

Goldstar Resources NL and its Controlled Entities

**Half-Year Financial Report
31 December 2006**

GOLDSTAR RESOURCES NL – HALF YEAR REPORT

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DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2006.

DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr Gordon Hill – Non Executive Chairman
Mr Andrew King – Managing Director
Ms Eileen Carr - Non Executive Director
Mr Ian Pankhurst - Non Executive Director
Dr Jeffrey O'Leary – Non Executive Director

REVIEW AND RESULTS OF OPERATIONS

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by Goldstar during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The financial report covers the consolidated entity consisting of Goldstar and its subsidiary. The financial report is presented in Australian Dollars.

Review of Results

Goldstar Resources NL recorded a net loss for the period of \$705,337 compared to a net loss of \$337,749 for the 6 months to December 2005. The result is driven by increased operating activities at the Walhalla Project and corporate activities to fund the Walhalla Project.

Review of Operations

Goldstar through a placement in December 2006 raised \$10 million which was to be followed by an SPP (Share Purchase Plan) to raise \$3 million by January 2007. At the same time, an investment group led by RPG Partners Limited purchased Kingsgate Consolidated Limited's shareholding in Goldstar.

During the half year, drilling continued at both the Eureka and Tubal Cain deposits on the Ross Creek Line of mineralisation, returning impressive results. These programs both confirmed the strongly mineralised nature and expanded the size of both dyke bulges. The bulk sampling programme continued at Eureka with mining and construction works.

The summer bushfire season posed significant challenges throughout the East Gippsland region, with several major fires threatening communities and townships. Goldstar activated its Fire Management Plan (FMP) during December in response to specific bushfire threats with no significant loss of infrastructure and no injuries to personnel.

Consistent with the Company's focus on the exploration and development of the Walhalla Gold Project, Goldstar completed Joint Venture agreements on two non-core exploration projects during the half year. These agreements will ensure that exploration on both projects will move forward, while retaining some exposure for Goldstar to future exploration success.

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Corporate

\$13M Capital Raising

On 8 December, Goldstar announced a landmark \$13 million capital raising at an issue price of 65 cents, comprising a heavily oversubscribed \$10 million share placement, managed by global investment bank, Royal Bank of Canada (“RBC”), and a fully underwritten \$3 million Share Purchase Plan for existing shareholders.

In order to acknowledge the support of long-term shareholders, the Company announced a fully underwritten Share Purchase Plan (“SPP”) to enable existing shareholders to participate in the capital raising.

The funds raised will be utilised to continue to fast track the Eureka Project towards early production and to commence Scoping and Bulk Sampling studies on the Tubal Cain deposit. In addition, funds will be applied to further the drilling of the Eureka and Tubal Cain dyke bulges together with an acceleration of the regional exploration programme.

Divestment of Kingsgate Consolidated Limited Shareholding

Coinciding with the \$13 million capital raising, Goldstar announced that its major shareholder, Kingsgate Consolidated Limited, had finalised the sale of its entire holding in the Company, comprising 20.7 million shares, to an investor group led by RPG Partners. Kingsgate acquired a strategic interest in the Company last year and realised a significant appreciation on its 18-month investment.

RPG Partners is a resource-oriented investment group with investments in mining, power and logistics in Europe. It has a focus on building long-term relationships with resource and mining companies that are either in or near production.

Eureka Bulk Sampling Program (EBSP)

Infrastructure development at the Eureka site progressed well during the half year. The innovative Skipway was successfully commissioned in early January.

Underground mining activities at Eureka commenced in October, with the widening of the old Western Adit, in order to establish mining access to the bulk sampling location.

Results from the sampling program will continue into the June 2007 quarter. The results will then be utilised in the Feasibility Study for Eureka, which is also well underway.

Impact of Summer Bushfires

In response to the threat posed by summer bushfires in the East Gippsland region, Goldstar activated sections of its Fire Management Plan (FMP) in a staged approach during late November/early December to ensure a level of readiness in the event of a fire outbreak. As a precautionary step and in accordance with Country Fire Authority (CFA) and Department of Sustainability and Environment (DSE) advice, Goldstar withdrew all of its employees and contractors from Eureka and Tubal Cain in mid-December.

In addition, steps were taken to protect all plant, equipment and infrastructure on site. All relocatable equipment, including winches, vehicles and generators, was removed from site and stored in safe areas in Moe and Rawson. On site, additional equipment was stored underground.

Access to Eureka and Tubal Cain was re-established on 28th December 2006. Following a detailed inspection that confirmed that all major assets were secure and did not suffer any damage as a result of the bushfires, Eureka was repowered on 29th December.

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Goldstar estimated the December 2006 bushfires had delayed the completion of the EBSPP by approximately 4-6 weeks. Further fire outbreaks, though not as dramatic as those in December, caused further interruptions to operations.

The full impact of these fires on Goldstar infrastructure was minimal.

Exploration

Eureka Resource Extension Drilling

Drilling continued during the half year at Eureka with activities designed to test the potential for extensions to the dyke bulge at depth and to in-fill previous drilling to increase the level of confidence in the Geological Model.

The final assay results for drill hole GRE-003 defined an overall intercept of **1.05m @ 1,869g/t Au** including the outstanding intercept of **0.35m @ 5,604g/t Au** reported on 26 September 2006. The full suite of assay results from this hole confirmed the sequence of nine potentially high-grade quartz reefs at Eureka as well as the potential for further reefs at depth.

As the Company has noted previously, while this sort of exceptional gold grade is clearly not representative of the average grade of quartz reefs within the Eureka Dyke Bulge, which remains open at depth (Figure 1), it is not unexpected within the Walhalla Field given the historical records of mining activity in the area.

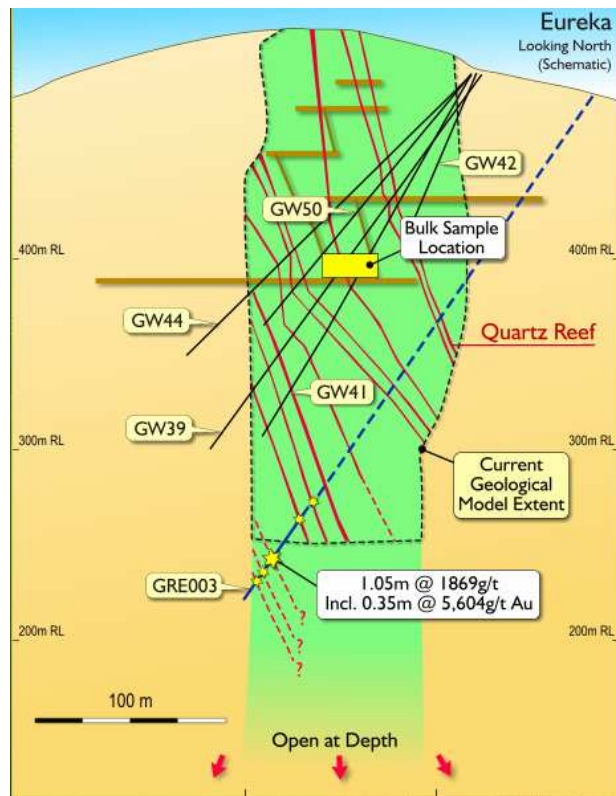


Fig 1 – Cross Section of Eureka Geological Model at 5799400N

The results from drill hole GRE-003, have confirmed the down-dip expansion of the Eureka Dyke Bulge to at least a depth of 350 metres. A minimum of one additional reef has been confirmed, increasing the total to nine. The Eureka Dyke Bulge remains open at depth.

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Tubal Cain In-fill and Extension Drilling

In-fill and extensional diamond drilling continued during the half year at the Tubal Cain Dyke Bulge, located 5km to the north of the Eureka Dyke Bulge. The results exceeded expectations, confirming a package of 15 high-grade quartz reefs previously identified at Tubal Cain. The Phase 1 drilling program incorporating holes GRT 001 to 006 were completed during the half year with full assay results received from this program in November.

All holes confirmed the presence of potentially high grade quartz reefs with the results exceeding expectations and providing solid confirmation of the geological assessment of the Tubal Cain Dyke Bulge. Significantly, the full assay results also demonstrated that the surrounding dyke and sediments within the dyke bulge are strongly mineralised.

Hole GRT-006, intersected a remarkable 29 mineralised zones with average grades above 1g/t Au, returning four individual samples with grades greater than 30g/t Au. These were:

- **0.95m @ 27.04g/t** including **0.40m @ 62.79g/t;**
- **1.30m @ 23.30g/t** including **0.35m @ 66g/t Au;**
- **0.70m @ 15.97g/t** including **0.35m @ 31.11g/t;** and
- **4.35m @ 21.07g/t** including **0.35m @ 211.85g/t.**

This represented an outstanding success and confirmed the strongly mineralised nature of the dyke bulges within the Walhalla Field. The probability of returning such grades across so many mineralised zones is considered to be fairly low given the nuggetty distribution of gold within the dyke bulge systems.

Geological modelling in September of the Phase 1 holes defined the Tubal Cain Dyke Bulge as approximately 200m in strike length, 180m wide and 600m deep. This compares with the Eureka Dyke Bulge, which was estimated to be 300m in strike length, 100m wide and 300m deep. The Geological Model estimated the quartz reef tonnage at 1.1 million tonnes to a depth of 350m.

The results have further reinforced the potential of the Tubal Cain Dyke Bulge as another priority early production source in the Walhalla Field and has strengthened Goldstar's expectation of commencing bulk sampling at this location during 2007.

Infill drilling of the 300m to 600m deep zones was undertaken to enable a revised Geological Model to be prepared in the 2007 calendar year.

Joint Ventures

Top Camp/Iron Ridge Copper Project, Queensland

During the half year, Goldstar finalised an agreement with ASX-listed copper development company, Matrix Metals Limited, for Matrix to farm into its Top Camp/Iron Ridge copper exploration project near Cloncurry in north-western Queensland. Goldstar holds an 85% interest in the Top Camp Project. The agreement will enable the acceleration of exploration activities covering the 240km² project, which contains several historic workings and is considered highly prospective for copper and gold mineralisation.

Under the terms of the agreement, Matrix can earn a 51% interest in the Top Camp Project by spending \$350,000 on exploration over a 2-year period. Matrix can increase its interest further to 70% by spending \$700,000 over a 5-year period, after which Goldstar will dilute its interest at the rate of 2% per \$100,000 of non-contribution of exploration expenditure.

Peak Hill Copper-Gold Project, Western Australia

Goldstar also settled a project acquisition and farm-in agreement with new resources company, Peak Resources Ltd, in relation to the Peak Hill copper-gold exploration project, located 120km

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north of Meekatharra in Western Australia. Goldstar holds an 85% interest in the Peak Hill Project.

The Peak Hill Project comprises a total area of 178km² within the Peak Hill gold field, which has produced over 900,000oz of gold over the past two decades. Goldstar has assembled a comprehensive drilling and geophysical database and undertaken first pass geophysical work to highlight a series of structural targets.

Under the agreement, Peak Resources can earn a 70% interest in the farm-in tenements by sole funding exploration expenditure for a 3-year period or by spending \$600,000 on the tenements, whichever occurs first. There is a minimum expenditure commitment under the joint venture of \$250,000.

Once Peak Resources has earned a 70% interest, Goldstar must elect to contribute to expenditure on a pro-rata basis, dilute its interest or sell its interest to Peak Resources in consideration for the issue of 750,000 ordinary fully paid shares in the company.

Millrose Gold and Nickel Project, Western Australia

Goldstar continued negotiations with several parties during the half year regarding a potential joint venture covering the Company's Millrose gold and nickel exploration project located near Wiluna, Western Australia. This is consistent with the Company's continued focus on exploration and development of its core asset, the Walhalla Project in Victoria.

6.0 Summary and Outlook

The December 2006 Quarter represented one of the most active periods in Goldstar's history as an ASX-listed gold company, with significant progress being achieved at a number of levels as the Company targets the start of gold production at Eureka.

The 2007 year will represent a definitive period for Goldstar. The outcome of the Eureka Bulk Sampling Program (EBSP) during the first two quarters of the year will provide an important foundation for the Company's subsequent development activities during the remainder of 2007. Specifically, they will form the basis for the Eureka Feasibility Study.

Resource, in-fill and extensional drilling will continue at both Eureka and Tubal Cain, in parallel with the EBSP. Drilling at Tubal Cain will focus on determining optimal bulk sampling locations as well as confirming depth extensions of this deposit. In addition, expanded exploration programs will commence targeting other priority dyke bulge targets within the Ross Creek Line of mineralisation and elsewhere in order to enhance the longer-term growth potential of the Walhalla Project.

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AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor's, PKF Chartered Accountants, which is included on page 9.

ROUNDING

The amounts contained in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors

A handwritten signature in dark ink, appearing to read 'Gordon Hill', with a stylized flourish at the end.

Gordon Hill
Chairman

Dated at Perth this 16th Day of March 2007

AUDITORS' INDEPENDENCE DECLARATION

TO THE DIRECTORS OF GOLDSTAR RESOURCES NL

As lead engagement partner for the review of Goldstar Resources NL for the half year ended 31 December 2006, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



PKF
Chartered Accountants



Ian Olson
Partner

Dated at Perth, Western Australia this 16th day of March 2007

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CONDENSED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

| | Notes | Consolidated 31 December 2006 \$'000 | 31 December 2005 \$'000 |
|---|-------|--|----------------------------------|
| Continuing Operations | | | |
| Revenue | 4 | 273 | 122 |
| Expenses from ordinary activities excluding borrowing costs: | | | |
| Professional Fees | | (234) | (114) |
| Employment Expenses | | (290) | (98) |
| Travel Expenses | | (87) | (41) |
| Accounting and Auditing | | (35) | (30) |
| Marketing Expenses | | (78) | (41) |
| Occupancy Expenses | | (51) | (35) |
| Administration Expenses | | (145) | (72) |
| Exploration Expenses | | (12) | (7) |
| Depreciation | 4 | (40) | (20) |
| Other expenses | 4 | (6) | (2) |
| Profit/(loss) from continuing operations before income tax | | (705) | (338) |
| Income tax expense | 5 | - | - |
| Profit/(loss) from continuing operations after tax | | (705) | (338) |
| Net loss attributable to members of parent | | <u>(705)</u> | <u>(338)</u> |
| Earnings per share (cents per share) | | | |
| - basic; for loss for the half-year | | (0.66) | (0.55) |
| - diluted; for loss for the half-year | | (0.61) | (0.40) |

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CONDENSED BALANCE SHEET AS AT 31 DECEMBER 2006

| | Notes | Consolidated | |
|--|-------|-------------------------------|---------------------------|
| | | 31 December 2006 \$'000 | 30 June 2006 \$'000 |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 6 | 13,807 | 8,682 |
| Trade and other receivables | | 356 | 171 |
| Inventories | | 5 | - |
| Other current assets | | 1 | 1 |
| Total Current Assets | | 14,169 | 8,854 |
| Non-Current Assets | | | |
| Property, plant and equipment | | 2,450 | 430 |
| Deferred exploration and development expenditure | | 13,144 | 9,458 |
| Other non-current assets | | 179 | 169 |
| Total Non-Current assets | | 15,773 | 10,056 |
| TOTAL ASSETS | | 29,942 | 18,911 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 1,867 | 532 |
| Other Liability | | 443 | - |
| Lease Liability | | 31 | - |
| Provisions | | 66 | 23 |
| Total Current Liabilities | | 2,407 | 555 |
| TOTAL LIABILITIES | | 2,407 | 555 |
| NET ASSETS | | 27,535 | 18,356 |
| EQUITY | | | |
| Contributed equity | 9 | 30,112 | 20,306 |
| Accumulated losses | | (2,790) | (2,085) |
| Reserves | | 213 | 135 |
| TOTAL EQUITY | | 27,535 | 18,356 |

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CONDENSED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

| Notes | Consolidated | |
|---|-------------------------------|-------------------------------|
| | 31 December 2006 \$'000 | 31 December 2005 \$'000 |
| Cash flows from operating activities | | |
| Receipts from customers | 58 | - |
| Interest Received | 215 | 95 |
| Payments to suppliers and employees | (995) | (390) |
| Payments for exploration and evaluation | (2,362) | (1,400) |
| Net cash flows from/(used in) operating activities | (3,084) | (1,695) |
| Cash flows from operating activities | | |
| Proceeds from sale of property, plant and equipment | | |
| Purchase of property, plant and equipment | (2,030) | (77) |
| Other | (10) | |
| Net cash flows from/(used in) investing activities | (2,040) | (77) |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | 10,431 | 5,084 |
| Proceeds from share applications | 443 | - |
| Share issue expenses | (625) | (290) |
| Net cash flows from/(used in) financing activities | 10,249 | 4,794 |
| Net increase/(decrease) in cash and cash equivalents | 5,125 | 3,022 |
| Cash and cash equivalents at beginning of period | 8,682 | 575 |
| Cash and cash equivalents at end of period | 13,807 | 3,597 |

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CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

| CONSOLIDATED | Ordinary | Option | Accumulated | Total | Total |
|--|---------------|------------|----------------|---------------|---------------|
| | shares | reserve | losses | Consolidated | Equity |
| | \$'000 | \$'000 | \$'000 | interests | \$'000 |
| | | | | \$'000 | |
| At 1 July 2005 | 7,846 | 99 | (1,338) | 6,607 | 6,607 |
| Loss for the period | | | (338) | (338) | (338) |
| Shares issued during the period | 5,072 | | | 5,072 | 5,072 |
| Transaction costs on share issue | (290) | | | (290) | (290) |
| Cost of share based payments | | 25 | | 25 | 25 |
| Contributing shares fully paid during the period | 12 | | | 12 | 12 |
| At 31 December 2005 | 12,640 | 124 | (1,676) | 11,088 | 11,088 |

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CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

| CONSOLIDATED | Ordinary shares \$'000 | Employee Benefits reserve \$'000 | Accumulated losses \$'000 | Total Consolidated Interests \$'000 | Total Equity \$'000 |
|--|------------------------------|---|---------------------------------|--|---------------------------|
| At 1 July 2006 | 20,306 | 135 | (2,085) | 18,356 | 18,356 |
| Loss for the period | | | (705) | (705) | (705) |
| Shares issued | 10,350 | | | 10,350 | 10,350 |
| Transaction costs on share issue | (625) | | | (625) | (625) |
| Cost of Share based payments | | 78 | | 78 | 78 |
| Contributing shares fully paid during the period | 81 | | | 81 | 81 |
| At 31 December 2006 | 30,112 | 213 | (2,790) | 27,535 | 27,535 |

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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1. CORPORATE INFORMATION

The financial report of Goldstar Resources NL (the Company) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 16 March 2007. Goldstar Resources NL is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Company are described in note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The half-year financial report should be read in conjunction with the annual Financial Report of Goldstar Resources NL as at 30 June 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by Goldstar Resources NL and its controlled entities during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Basis of Preparation

The half-year consolidated financial report is a general purpose financial report, which has been prepared in accordance with the requirement of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements. The half-year financial report has been prepared on a historical cost basis, except where stated.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2006, as described in Note 2(d).

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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(c) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Goldstar Resources NL (“parent company”) from time to time during the year and at 30 June 2006 and the results of its controlled entity, Goldstar Resources (WA) Pty Ltd for the year then ended. Goldstar Resources NL and Goldstar Resources (WA) Pty Ltd together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the economic entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control exists.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

(d) Changes in accounting policies

Australian Accounting Standards and UIG Interpretations that have recently been amended and are effective from 1 January 2006 are outlined in the table below.

| Reference | Title | Summary | Application date of standard | Impact on Group accounting policies | Application date |
|-------------|--|--|---|--|------------------|
| AASB 2005-4 | Amendments to Australian Accounting Standard [AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038] | Amendments relate to the restriction on designating financial instruments at fair value through profit and loss. | For annual reporting periods beginning on or after 1 January 2006 | No change in accounting policy required as the items that are designated at fair value through profit or loss are classified as held for trading and as such is not impacted by the restriction. | 1 January 2006 |
| AASB 2005-5 | Amendments to Australian Accounting Standard [AASB 1 & AASB 139] | Consequential amendments made to AASB 1 due to the issue of UIG Interpretations 4 <i>Determining whether an Arrangement Contains a Lease</i> . Consequential amendments made to AASB 139 due to the issue of UIG Interpretations 5 <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i> . | For annual reporting periods beginning on or after 1 January 2006 | These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact. | 1 January 2006 |

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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(d) Continued Changes in accounting policies

| Reference | Title | Summary | Application date of standard | Impact on Group accounting policies | Application date |
|-------------|---|--|---|---|------------------|
| AASB 2005-6 | Amendments to Australian Accounting Standard [AASB 3] | The definition of 'contribution of owners' is removed and the AASB 3 scope exclusion for business combinations involving entities or businesses under common control is adopted. | For annual reporting periods beginning on or after 1 January 2006 | These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact. | 1 January 2006 |
| AASB 2005-9 | Amendments to Australian Accounting Standard [AASB 4, AASB 1023, AASB 139 & AASB 132] | The amendments to all four standards provide guidance as to which standard applies to financial guarantee contracts under certain circumstances. | For annual reporting periods beginning on or after 1 January 2006 | These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact. | 1 January 2006 |
| UIG 4 | Determining whether and Arrangement contains a Lease. | Specifies criteria for determining whether an arrangement is, or contains, a lease. | For annual reporting periods beginning on or after 1 January 2006 | These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact. | 1 January 2006 |

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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(e) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred by or on behalf of the entity 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 nexus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation.

Exploration expenditure for each area of interest is written off as incurred, except that it may be carried forward provided that one of the following conditions is met:

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

Exploration expenditure which no longer satisfies the above policy is written off. In addition, a provision is raised against exploration expenditure where the Directors are of the opinion that the carried forward net cost may not be recoverable under the above policy. The increase in the provision is charged against the financial performance for the year.

When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off in the year in which the decision to abandon is made, firstly against any existing provision for that expenditure, with any remaining balance being charged to earnings.

Expenditure is not carried forward in respect of any area of interest/mineral resource unless the economic entity's rights of tenure to that area of interest are current. Amortisation is not charged on areas under development, pending commencement of production.

(f) Acquisitions of Assets

The cost method is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

Costs relating to the acquisition of new areas of interest are classified as either exploration and evaluation expenditure or mine properties based on the stage of development reached at the date of acquisition.

(g) Recoverable Amount of Assets

Non-current assets are not carried at an amount above their recoverable amount. Where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have been discounted.

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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(h) Plant and Equipment

The cost of each item of plant and equipment is written off over its expected economic life, adjusted for any salvage value if applicable. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

Depreciation is provided on a reducing balance basis on all property, plant and equipment. Major depreciation periods are:

| | 2006 | 2005 |
|---------------------|------------|------------|
| Plant and Equipment | 3-15 years | 3-15 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.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the differences 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.

(i) Investments

Long term investments are stated at cost except where there is a permanent diminution in the value of the investment.

(j) Cash and Cash Equivalents

Cash on hand, at banks and in short-term deposits is stated at the lower of cost and net realisable value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand, at banks, and money market investments readily convertible to cash on hand, net of outstanding bank overdrafts.

GOLDSTAR RESOURCES NL – HALF YEAR REPORT

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(k) Employee Entitlements

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

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

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits, and
- other types of employee benefits are recognised against profits on a net basis in their respective categories.

The value of shares and options granted to Directors under incentive schemes is not charged as an employee entitlement expense.

(l) Share Based Payment

Equity settled share based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of the grant. Fair value is measured by use of the binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

(m) Contributed Equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(n) Earnings per Share

Basic earnings per share is determined by dividing the profit from ordinary activities after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year.

(o) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

GOLDSTAR RESOURCES NL – HALF YEAR REPORT

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(p) Income Tax

Goods and Services Tax (GST)

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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financial activities, which are 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.

(q) Trade and Other Receivables

Trade receivables, which generally have 30-90 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.

(r) 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.

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

(s) Foreign Currency Translation

Both the functional and presentation currency of Goldstar Resources NL and its Australian subsidiaries is Australian dollars (\$AUD).

GOLDSTAR RESOURCES NL – HALF YEAR REPORT

CONSOLIDATED
2006 2005
\$'000 \$'000

3. SEGMENT INFORMATION

The economic entity operates in only one business and geographic segment being the gold industry of Australia.

4. REVENUE, INCOME AND EXPENSES

(a) Revenue, Income and Expenses from Continuing Operations

Revenue

| | | |
|----------------------|------------|------------|
| Rental revenue | 14 | 19 |
| Finance revenue | 215 | 95 |
| Total revenue | 229 | 114 |

Breakdown of finance revenue

| | | |
|---|------------|-----------|
| Bank interest receivable | 212 | 94 |
| Income from bonds (Bank Guarantees) | 3 | 1 |
| Total finance revenue (on historical cost basis) | 215 | 95 |
| Total finance revenue | 215 | 95 |

Other income

| | | |
|---------------------------|-----------|----------|
| Sundry Income | 44 | 8 |
| Total other income | 44 | 8 |

Depreciation costs

| | | |
|---------------------------------|-----------|-----------|
| Amortisation of Financial Lease | 7 | |
| Depreciation | 33 | 20 |
| Total Depreciation costs | 40 | 20 |

Other expenses

| | | |
|--|---|---|
| Finance charges payable under finance leases and hire purchase contracts | 2 | - |
| Donation | - | - |
| Entertainment | 4 | 1 |

5. INCOME TAX

The major components of income tax expense for the half-year ended 31 December 2006 are:

CONSOLIDATED
2006 2005
\$'000 \$'000

Consolidated Income Statement

Current Income tax

| | | |
|--|---|---|
| Current income tax charge | - | - |
| Adjustments in respect of current income tax of previous years | - | - |

Deferred income tax

| | | |
|---|---|---|
| Relating to origination and reversal of temporary differences | - | - |
|---|---|---|

Income tax expense reported in the consolidated income statement

- -

GOLDSTAR RESOURCES NL – HALF YEAR REPORT

6. CASH AND CASH EQUIVALENTS

For the purposes of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:

| | CONSOLIDATED | |
|--------------------------|---------------------|----------------|
| | 31 December | 30 June |
| | 2006 | 2006 |
| | '\$'000 | '\$'000 |
| Cash at bank and in hand | 13,807 | 346 |
| Short term deposits | - | 8,336 |
| | 13,807 | 8,682 |

7. SHARE BASED PAYMENT PLANS

In July 2006, 590,000 share options were granted to employees under the Employee Share Option Plan. The exercise price of the options of \$0.375 was above the market price of the shares on the date of grant. The options will become exercisable before 31 July 2009. The fair value of the options granted is estimated as at the date of grant using a binominal model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2006 and 2005:

| | |
|---------------------------------------|----------|
| Dividend yield (%) | 0 |
| Expected volatility (%) | 72.75 |
| Risk-free interest rate (%) | 5.76 |
| Early exercise multiple/expected life | - |
| Contractual life (years) | 3.03 yrs |

The estimated fair value of each option at grant date is \$0.1897.

In July 2006, 725,000 share options were granted to directors under the Directors Share Option Plan. The exercise price of the options of \$0.375 was above the market price of the shares on the date of grant. The options will become exercisable before 30 September 2009. The fair value of the options granted is estimated as at the date of grant using a binominal model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2006 and 2005:

| | |
|---------------------------------------|----------|
| Dividend yield (%) | 0 |
| Expected volatility (%) | 72.75 |
| Risk-free interest rate (%) | 5.76 |
| Early exercise multiple/expected life | - |
| Contractual life (years) | 3.20 yrs |

The estimated fair value of each option at grant date is \$0.1941.

In December 2006, 75,000 share options were granted to a director under the Directors Share Option Plan. The exercise price of the options of \$0.35 was below the market price of the shares on the date of grant. The options will become exercisable before 8 November 2011. The fair value of the options granted is estimated as at the date of grant using a binominal model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2006 and 2005:

| | |
|---------------------------------------|-------|
| Dividend yield (%) | 0 |
| Expected volatility (%) | 72.75 |
| Risk-free interest rate (%) | 5.62 |
| Early exercise multiple/expected life | - |
| Contractual life (years) | 5 yrs |

GOLDSTAR RESOURCES NL – HALF YEAR REPORT

The estimated fair value of each option at grant date is \$0.6656.

8. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 December the Group has commitments of \$323,080 principally relating to the completion of the Skipway at the Eureka Project.

The company has committed to a lease of a fuel tank at a cost of \$2,267 per month including lease and interest costs.

Lease commitments for the Perth Office are \$27,462 and site lease commitments are \$22,853 per annum.

Insurance claim

Due to the fires in East Gippsland in December Goldstar sustained some damage to field assets and other minor assets estimated at \$41,500. A claim will be lodged in the first quarter of 2007 but the outcome is unknown. Therefore, it is not practical to estimate the amount which will be received to cover the cost of the damage.

Legal claim

There are no legal claims pending.

| CONSOLIDATED | |
|---------------------|---------------|
| 2006 | 2005 |
| \$'000 | \$'000 |

9. CONTRIBUTED EQUITY

Ordinary shares 123,384,809 fully paid ordinary shares (30 June 2006: 106,175,194).

Contributing Shares (partly paid shares)

| | |
|---------------|---------------|
| 30,106 | 20,300 |
| 6 | 6 |
| 30,112 | 20,306 |

(i) Ordinary shares

Full paid ordinary shares carry one vote per share.

Movement in ordinary shares on issue

At 1 July 2006

20,306

At October 2006

At 4 October 2006, 1,000,000 options were issued for the payment of \$350,000 in cash on exercise of the options by Southern Cross Equities

350

At November 2006

On 21 November 2006, 75,000 partly paid shares were fully paid and on 27 November a further 750,000 shares were fully paid being a total of 825,000 shares fully paid up to 10 cents.

81

At December 2006

On 14 December 2006, 15,384,615 shares were issued as part of a \$13 million capital raising less costs which was announced earlier in the December.

10,000

Transaction costs on the share issue

(625)

At 31 December 2006

30,112

GOLDSTAR RESOURCES NL – HALF YEAR REPORT

10. EVENTS AFTER THE BALANCE SHEET DATE

On 25 January 2007 Goldstar completed a Share Purchase Plan (SPP) offer to existing shareholders as part of the \$13 million capital raising announced on 8 December 2006. RBC raised \$10 million in December 2006 via a placement to institutional and professional investors at 65 cents and Tolhurst fully underwrote an SPP to existing shareholders for \$3 million at 65 cents. Shareholders contributed \$1.36 million via the SPP and Tolhurst contributed \$1.64 million under the underwriting agreement.

GOLDSTAR RESOURCES NL – HALF YEAR REPORT

DIRECTORS'S DECLARATION

In accordance with a resolution of the directors of Goldstar Resources NL, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i. give a true and fair view of the financial position as at the 31 December 2006 and the performance for the half-year ended on that date of the consolidated entity; and
 - ii. comply with Accounting Standard AASB 134 *Interim Financial Reporting* 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.

On behalf of the Board

A handwritten signature in dark ink, appearing to read 'Gordon Hill', is written over a faint, illegible printed name.

Gordon Hill
Chairman

Dated at Perth this 16th Day of March 2007



Chartered Accountants
& Business Advisers

INDEPENDENT REVIEW REPORT

TO THE MEMBERS OF GOLDSTAR RESOURCES NL

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Goldstar Resources NL, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the entity comprising the company and the entities it controlled at 31 December 2006 or from time to time during the half year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

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

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



Chartered Accountants
& Business Advisers

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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

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

A handwritten signature in black ink that reads 'PKF'.

PKF
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Ian Olson'.

Ian Olson
Partner

Dated at Perth, Western Australia this 16th day of March 2007