tenement is located approximately 385km NE of Adelaide and covers units of the Southern Curnamona Craton, a geological province that includes deformed and metamorphosed granitic and pegmatitic basement units of Mesoproterozoic age that are covered by late-Tertiary to Quaternary alluvial sediments.



The geological setting is favourable for the formation of calcrete hosted uranium deposits in Quaternary valley-fill sediments, as well as sandstone hosted, roll-front type uranium deposits in Tertiary palaeochannels (i.e. analogous to the Honeymoon and East Kalkaroo deposits and other prospects nearby²). According to published geological maps, at least four such palaeochannels cross the tenement from the SW to the NE. These will form the basis for the initial investigation of the tenement.

2 Honeymoon Uranium Project, Environmental Impact Statement, Southern Cross Resources Australia Pty Ltd, 2006. Document published at: www.epa.sa.gov.au/honeymoon.html

Regional Geological Setting



The tenement is also prospective for iron oxide bearing breccia and diatreme copper-gold-uranium-REE deposits (IOCGU style) and shear-hosted style gold-copper deposits on linear features in the basement.

Although the area has been subject to exploration in the past, this has not involved a significant amount of drilling (2 holes recorded) and there is believed to be considerable scope for further investigation of the area. Historical exploration results are being assessed and a work programme to thoroughly explore the area is being drawn up. Regional datasets have been acquired and newly released remote sensing images are to be used to generate drill targets.

Review of Operations

SOUTH AUSTRALIA (Continued)

Coonalpyn Project

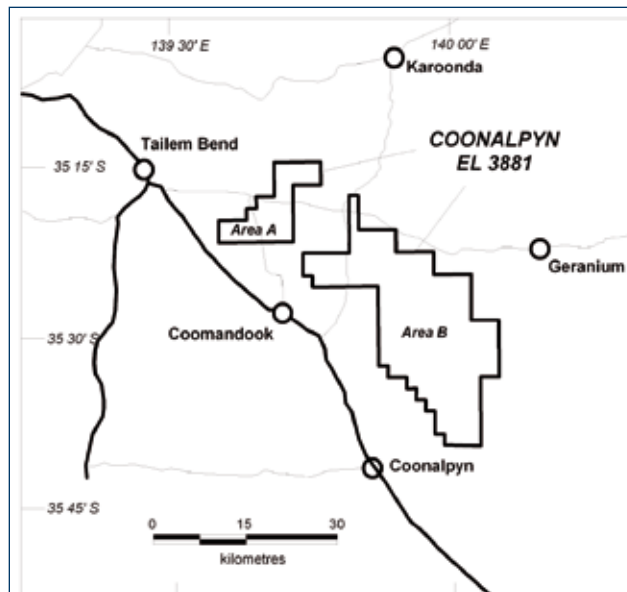
EL 3881 - 625 km²
(Capital Mining 100%)

Target commodity	Uranium, gold, copper, zinc, silver, lead, tin
Target type	Skarns, calcrete & sandstone hosted roll-front, volcanogenic massive sulphide deposits
Metallogenic Province	Southern Delamerian Fold Belt and Murray Basin Provinces

The Coonalpyn licence area is located 120km SE of Adelaide and covers terrain that is considered to be very prospective for deposits of uranium, gold, copper and zinc in basement units of the Southern Delamerian Fold Belt as well as in younger cover sediments of the Murray Basin.

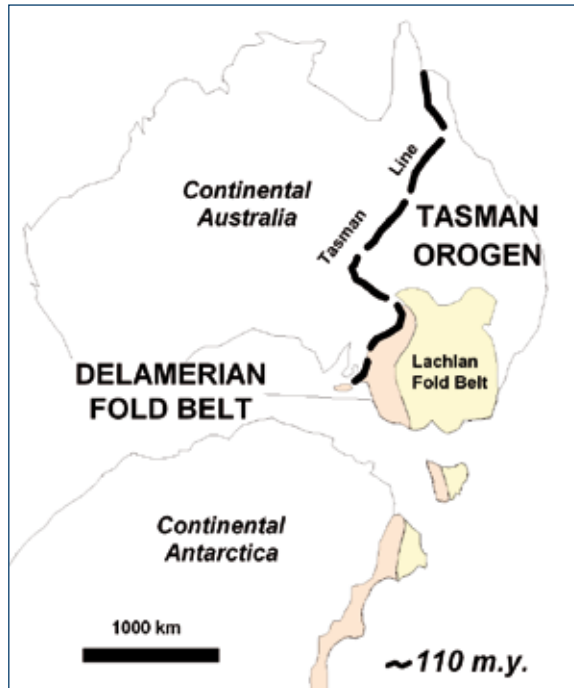
Conceptual targets include:

- Uranium and base metals in skarn and carbonate replacement type deposits;
- Zinc, copper, tin and gold in deposits hosted by volcanics; and
- Uranium deposits in Quaternary valley-fill sediments and Tertiary palaeochannels.



Zinc deposits, associated with what are interpreted to be retrograde skarns within mafic volcanic and limestone units of Cambrian age, have been the subject of historic exploration in the region. The host units extend into EL 3881 and offer potential for the discovery of more deposits along strike.

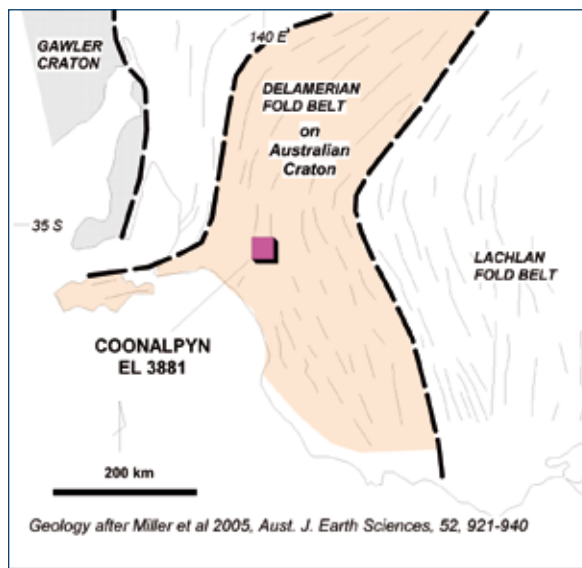
Ancient Tectonic Setting



The regional geological setting of EL 3881 is believed to have been favourable for the development of mineralization of the type targeted since prior to the break up of the supercontinent of Gondwana, as illustrated above, the basement sequence was accumulated on the margins of the Antarctic and Australian Cratons and subsequently deformed and thrust over continental substrate similar to that of the Gawler Craton around 510 to 490 million years ago. As a result, there is potential for deposits of uranium and other metals to have been formed in reactive host rocks such as limestone, in the Cambrian sequence adjacent to deep seated faults or shear zones carrying hyper-saline metalliferous fluids from the underlying continental basement. Also in such an

environment, there is also potential for uranium to have been remobilized from the basement and accumulated in palaeochannels and roll-front type deposits in the younger cover sequence.

Regional Geological Setting



The addition of EL 3881 to its portfolio completes a round of new acquisitions for Capital Mining and gives the Company the opportunity to evaluate new concepts in a relatively under explored part of South Australia. Assessment of regional geophysical data and remote sensing imagery has begun, previous exploration results are being reviewed and work programmes including drilling to test this very promising target zone will be drawn up and implemented as soon as practicable.

Director's Report

Your Directors present the financial report of the Company for the period ended 30 June 2007.

The following persons hold office as Directors at the date of this report and throughout the period. Their qualifications and experience are:

Richard Hine

BSc, PhD, MAusIMM, MGSA, MSEG,

Chairman of the Board

Dr Hine has had over 30 years of broad experience in the minerals industry as a project geologist, researcher, exploration manager and company director. He has a PhD in economic geology and is a graduate of the Australian National University and the James Cook University of North Queensland.

Dr Hine has specialist skills in exploration management, ore deposit and prospect evaluation, terrane analysis, regional target selection, exploration data synthesis, ore petrology, mineralogy and conceptual analysis. He has worked on a wide range of deposit types and mineral commodities that include: porphyry, epithermal and skarn style copper, molybdenum and gold deposits; volcanic-hosted massive sulphide copper, lead and zinc deposits; disseminated, vein and skarn style tin and tungsten deposits; alluvial gold and tin; and intrusion related rare metal and REE deposits.

Over the years, Dr Hine's training has come from the teaching and guidance of many high-profile academics and respected industry colleagues. Since graduation he has worked in Papua New Guinea, the Philippines, Indonesia, Malaysia, Western Europe, New Zealand, the Fiji Islands and Eastern and Central Australia. Most of his career has been spent in exploration of the Tasman Orogenic Zone as a company employee and lately as a consultant. He has specialist knowledge of the mineralisation of the Lachlan Fold Belt of New South Wales and Victoria and is well versed in the many aspects of mineral production through his participation in the development of the Junction Reefs group of gold mines in the nineties.

Dr Hine is a long standing Member of the Australasian Institute of Mining and Metallurgy, the Geological Society of Australia and the Society of Economic Geologists. He is the Managing Director of Heemskirk Resources Pty Limited, which he established in 1999 to pursue exploration opportunities in New South Wales and to provide a consulting and management service to the minerals industry. Dr Hine is a "Competent Person" as defined in the JORC Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves who has had more than five years experience which is relevant to all of the deposit types and styles of mineralisation referred to in this Prospectus.

Robert McCauley

BSc, Licensed Surveyor, MIS Aust, Cert. Prof.SSI, MRICS

Chief Executive Officer

Mr McCauley was appointed Managing Director of Capital Mining Limited in May 2006. He is also a director of Chakola Gold Pty Ltd and Principal of Robert J McCauley & Associates Consulting Surveyors.

Mr McCauley has over the past 27 years been involved in a capacity as either Principal/consultant, senior staff or staff positions to numerous companies such as Worsley Alumina Pty Ltd, Sir Alexander Gibb & Partners, BHP Ltd, Layton Seismic Services and Boral Limited on major infrastructure, mining and seismic exploration projects and areas such as the Boddington Gold Mine (WA); Monasavu Electric Scheme, Fiji; the North West Shelf Liquified Natural Gas Plant (WA); Dongara (WA); Lake Frome (SA); and Murrumbateman (NSW).

Mr McCauley has a broad range of experience and contacts in both the private and public sectors. He has been Manager of Robert J McCauley & Associates (land, mining & engineering surveyors) since 1991 and has held positions such as President of the Institution of Surveyors Australia, Canberra Division including nominee for the Canberra Business Council; Member (ministerial nominee) of the statutory Surveyors' Board of the Australian Capital Territory and Chairman of the Australian Council of Professions, ACT Branch. He is a graduate of W.A.I.T./ Curtin University; a Licensed Surveyor; a Member of the Institution of Surveyors, Australia, a Certified Professional of the Spatial Sciences Institute and a Member of the Royal Institution of Chartered Surveyors.

Christopher Ablett

Registered Surveyor, Cert. Mining, MAusIMM, MISAust

Director

Mr Ablett is a Registered Surveyor who has been associated with the mining and exploration industry since the late 1960's. He has considerable experience in mine site, open pit and underground mine survey and in quantity surveying. Mr Ablett has worked on mining projects in Western Australia, the Northern Territory, the eastern Australian states and Fiji. He has held a number of senior staff positions with several large gold and base metal mines including Emperor Gold Mines Ltd, Cleveland Tin Ltd and at other mines run by the former Peko-Wallsend Group.

Mr Ablett formed his own private company, Ablex Pty Ltd, in 1984 as a service provider for the mining and surveying industries and to look for exploration opportunities in eastern Australia. During this time Mr Ablett has participated at a grass roots level on several significant exploration projects most recently at the Cowal Gold Project and at the Adelong Gold Project in New South Wales. He has provided contract supervision for surface and underground mining and exploration operations.

Mr Ablett is committed to the Mining Industry and believes Australia provides an excellent environment for exploration and the development of mineral resources. Mr Ablett is a Member of the Australasian Institute of Mining and Metallurgy and the Institute of Surveyors Australia and is the Managing Director of Ablex Pty Ltd.

John Keppo
Company Secretary

John Keppo was appointed company secretary on 6 July 2007 and has over 40 years experience in the banking and finance industry, with the last seven years in a variety of roles with ASX public listed companies operating in the mining and exploration sector. His work experience covers areas in Australia, China and Papua New Guinea.

Directors' Interests in Shares and Options

Directors' interests in shares and options as at 30 June 2007 are set out in the table below. Between the end of the financial year and the date of this report, Richard Hine has subscribed for Nil shares, Robert McCauley for Nil shares and Christopher Ablett for Nil shares.

Director	Shares Directly and Indirectly Held	Options
Richard Hine	9,000,000	–
Robert McCauley	4,150,000	500,000
Christopher Ablett	6,000,000	–

Activities

The continuing principal activity of the Company is the exploration for economic deposits of minerals. For the period of this report, the emphasis has been on gold and base metals, to a lesser extent, rare metals.

Results

The net result of operations after applicable income tax expense was a loss of \$148,457.

Dividends

No dividends were paid or proposed during the period.

Review of Operations

A review of the operations of the Company during the financial period and the results of those operations are contained in pages 4 to 19 in this report.

Corporate Structure

Capital Mining Limited is a limited company that is incorporated and domiciled in Australia.

Employees

The Company had one employee as at 30 June 2007. The Company uses contract geologists and other consultants as required.

Significant Changes

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

Matters Subsequent to the End of the Financial Period

There were at the date of this report no matters or circumstances which have arisen since 30 June 2007 that have significantly affected or may significantly affect:

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

except as set out below:

- 1) On 27 August 2007 Capital Mining Limited announced the issue of 2 million 20 cent exercise price options by way of a placement to advisers and supporters who assisted in the Company's successful listing on the ASX earlier this year. The Options were issued on similar terms to those being issued under a prospectus of a non-renounceable 1:3 entitlement to existing shareholders (see item 2 below). The options were issued at 1 cent and have approximately a three year term and expire on 18 October 2010. This placement raised \$20,000.00.
- 2) On 29 August 2007 Capital Mining Limited announced and released a Short Form Prospectus in relation to a non-renounceable 1:3 entitlement offer of 20 cent exercise price options to existing shareholders as at a record date of 24 September 2007. These Options will be issued at a price of 1 cent and will have a three year maturity, expiring on 18 October 2010. It is anticipated that if all eligible shareholders take up the offer, there will be 13,203,500 options issued, raising an additional \$132,035.

Likely Developments and Expected Results

As the Company's areas of interest are at an early stage of exploration, it is not possible to postulate likely developments and any expected results. The Company is hoping to identify other precious and base metal exploration and evaluation targets.

Director's Report

Remuneration Report

The remuneration report is set out under the following main headings:

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

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

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

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

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

Board and Senior Management

Fees and payments to the non-executive directors and senior executives reflect the demands which are made on, and the responsibilities of, the directors and the senior management. Such fees and payments are reviewed annually by the Board. The executive and non executive directors, senior executives and officers are entitled to receive options under the company's employee share option scheme.

(b) Details of remuneration

Directors' and Executives' Remuneration

Directors are entitled to remuneration out of the funds of the Company but the remuneration of the Non-Executive Directors may not exceed in any year the amount fixed by

the Company in general meeting for that purpose. The aggregate remuneration of the Non-Executive Directors has been fixed at a maximum of \$200,000 per annum to be apportioned among the non-executive directors in such a manner as they determine (refer below). Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at Board meetings and otherwise in the execution of their duties as directors.

No executive or non-executive Directors fees were paid for the 2006 - 2007 year.

Details of the nature and amount of each element of the remuneration of each of the directors of Capital Mining Limited and each of the five senior executives of the company and the consolidated entity who received the highest emoluments during the year ended 30 June 2007 are set out in the following tables.

Table 1: Director and Senior Executive Remuneration

Directors of Capital Mining Limited	Directors' Fees \$	Salaries \$	Consulting Fees \$	Super Cont. \$	Options \$	Shares \$	Total \$
Richard Hine	–	–	23,220	–	–	–	23,220
Robert McCauley	–	15,995	–	1,395	86,250	–	103,640
Christopher Ablett	–	–	9,570	–	–	–	9,570
Senior executives of the company							
Nil	–	–	–	–	–	–	–
Total	–	15,995	64,948	1,395	86,250	–	168,588

1. Options and shares do not represent cash payments to directors or senior executives and share options granted may or may not be exercised by the directors or executives.

Table 2: Options and shares granted as part of remuneration

Options	Grant date	Grant number	Vest date	Value per option at grant date	Exercised number	Value per option at exercise date \$	Value at date option lapsed \$	% of remuneration
Robert McCauley	22.3.2007	250,000	22.3.2007	\$0.175	–	–	–	42.21
Robert McCauley	22.3.2007	250,000	22.3.2007	\$0.17	–	–	–	41.01

These Options were not granted under the Employee Share Option Plan and the terms of the Options are covered in the Notice of Extraordinary General Meeting Explanatory Memorandum sent to shareholders on 9 May 2007.

The value of the options granted have been recognised as expenses in the financial statements and are expensed, resulting in an increase in employee benefits expense of \$86,250 for the 2007 financial year.

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

Fair value of options

The fair value of each option is estimated on the date of grant using a Black & Scholes option-pricing model with the following weighted average assumptions used for grants of the options made on 6 June 2007. For the purposes of determining fair value of the options, the company's closing share price on 22 March 2007 has been used in the calculations. This is the date that the Options were deemed to be available for issue as described in the Notice of Meeting document dated 18 April 2007. In determining the value, no discount has been applied for lack of marketability as it is assumed the incentive options will be retained until the exercise date (i.e. are not transferable). At the grant date, 22 March 2007, the share price of CMY was \$0.21 and the intrinsic value of the options was Nil:

Dividend yield	0.0%
Expected volatility	106.57%
Risk –free interest rate	5.85%
Expected life of option	5 years

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

The resulting weighted average fair values per option for those options vesting after 1 July 2005 are:

Grant Number	Grant Date	Expiry Date	Weighted average value per option
250,000	22.3.2007	22.3.2012	\$0.175
250,000	22.3.2007	22.3.2012	\$0.17
500,000			

These fair values of the options are recognised as expenses in the financial statements and are expensed, resulting in an increase in employee benefits expense of \$86,250 for the 2007 financial year.

(c) Service agreements

Remuneration and other terms of employment for the directors and executives are formalised in Service/Appointment agreements.

All contracts with executives may be terminated early by either party with the stipulated number of months notice, subject to termination payments as detailed below.

Dr Richard Hine

By Letter of Engagement dated 28 August 2006 Capital Mining Limited engages Heemskirk Resources Pty Limited, a company associated with Richard Hine, to provide company management, exploration management and mining project management services at the rate of \$60 per hour (plus GST). This rate is subject to amendment each year in line with a review of work carried out and movements in industry rates charged for services.

One months notice is required from either party to terminate the agreement unless otherwise agreed by the parties. Heemskirk Resources Pty Limited received payments and benefits totalling \$23,220.

Director's Report

Robert McCauley

By an agreement dated 15 August 2006, Capital Mining Limited employs Mr McCauley as Executive Director for a period of one year from the date of listing on ASX (being 20 March 2007). Mr McCauley's remuneration consists of a salary of \$57,500pa (plus statutory superannuation) plus the fees payable to Non-Executive Directors, plus issue of the following options at a time after listing on ASX and subject to shareholder approval:

- 250,000 options at an exercise price of 25 cents
- 250,000 options at an exercise price of 30 cents

Both are for term of 5 years.

Certain termination clauses are included in the agreement, termination by either party may take place by way of either 14 days or one months notice depending on circumstances.

Mr McCauley received payments and benefits totalling \$103,640 in his role as director of the company. As stated above, no discount was applied to the option value calculations.

Christopher Ablett

By Letter of Engagement dated 31 August 2006, Capital Mining engages Ablex Pty Limited, a company associated with Christopher Ablett, to provide project management, mining and surveying services at the rate of \$60 per hour (plus GST). His rate is subject to amendment each year in line with a review of work carried out and movements in industry rates charged for services.

One months notice is required from either party to terminate the engagement unless otherwise agreed by the parties.

Capital Mining will reimburse Ablex for any reasonable direct costs incurred by Ablex in undertaking Capital Mining's work, including travel, accommodation and sustenance, courier and postage costs, telephone and facsimile costs.

Ablex Pty Limited received payments and benefits totalling \$9,570.

d) Share Options

At 30 June 2007 the company had granted options over 500,000 unissued shares to directors, all issued in the 2007 financial year. These are:

Robert McCauley – 250,000 exercise price 25 cents

Robert McCauley – 250,000 exercise price 30 cents

These were granted on 22 March 2007 and expire 22 March 2012.

Directors' Interests

The relevant interest of each Director (including their associates) in the share capital of the company as at 30 June 2007 are set out in note 15 to the financial statements.

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

Fair values have been assessed using the Black and Scholes option valuation methodology which takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the options, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. No discount has been applied.

Share Capital and Options

A detailed breakdown of the company's capital, including options (unquoted options and employee options) and convertible instruments is contained in Note 11 to the Financial Statements.

Meetings of Directors

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

Director	Meetings Eligible to Attend	Meetings Attended
Richard Hine	9	9
Robert McCauley	9	9
Christopher Ablett	9	9

The Company has no Audit Committee due to its size, and the Board reviews the Company's financial systems, accounting policies, half-year and annual financial statements and reviews these at appropriate times.

Directors, Officers, Senior Employees and Consultants Share Option Plan

The Company has established the Capital Mining Limited Employee Share Options Plan ("Plan") to assist in the attraction, retention and motivation of employees of the Company and its related bodies corporate. No options have been granted under the Plan as at the date of this report.

A summary of the rules of the Plan is as follows:

- All employees (full and part-time) will be eligible to participate in the Plan after a qualifying period of 12 months employment by a member of the Group, although the Board may waive this requirement.
- The allocation of options under the Plan is at the discretion of the Board.
- If permitted by the Board, options may be issued to an employee's nominee (for example, to a spouse or family company).
- Each option is to subscribe for one fully paid ordinary share in the Company and will expire five years from its date of issue. An Option is exercisable at any time from its date of issue.

- e) Options will be issued free. The exercise price of options will be determined by the Board subject to a minimum price equal to the market value of the Company's shares at the time the Board resolves to issue the options. The total number of shares the subject of options issued under the Plan, when aggregated with other options issued under the Plan during the previous five years must not exceed five percent of the Company's issued share capital.
- f) If, prior to the expiry date of the options, a person ceases to be an employee of a Group company for any reason other than retirement at age 60 or more (or such earlier age as the Board permits), permanent disability, redundancy or death, the options held by that person (or the person's nominee) must be exercised within one month thereafter otherwise they will automatically lapse. If a person dies, the options held by that person will be exercisable by that person's legal personal representative.
- g) Options cannot be transferred other than to the legal personal representative of a deceased Option holder.
- h) The Company will not apply for official quotation of any options.

The Board may amend the Plan rules at any time subject to the requirements of the ASX Listing Rules.

Indemnification and Insurance of Directors and Officers

During the financial year, the Company has paid premiums in respect of a contract insuring all the Directors against legal costs incurred in defending proceedings for conduct involving:

- 1) wilful breach of duty; or
- 2) a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

It is a term of the policy that the Company cannot disclose the premium paid for the cover.

Environmental Performance

Capital Mining Limited holds exploration licences issued by the Mines Departments of one state government (NSW) which specify guidelines for environmental impacts in relation to exploration activities. The licence conditions provide for the full rehabilitation of the areas of exploration in accordance with the various Mines Departments' guidelines and standards. There have been no significant known breaches of the licence conditions.

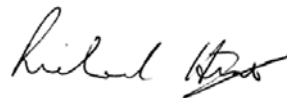
Auditor's Independence and Non-Audit Services

The following non-audit services were provided by the Company's auditor, Barnes Dowell James. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. The Directors received a declaration of independence from the auditors of Capital Mining Limited. It is located on the following page and forms part of this report.

Barnes Dowell James received or are due to receive the following amounts for the provision of non-audit services:

Independent Accountant's report: \$4,534

Signed at Sydney this 28th day of September 2007 in accordance with a resolution of the Directors.



Richard Hine
Chairman

Income Statement

For year ended 30 June 2007

	Note	2007 \$	2006 \$
REVENUE	2	51,433	16,877
Administration expenses		(61,400)	(6,928)
Consultant expenses		(12,697)	(2,590)
Depreciation		(756)	–
Exploration expenses		–	(112,813)
Salaries and employee benefits expense		(17,390)	–
Share base payments		(86,250)	–
Travel and accommodation		(21,397)	(6,701)
(Loss) Before Income Tax Expense		(148,457)	(112,155)
Income Tax Expense	3	–	–
(Loss) After Income Tax Expense	13	(148,457)	(112,155)
Net (Loss) Attributable To Members Of Capital Mining Ltd		(148,457)	(112,155)
Basic loss per share (cents per share)	13		
Diluted loss per share (cents per share)	13		

Balance Sheet

As at 30 June 2007

	Note	2007 \$	2006 \$
CURRENT ASSETS			
Cash assets	5	3,148,231	263,958
Receivables	6	25,458	4,279
Prepaid Expenses		7,785	–
Total Current Assets		3,181,474	268,237
NON-CURRENT ASSETS			
Formation expenses		329	658
Tenement security deposits	7	70,000	–
Other security deposits		2,380	–
Plant and equipment	8	39,244	–
Deferred exploration and evaluation expenditure	9	143,304	–
Total Non-current Assets		255,257	658
Total Assets		3,436,731	268,895
CURRENT LIABILITIES			
Payables	10	35,985	1,646
Total Current Liabilities		35,985	1,646
Total Liabilities		35,985	1,646
Net Assets		3,400,746	267,249
EQUITY			
Issued capital	11	3,740,804	545,100
Accumulated losses		(426,308)	(277,851)
Reserves	12	86,250	–
Total Equity		3,400,746	267,249

Statement of Cash Flows

Year ended 30 June 2007

	Note	2007 \$	2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payment for exploration and evaluation		–	(124,896)
Payment to suppliers and employees		(107,180)	(7,940)
Interest received		51,433	16,877
Net Cash Flows Used In Operating Activities	22	(55,747)	(115,959)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(40,000)	–
Expenditure on mining interests (exploration)		(143,304)	–
Other security deposits		(2,380)	–
Tenement security deposits		(70,000)	–
Net Cash Flows Used In Investing Activities		(255,684)	–
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		3,422,100	25,000
Equity raising expenses		(226,396)	–
Net Cash Flows From Financing Activities		3,195,704	25,000
Net increase in cash held		2,884,273	(90,959)
Add opening cash brought forward		263,958	354,917
Closing Cash Carried Forward	22	3,148,231	263,958

Statement of Changes in Equity

Year ended 30 June 2007

	Attributable to the shareholders of Capital Mining Limited			
	Issued Capital \$	Accumulated Losses \$	Reserves \$	Total Equity \$
AT 1 JULY 2005	146	(165,696)	519,954	354,404
Loss for the period	–	(112,155)		(112,155)
Cost of share based payments taken directly to Equity	–	–	–	–
Issue of share capital	544,954		(519,954)	25,000
AT 30 JUNE 2006	545,100	(277,851)	–	267,249

	Attributable to the shareholders of Capital Mining Limited			
	Issued Capital \$	Accumulated Losses \$	Reserves \$	Total Equity \$
AT 1 JULY 2006	545,100	(277,851)	–	267,249
Cost of share based payments taken directly to Equity	–	–	86,250	86,250
Issue of share capital	3,422,100	–	–	3,422,100
Share issue costs	(226,396)			(226,396)
AT 30 JUNE 2007	3,740,804	(426,308)	86,250	3,400,746

Notes to and Forming Part of the Accounts

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards.

The financial report has been prepared on a historical cost basis except for land and buildings, which have been measured at fair value.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

This financial report has been prepared based on AIFRS and is also the first report for the company as a listed entity. There are no reconciliations applicable to prior periods that would be affected under AIFRS.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Capital Mining Limited and its subsidiaries ("the Group") as at 30 June each year. There were no subsidiaries held as at 30 June 2007.

The financial statements of any subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full.

Subsidiaries are fully consolidated from date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(d) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- plant and equipment – 15 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An item of plant and equipment is derecognised upon disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(e) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(f) Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the "administrative expenses" line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

(g) Recoverable amount of assets

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

Recoverable amount is the greater of fair value less costs to sell and value in use.

(h) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date, being the date that the Group commits to purchase the asset.

(i) Exploration, evaluation, development and restoration costs

Exploration and evaluation

Exploration and evaluation expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific connection with a particular area of interest.

Exploration and evaluation costs in relation to separate areas of interest for which rights of tenure are current are brought to account in the year in which they are incurred and carried forward provided that:

- such costs are expected to be recouped through successful development and exploitation of the area, or alternatively through its sale; or
- exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area interest is aggregated within costs of development.

Exploration and evaluation – impairment

The Directors assess at each reporting date whether there is an indication that an asset has been impaired and for exploration and evaluation cost whether the above carry forward criteria are met.

Accumulated costs in respect of areas of interest are written off or a provision made in the Income Statement when the above criteria do not apply or when the Directors assess that the carrying value may exceed the recoverable amount. The costs of productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis, provisions would be reviewed and if appropriate, written back.

Development

Development expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure having a specific connection with the development property.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of that property, is reasonably assured.

No amortisation is provided in respect of development properties until a decision has been made to commence mining. After this decision, the costs are amortised over the life of the area of interest to which such costs relate on a production output basis.

Restoration

Provisions for restoration costs are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected 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.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Notes to and Forming Part of the Accounts

Remaining mine life

In estimating the remaining life of the mine at each mine property for the purpose of amortisation and depreciation calculations, due regard is given not only to the volume of remaining economically recoverable reserves but also to limitations which could arise from the potential for changes in technology, demand, product substitution and other issues that are inherently difficult to estimate over a lengthy time frame.

(j) Mine property held for sale

Where the carrying amount of mine property and related assets will be recovered principally through a sale transaction rather than through continuing use, the assets are reclassified as Mine Property Held for Sale and carried at the lower of the assets' carrying amount and fair value less costs to sell – where such fair value can be reasonably determined, and otherwise at its carrying amount. Liabilities and provisions related to mine property held for sale are similarly reclassified as Liabilities – Mine Property Held for Sale and, Provisions – Mine Property Held for sale, as applicable, and carried at the value at which the liability or provisions expected to be settled.

(k) Trade and Other Receivables

Trade receivables, which generally have 5-30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(l) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts, if any.

(m) Other provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money 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.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(n) Employee Entitlements

Liabilities for wages and salaries are recognised and are measured as an amount unpaid at the reporting date at current pay rates in respect of employee's services up to that date. Current employee contracts do entitle them to annual leave and long service leave. A liability in respect of superannuation at the current superannuation guarantee rate has been accrued at the reporting date.

(o) Share-based payments

An employee share option scheme has been established where selected employees, consultants, contractors and Directors of the Company are issued with options over ordinary shares in Capital Mining Limited. The options, issued for nil consideration, are issued in accordance with a performance review by the Directors. The options cannot be transferred and will not be quoted on the ASX. Options expire if not exercised 1 month after a participant resigns from the Company. The cost of these equity-settled transactions is determined by reference to the fair value at the date at which they are granted. The fair value of the options is determined by using the Black and Scholes option pricing model.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (a) the extent to which the vesting period has expired and (b) the number of awards 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. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. The Company has applied the requirements of AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" in respect of equity-settled awards and has applied AASB 2 "Share-Based Payments" only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

(p) Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(q) Revenue

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(r) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(s) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Notes to and Forming Part of the Accounts

(t) Currency

Both the functional and presentation currency is Australian dollars (A\$).

(u) Comparatives

Where applicable, comparative figures have been adjusted to conform with any changes in presentation for the current financial year.

(v) Investment in Controlled Entities

The Company's investment in its controlled entities is accounted for under the equity method of accounting in the Company's financial statements. There were no investments in controlled entities as at 30 June 2007.

	2007 \$	2006 \$
2. REVENUE FROM ORDINARY ACTIVITIES		
Interest received – other persons/corporation	51,433	16,877
	51,433	16,877
3. INCOME TAX		
(a) Income tax expense		
Current tax	–	–
Deferred tax	–	–
(Over) under provision in prior years	–	–
	–	–
Income tax expense is attributable to:		
Profit from continuing operations	–	–
Aggregate income tax expense	–	–
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Losses from continuing operations before income tax expense	–	–
Tax at the Australian tax rate of 30%	–	–
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:	–	–
Additional deductions	–	–
(Over) under provision prior year	–	–
Non-allowable deductions	–	–
Other	–	–
Income taxes not brought to account	–	–
(c) Current tax liabilities		
Balance at beginning of year	–	–
Income tax paid	–	–
Current year's income tax on profit	–	–
Under (over) provided in prior year	–	–
Balance at end of year	–	–

No provision for income tax is considered necessary in respect of the Company for the period ended 30 June 2007.

No recognition has been given to any future income tax benefit which may arise from operating losses not claimed for tax purposes. The Company has estimated its losses not claimed of \$426,308. These amounts have not been brought to account in calculating any future tax benefit.

A benefit of 30% of approximately \$127,892 will only be obtained if:

- the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised,
- the Company continues to comply with the conditions for deductibility imposed by the law, and
- no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses, i.e. current tax legislation permits carried forward tax losses to be carried forward indefinitely.

No franking credits are available for subsequent years.

Tax consolidation

The Tax Consolidation scheme is not applicable to the company.

	2007 \$	2006 \$
4. AUDITORS' REMUNERATION		
Total amounts receivable by the current auditors of the Company for:		
Audit of the Company's accounts	5,000	–
Other services – Independent Accountant's Report for IPO Prospectus	4,534	–
	9,534	–
5. CASH AND CASH EQUIVALENTS		
Cash at Bank	348,231	155,722
Cash on Deposit	2,800,000	108,236
	3,148,231	263,958
6. RECEIVABLES – CURRENT		
Interest	–	–
Refund for GST paid	25,458	4,279
	25,458	4,279
7. TENEMENT SECURITY DEPOSITS		
Cash with government mines department	70,000	–

These deposits are restricted so that they are available for any rehabilitation that may be required on exploration tenements (refer to Note 20).

Notes to and Forming Part of the Accounts

	2007 \$	2006 \$
8. PLANT AND EQUIPMENT		
Plant and equipment – at cost	40,000	–
Accumulated depreciation	(756)	–
	39,244	–
Reconciliation of the carrying amount of plant and equipment at the beginning and end of the current and previous financial year		
Carrying amount at beginning	–	–
Additions	40,000	–
Disposals	–	–
Depreciation expense	(756)	–
	39,244	–
9. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE		
Costs brought forward	–	–
Costs incurred during the period	143,304	–
Costs carried forward	143,304	–
Exploration expenditure costs carried forward are made up of:		
Expenditure on joint venture areas	–	–
Expenditure on non joint venture areas	143,304	–
Costs carried forward	143,304	–

The above amounts represent costs of areas of interest carried forward as an asset in accordance with the accounting policy set out in Note 1. The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

	2007 \$	2006 \$
10. CURRENT LIABILITIES – PAYABLES		
Trade creditors		
Accrued expenses	5,000	–
Loan to Heemeskirk Resources Pty Ltd	1,646	1,646
PAYG Tax withheld payable	3,408	–
	35,985	1,646
11. CONTRIBUTED EQUITY		
Share capital		
39,610,500 ordinary shares fully paid	3,740,804	545,100

Movements in ordinary share capital	Date	Number of shares	Issue price	\$
Shares issued to initial Shareholders	01-07-06	150	Various	545,100
Shares split (150,000 for 1) for initial shareholders	20-03-07	22,499,850	–	–
Shares issued for cash in IPO	20-03-07	17,110,500	\$0.20	3,422,100
Costs of IPO share issue		–	–	(226,396)
Balance at end of current financial period	30-06-07	39,610,500		3,740,804

Terms and conditions of contributed equity

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. Option holders have no voting rights until the options are exercised.

Options

There are 500,000 options outstanding which expire on 22 March 2012, which are exercisable at 25 cents (250,000) and 30 cents (250,000). These options were issued during the current period.

	2007 \$	2006 \$
Options expense reserve		
Balance at 1 July 2006	–	–
Options transferred to reserve	86,250	–
	86,250	–
12. RESERVES		
Balance at the beginning of period	–	–
Share-based payments reserve	86,250	–
	86,250	–
13. LOSS PER SHARE		
Basic loss per share (cents per share) 0.20 cents.	(0.013)	–
Diluted loss per share has not been calculated as the Company made a loss for the year hence the impact would be to reduce the loss per share.		
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted loss per share is 11,069,302 (2006 – not calculated due to different share structure) .		
Loss used in calculating basic and diluted loss per share	\$148,457	–

Conversion, call, subscription or issue after 30 June 2007:

Since the end of the financial period there have been no other conversions to, call of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of these financial statements.

Notes to and Forming Part of the Accounts

14. REMUNERATION AND RETIREMENT BENEFITS

(a) Directors' remuneration

The following table outlines the nature and amount of the elements of the remuneration of specified Directors of the Company for the period ended 30 June 2007.

2007	Salary \$	Directors Fees	Consulting Fees	Superannuation Contributions \$	Options \$	Shares \$	Total \$
Richard Hine	–	–	23,220	–	–	–	23,220
Robert McCauley	15,995	–	–	1,395	86,250	–	103,640
Christopher Ablett	–	–	9,570	–	–	–	9,570
	15,995	–	32,790	1,395	86,250	–	136,430

2007	Shares Number	Value of Shares \$	Total \$
Richard Hine	–	–	–
Robert McCauley	–	–	–
Christopher Ablett	–	–	–
	–	–	–

Directors' interests in shares and options in the Company are set out in Note 15.

(b) Executive Officers' remuneration, shares and options

Other than Directors, there are no other officers who satisfy the definition of "Executive Officers" who are or were involved in, concerned with, or who take part in, the management of the affairs of Capital Mining Limited and/or related bodies corporate.

15. RELATED PARTY DISCLOSURES

The Directors in office during the period were Richard Hine, Robert McCauley and Christopher Ablett.

Since the date of incorporation interests and movements in the shares and options of the Company held by Directors and their Director-related entities as at 30 June 2007:

Fully Paid Ordinary Shares

at 30 June 2007

Directors	Balance 1.7.06	After Share Split	Net Changes Number	Balance 30.6.07	Balance Held Nominally Number
Richard Hine	60*	9,000,000	–	9,000,000	–
Robert McCauley	30*	4,500,000	(350,000)	4,150,000	4,150,000
Christopher Ablett	40*	6,000,000	–	6,000,000	–
	130*	19,400,000	(350,000)	19,150,000	4,150,000

Options

at 30 June 2007

Directors	Balance 1.7.06	Net Changes Number	Balance 30.6.07	Balance Held Nominally Number
Richard Hine	–	–	–	–
Robert McCauley	–	500,000	500,000	250,000
Christopher Ablett	–	–	–	–
	–	500,000	500,000	250,000

* Shares split by 1 for 150,000. No new shares acquired on that date.

Directors interests in shares and Options includes holdings in their names and in the names of director related entities.

Remuneration options: Granted and vested during the year

During the financial year options were granted as equity compensation benefits to following specified directors as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at specified exercise prices and within the specified time prior to expiry of the options.

Specified Directors	Vested Number	Granted Number	Grant Date	Terms & Conditions for each Grant		
				Value per option at grant date \$	Exercise price per \$	Expiry Date
Robert McCauley	–	250,000	22.3.2007	0.175	0.25	22.3.2012
Robert McCauley		250,000	22.3.2007	0.17	0.30	22.3.2012
Total	–	500,000				

No options were granted to Directors during the current period under the Company's Employees Option Plan. Shares and options held by Directors included those held by the Directors and their Director-related entities, including the spouses of such Directors and relatives of such Directors. All shares and options, were issued or granted on terms no more favourable than to other shareholders or option holders.

Richard Hine is an employee and Director of and has a significant financial interest in Heemskirk Resources Pty Limited, a company that provided technical services to the Company during the period. Services provided during the period ended 30 June 2007, which are referred to in the remuneration of Directors in Note 14, amounted to \$23,220.

Robert McCauley is an employee and a Director and has a significant financial interest in Robert J McCauley & Associates, a partnership that provides, land, mining & engineering surveying services management services to the Company. Services provided during the period ended 30 June 2007 amounted to \$Nil, this amount is included in the remuneration of Directors in Note 14.

Christopher Ablett is a Director of and has significant financial interest in Ablex Pty Ltd, a company that provides exploration and surveying services to the Company. Services provided during the period ended 30 June 2007 amounted to \$9,570, this amount is included in the remuneration of Directors in Note 14.

Services provided by Director-related entities were under normal commercial terms and conditions. No other benefits have been received or are receivable by Directors, other than those already disclosed in the notes to the accounts.

16. FINANCIAL REPORT BY SEGMENT

The Company operates predominantly in the one business and in one geographical area, namely Australian mineral exploration and evaluation.

17. CONTINGENT LIABILITIES AND GUARANTEES

The Group has provided guarantees totalling \$70,000 in respect of mining tenements. These guarantees in respect of mining tenements are secured against deposits with the relative State Department of Mines. The Company does not expect to incur any material liability in respect of the guarantees.

18. EMPLOYEE ENTITLEMENTS

An employee share option plan has been established where selected officers and employees of the Company can be issued with options over ordinary shares in Capital Mining Limited. The options, issued for nil consideration, will be issued in accordance with a performance review by the Directors. The options cannot be transferred and will not be quoted on the ASX. The Company has not yet made an issue under the Plan.

Notes to and Forming Part of the Accounts

19. FINANCIAL INSTRUMENTS

Interest rate risk exposure

At balance date, the Company was exposed to a floating weighted average interest rate as follows:

	Weighted Average Interest Rate %	Floating Interest \$	Fixed maturing less than 1 period \$	Non-interest Bearing \$	Total \$
30 June 2006					
Financial Assets					
Cash balances	4.7%	155,722	108,236	–	263,958
Financial Liabilities					
30 June 2007					
Financial Assets					
Cash balances	5.0%	348,231	2,800,000	–	3,148,231
Financial Liabilities					

Bank negotiable certificates of deposit are normally invested for 30 days and other cash at bank balances are at call. All other financial assets and liabilities are non-interest bearing.

Net fair value of financial assets and liabilities, on balance sheet and credit risk

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Company approximates their carrying value. Credit risk is minimal at balance date.

20. COMMITMENTS

Exploration licence expenditure requirements

In order to maintain the Company's tenements in good standing with the various mines departments, the Company will be required to incur exploration expenditure under the terms of each licence. These expenditure requirements will diminish as the Company joint ventures projects to third parties. It is the Company's exploration strategy to farm-out where appropriate to larger companies to fund drilling programmes. In addition, the Company has commitments to expend funds towards earning or retaining an interest under joint venture agreements.

	2007 \$	2006 \$
Payable not later than one year	204,500	–
Payable later than one year but not later than two years	204,500	–
	409,000	–

It is likely that the granting of new licences and changes in licence areas at renewal or expiry, will change the expenditure commitment to the Company from time to time.

21. SUBSEQUENT EVENTS

There have been no material events subsequent to 30 June 2007, apart from those shown below:

- 1) On 27 August 2007 Capital Mining Limited announced the issue of 2 million 20 cent exercise price options by way of a placement to advisers who assisted in the Company's successful listing on the ASX earlier this year. The Options were issued on similar terms to those being issued under a prospectus of a non-renounceable 1:3 entitlement to existing shareholders (see item 2 below). The options were issued at 1 cent have approximately a three year term and expire on 18 October 2010. This placement raised \$20,000.00.
- 2) On 29 August 2007 Capital Mining Limited announced and released a Short Form Prospectus in relation to a non-renounceable 1:3 entitlement offer of 20 cent exercise price options to existing shareholders as at a record date of 24 September 2007. These Options will be issued at a price of 1 cent and will have a three year maturity, expiring on 18 October 2010. It is anticipated that if all eligible shareholders take up the offer, there will be 13,203,500 options issued, raising an additional \$132,035.

	2007 \$	2006 \$
22. STATEMENT OF CASH FLOWS		
Reconciliation of net cash outflow from operating activities to operating loss after income tax		
(a) Operating (loss) after income tax	(148,457)	(112,155)
Depreciation	756	–
Formation expenses	329	329
Share/Option based payments for services	86,250	–
Change in assets and liabilities:		
(Increase)/decrease in receivables	(28,964)	(3,258)
(Decrease)/increase in trade and other creditors	34,339	(875)
Net cash outflow from operating activities	(55,747)	(115,959)
(b) For the purpose of the Statement of Cash Flows, cash includes cash on hand, at bank, deposits and bank bills used as part of the cash management function. The Company does not have any unused credit facilities.		
The balance at 30 June 2007 comprised:		
Cash assets	348,231	155,722
Bank deposits (Note 5)	2,800,000	108,236
Cash on hand	3,148,231	263,958

23. CORPORATE INFORMATION

The financial report of the Group for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Directors on 28 September 2007.

Capital Mining Limited is a company limited by shares and incorporated in Australia. Its shares are publicly traded on the Australian Stock Exchange under the ticker code "CMY".

Directors' Declaration

In accordance with a resolution of the Directors of Capital Mining Limited, I state that:

- (1) In the opinion of the Directors:
 - (a) financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
 - (ii) complying with 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.
- (2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2007.

On behalf of the Board



Robert J McCauley
Chief Executive Officer/Director

Sydney
28 September 2007

BARNES DOWELL JAMES

Incorporating P J Hennessy & Co

CHARTERED ACCOUNTANTS

Partners

C H Barnes FCA
A J Dowell CA
M W James CA
B Kolevski (Affiliate ICAA)

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AJD:KG

26 September 2007

The Directors
Capital Mining Limited
72 Dundas Court
Phillip ACT 2606

Dear Sirs,

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF CAPITAL MINING LIMITED

In relation to our audit of the financial report of Capital Mining Limited for the financial year ended 30 June, 2007, to the best of our knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Yours faithfully

BARNES DOWELL JAMES



A.J. DOWELL



Liability limited by a Scheme approved under Professional Standards Legislation.

Website: www.bdj.com.au

BARNES DOWELL JAMES

Incorporating P J Hennessy & Co

CHARTERED ACCOUNTANTS

Partners

C H Barnes FCA
A J Dowell CA
M W James CA
B Kolevski (Affiliate ICAA)

Associate

M A Nakkam CA

Consultant

P J Hennessy FCA

North Sydney

Level 13, 122 Arthur St
North Sydney NSW 2060

Manly

Level 5, 22 Central Ave
Manly National Building
Manly NSW 2095

Correspondence

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To members of Capital Mining Limited

Scope

We have audited the financial report of Capital Mining Limited for the financial period ended 30 June 2007 as set out on pages 26 to 43.

The Company's Directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 43 has not changed as at the date of providing our audit opinion.

Audit opinion

In our opinion, the financial report of Capital Mining Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's financial position as at 30 June 2007 and its performance for the period ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.



Anthony Dowell

Partner

28 September 2007

Barnes Dowell James

Chartered Accountants

Level 13, 122 Arthur St



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Corporate Governance Statement

The Board of Directors of Capital Mining Limited (CMY) is responsible for corporate governance and strives for high standards in this regard. The Board monitors the business and affairs of CMY on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board draws on relevant best practice principles particularly those issued by the ASX Corporate Governance Council in March 2003. At a number of its meetings the Board examined the CMY corporate governance practices and the progress towards a review of its practice compared to the best practice principles proposed by the ASX Corporate Governance Council. While CMY is attempting to adhere to the principles proposed by ASX, it is mindful that there may be some instances where compliance is not practicable for a company of CMY's size.

The March 2003 Australian Stock Exchange Corporate Governance Council publication "Principles of Good Corporate Governance and Best Practice Recommendations" is for guidance purposes, however all listed companies are required to disclose the extent to which they have followed the recommendations; to identify any recommendations that have not been followed; and reasons for not doing so. The Company's Board of Directors has reviewed the recommendations. In many cases the Company was already achieving the standard required. In other cases the Company will have to consider new arrangements to enable compliance. In a limited number of instances, the Company may determine not to meet the standard set out in the recommendations, largely due to the recommendation being considered by the Board to be unduly onerous for a company of this size.

A set of Revised Principles were issued by ASX in August 2007. Icon will be reviewing these in the 2007-08 year with a view to reporting against the eight revised principles in the following year.

The following paragraphs set out the Company's position relative to each of the 10 principles contained in the ASX Corporate Governance Council's report.

Principle 1: Lay solid foundations for management and oversight

The Company has not yet formalised and disclosed the functions reserved to the Board and those delegated to management. However, the Company has a small Board of three Directors (two Non-Executive Directors and the Managing Director) and a small team of people, so roles and functions have to be flexible to meet specific requirements.

Principle 2: Structure the Board to add value

The Company complies with most of the recommendations within this area as the Chairman is separate from the Executive Director. The Company does not comply with the recommendation that a majority of Directors are independent, because one is an Executive Director and the Chairman is a substantial shareholder and the third Non-executive Director represents an associated company and a substantial shareholder. The Company has a Board nomination committee.

Two of the Company's three Directors are non-executives, and the employer of both of the non-executives has undertaken "material" consultancy work for the Company within the past three years. Each Director of the Company has the right to seek independent professional advice at the expense of the Company. Prior approval of the Chairman is required, but this will not be unreasonably withheld.

Principle 3: Promote ethical and responsible decision-making

The Company has a policy concerning trading in its securities by Directors, management, staff and significant consultants which is set out below. The Company does not have a formal code of conduct, again reflecting the Company's size and the close interaction of individuals throughout the organisation.

Principle 4: Safeguard integrity in financial reporting

At this stage the Company's financial statements are prepared by an external accountant who confirms to the Board in writing that the Company's financial reports represent a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. The Managing Director reviews and approves the financial statements before they are submitted to the Audit Committee and also confirms this in writing to the Board.

The Company has no Audit Committee, and the Board of Directors acts in this regard. The directors have applicable expertise and skills for this task. This structure does not meet the ASX's guidance regarding independence, in that it should have a separate committee and majority of independent directors. The Board reviews the performance of the external auditors (including scope and quality of the audit).

Corporate Governance Statement

Principle 5: Make timely and balanced disclosure

The Company, its Directors and consultants are very aware of the ASX's continuous disclosure requirements and operate in an environment where strong emphasis is placed on full and appropriate disclosure to the market. Whilst the Company does not have formal written policies regarding disclosure, it uses strong informal systems underpinned by experienced individuals. The Company maintains a register of matters considered for possible market disclosure.

Principle 6: Respect the rights of shareholders

All significant information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

Whilst the Company does not have a communications strategy to promote effective communication with shareholders, as it believes this is excessive for small companies, the Company does communicate regularly with shareholders. The Company has requested the external auditor to attend general meetings and this has been supported by the Company's audit partner at Barnes Dowell James.

Principle 7: Recognise and manage risk

The Company is a small, exploration company and does not believe that at this stage there is significant need for formal policies on risk oversight and management of risk, although these issues are actively considered at all times in the Company's activities. Risk management arrangements are the responsibility of the Board of Directors and senior management collectively. Risk Factors is an agenda item for each Board meeting. The company has an Occupational Health and Safety policy with which all of the Company's staff, contractors and consultants must comply.

Principle 8: Encourage enhanced performance

The Company has a Remuneration Committee of Richard Hine and Christopher Ablett which meets as and when required, to review performance matters and remuneration. There has been no formal performance evaluation of the Board during the past financial period, although its composition will be reviewed at a Board meeting at least annually. The Directors work closely with management and have full access to all the Company's files and records.

Principle 9: Remunerate fairly and responsibly

Directors believe that the size of the Company makes individual salary and consultant negotiations more appropriate than formal remuneration policies. The Remuneration Committee will seek independent external advice and market comparisons as necessary. In accordance with Corporations Act requirements, the Company discloses the fees or salaries paid to all Directors, plus the five highest paid officers. The Company has an Employee Share Option Plan that was introduced in 2007 but has not made an issue under the Plan at this time.

Principle 10: Recognise the legitimate interests of stakeholders

Due to the Company's size and relative level of operational activity which makes legal compliance a less onerous task than with larger companies, the Company does not have a formal code of conduct to guide compliance with legal and other obligations. The Board of Directors continues to review the situation to determine the most appropriate and effective operational procedures.

Ethical Standards

The Board's policy is for the Directors and management to conduct themselves with the highest ethical standards. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Securities Trading and Trading Windows

Directors, employees and key consultants must consult with the Chairman of the Board or the Executive Director before dealing in shares of the Company. Purchases or sales in the Company's shares by Directors, employees and key consultants may not be carried out at any time whilst in possession of price sensitive information and for 24 hours after any major announcements, the release of the Company's annual financial results to the ASX and the annual general meeting.

Shareholder Information

Information relating to shareholders at 21 September 2007 (per ASX Listing Rule 4.10)

Substantial Shareholders

	Shareholding
Mr Richard Hine	9,000,000
Mr Chris Ablett	6,000,000
Chakola Gold Pty Ltd	4,050,000

Distribution of Shareholders

Number of ordinary shares held	Number of Holders	Ordinary Shares
1 – 1,000	11	5,597
1,001 – 5,000	46	153,345
5,001 – 10,000	159	1506,756
10,001 – 100,000	312	10,562,376
100,001 – and over	43	27,382,426
	571	39,610,500

At the prevailing market price of 25.5 cents per share, there are 18 shareholders with less than a marketable parcel of \$500.

Top 20 Shareholders of Ordinary Shares as at 21 September 2007

	Shares	% Shares issued
Mr Richard Hine	9,000,000	22.721
Mr Chris Ablett	6,000,000	15.147
Chakola Gold Pty Ltd	4,050,000	10.225
Walpett Engineering Pty Ltd <Super Fund A/c>	600,000	1.515
Mr Patrick Martin Taylor	450,000	1.136
Mr Bruce Jones	450,000	1.136
Mr Mick McCauley & Mrs Barbara McCauley	450,000	1.136
Mrs Annette Mizon <The Bobbin Super Fund A/c>	300,000	0.757
Mr Joel Blicharz & J M B Enterprises Pty Ltd	300,000	0.757
Mr Kevin Arthur Thomas & Mrs Barbara Thomas <The KBT Super Fund A/c>	300,000	0.757
Mr Ian Raymond Relf	271,000	0.684
Mr Ramamoorthy Srinivasan & Mrs Bhanumathi Srinivasan	266,100	0.672
Mr Oliver Buecher & Mrs Geotgina Buecher	255,676	0.645
Mr Robert Ormond Bowyer & Mrs Janise Mary Bowyer	250,000	0.631
BT Portfolio Services Limited <The McCauley Super Fund A/c>	201,450	0.509
JP & KP Nominees Pty Ltd	200,000	0.505
Mr Raul Used <The Raul Used Family A/c>	200,000	0.505
Nixon Investments Qld Pty Ltd	200,000	0.505
Mr Anthony John Locantro <Silver Boom Superfund A/c>	180,300	0.455
Canerise Pty Ltd <Canerise Super Fund A/c>	180,000	0.454
Total of top 20 holdings	24,104,526	60.854
Other holdings	15,505,974	39.146
Total fully paid shares issued	39,610,500	100.00

Option Holders as at 21 September 2007

	Options	% Shares issued
Robert McCauley	500,000	20.000
Heath Roberts	150,000	6.000
Sidan Enterprises Pty Ltd	200,000	8.000
Stanford Hill Pty Ltd	1,500,000	60.000
Warinco Services Pty Limited <Waring Super Fund A/C>	150,000	6.000
Total Options	2,500,000	100.000

Shareholder Information

The following shares and options are restricted by ASX:

Ordinary fully paid shares, restricted for 24 months from date of quotation (22 March 2007)	18,100,000
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Employee Share Option Plan

At a Directors Meeting held on 12 May 2006, the Board approved the adoption of the Company's Employee Share Option Plan. No options have been issued under the plan.

Voting rights

There are no restrictions on voting rights. On a show of hands every member present or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Option holders have no voting rights until the options are exercised.

Audit Committee

At the date of the Report of the Directors, the Company does not have an Audit Committee, in its place the Board of directors meet with the auditors at least once during each half-year. These meetings will take place prior to the finalisation of the half-year financial statements and Annual Report and prior to the signing of the Audit Report.

Statement under ASX Listing Rule 4.10.19

From the date of admission of the Company's shares on ASX (22 March 2007) to the date of this Annual Report, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. Expenditures have been in line with Prospectus estimates.