

# **WINDARRA MINERALS LTD.**

**Annual Report to Shareholders  
2006**

## Message to Shareholders

*2006 was a very positive exploration year for Windarra. The Pukaskwa area of Northern Ontario became the main focus. The property is located 50 km west of the town of Wawa, Ontario in the Mishibishu Greenstone belt. Pukaskwa was a relatively inactive property until the discovery of bonanza-grade vein-gold mineralization in 2004. Grab samples of the discovery vein, which is a quartz-Fe carbonate vein containing abundant visible gold and sparse pyrite, chalcopyrite, galena, and molybdenite, returned spectacular values, including 115.4, 25.3, 4.1, and 0.95 oz/ton gold. The Company followed up the initial discovery of the bonanza-grade veins with a detailed soil geochemical program that was combined with further prospecting, mapping trenching and geophysical work, and, as a result, another zone of excellent potential was identified.*

*This second significant discovery named Middle Finger Lake Zone, consists of gold mineralization hosted by well foliated chlorite-altered fine-grained sedimentary rocks. Since the trenching program was completed in early summer, Windarra has undertaken ground geophysical surveys (induced polarization and magnetometer) detailed geologic mapping which have helped us meet our goal of outlining final targets for a planned diamond drilling program.*

*With a strong equities market I look forward to a successful exploration year in 2007.*

On behalf of the Board of Directors,

*“John Pallot”*

President

## MANAGEMENT'S DISCUSSION AND ANALYSIS

January 12, 2007

*This Management Discussion and Analysis is provided for the purpose of reviewing the fiscal year ended September 30, 2006 as well as the fourth quarter, and comparing results to the previous period. The MD & A should be read in conjunction with the Company's audited consolidated financial statements and corresponding notes for the years ending September 30, 2006 and 2005. The financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all monetary amounts are expressed in Canadian dollars.*

### COMPANY OVERVIEW AND OVERALL PERFORMANCE

Windarra Minerals Ltd. ("the Company", "Windarra") has been in the business of exploring minerals for over 25 years, primarily gold properties both directly and indirectly through its subsidiary, Westward Explorations Ltd. ("Westward") and up until 2002, Messina Minerals Inc. (formerly Mishibishu Gold Corporation).

In May and June of 2006, the Company conducted a prospecting and trenching program on its Pukaskwa property, under option from Messina Minerals. In July, geophysical work, which consisted of Induced Polarization and Magnetometer surveys, was conducted. This was followed in August by detailed mapping of the trenches and further detailed soil geochemistry. All the work focussed on the West Aardvark grid, which was laid out in 2005 in the area surrounding Windarra's late 2004 discovery of bonanza-grade vein-gold mineralization. The 2006 programs built on the detailed soil sampling and prospecting that was conducted on the grid in the late fall of 2005. The trenching program utilized an excavator that was mobilized by helicopter to the property, and a total of 5317 square metres in 13 trenches was excavated, with a total of 2913 square metres in 13 trenches washed and cleaned. Siting the trenches was in large part determined by the location of samples located during the previous prospecting programs, as well as by the location of gold and arsenic soil geochemical anomalies outlined during the grid soil sampling program. The excavator trenching was begun in late May, and sampling was completed in June; the work was supervised by Stares Contracting Corp. of Thunder Bay, Ontario. Results of all the programs were very encouraging, and the release of the results of the trench sampling in late July resulted in a modest but temporary increase in Windarra's share price.

The focus of the past several years' work on the Pukaskwa property, in the West Aardvark area, has yielded excellent results, and the targets which have been generated and systematically evaluated at surface, such as the Middle Finger Lake and Bonanza-grade zones, are ready for drill-testing. They represent targets with excellent potential at depth as well as along strike. Furthermore, work in the past year has also identified other areas on the West Aardvark grid which require further trenching and detailed mapping, and it is considered likely that this work would also be followed by drill-testing. Such areas include the chargeability anomaly *en echelon* with, and to the southwest of, the Middle Finger Lake zone, the area on the northern part of the grid coincident with the northern end of the Lower Cedar trench, and a geochemically anomalous area west of the Heli trench.

During the year the Company completed three private placements raising a total of \$570,000. While the Company intends to raise additional funds in the new year, market conditions such as the price of gold and stock market trends will have an impact on the ability of the Company to obtain future financing.

The Company's loss before other items and income taxes for the year ended September 30, 2006 was \$352,908 (2005 - \$462,682). This decrease is, for the most part, attributed to a reduction in professional and technical consulting fees of \$168,981 relating to the resolution of Company's tax case with CRA with an offsetting increase in public relations fees in the amount of \$33,430. Gains on sale of long-term investments in the amount of \$118,938 (2005 - \$291,504) reduced the Company's loss before income taxes for the year to \$232,665 (2005 - \$137,233).

Included in the loss for the year ended September 30, 2006 of \$1,060,419, is an income tax reassessment in the amount of \$920,754. Westward's 1995 Corporate Income Tax Return was reassessed in May 2000 and Westward filed Notice of Appeal with the Tax Court of Canada at that time. In February 2006, the appeal was partially allowed, and a judgment received from the Court. As a result of this judgment, Westward has a liability at September 30, 2006 representing taxes, accrued interest and a portion of the CRA legal costs in the amount of \$920,754.

The Company is taking steps to work out a settlement with CRA in order to allow Westward to continue in the acquisition and exploration of mineral properties. At this time, CRA has not taken any active steps to collect the debt and the Company has hired a consultant to facilitate a settlement. The Company has filed a Notice of Intention to Make a Proposal pursuant to provisions of the Bankruptcy and Insolvency Act. Resolution of this matter is expected in early 2007.

## **RESULTS OF OPERATIONS**

The Company spent \$456,186 on Pukaskwa claims during the year ended September 30, 2006 (2005 - \$117,345).

### ***Pukaskwa Claims, Ontario***

The Company entered into an option agreement with Messina Minerals Inc. ("Messina"), a company related by way of common directors, to earn a 100% interest in the Pukaskwa property by issuing 50,000 shares (issued) upon TSX Venture acceptance and a further 300,000 common shares (225,000 issued) over a period of 30 months from the date of acceptance. The Company must maintain the claims in good standing during the option period, and, if applicable, for a period of 12 months from the date the Company elects to terminate its option under the agreement.

The Pukaskwa property is located 50 kilometres west of Wawa, Ontario, less than 20 km northwest of Wesdome Gold Mines Ltd.'s (formerly River Gold Ltd.) Eagle River Mine, which has produced approximately 600,000 ounces of gold since 1995. It also lies less than 20 km west-southwest of the

formerly producing Magnacon mine, and Magnacon joint venture property, in which Windarra and its 71% held subsidiary, Westward Explorations Ltd., hold an interest jointly with Wesdome. The Pukaskwa property consists of 55 contiguous unpatented mining claims which follow the east-northeast to west-southwest trending Mishibishu deformation zone for more than 12 kilometres. The deformation zone hosts many vein gold occurrences and showings, including the Mishi and Magnacon deposits, and it transects much of the length of the Mishibishu greenstone belt, an east-west trending belt of greenschist to amphibolite grade Archean volcanic and associated sedimentary rocks that are considered to be the western equivalent of the prolific Abitibi greenstone belt, west of the Kapuskasing structural zone.

Gold within quartz veins that are hosted by Archean age rocks was identified at the Pukaskwa property during exploration in the wake of the discovery of the Hemlo gold deposits in the early 1980's. The Hemlo deposits have produced approximately 20 million ounces Au since their discovery and are located only 80 kilometers to the north of the Pukaskwa property. The age of the Pukaskwa property host rocks, and a number of their structural and lithological characteristics are directly comparable to those in the Hemlo belt.

In the fall of 2004, a prospecting program focused on re-evaluating the 8 kilometre strike-length of the previously defined gold-bearing Mishibishu deformation zone underlying the Pukaskwa property. Previous exploration in the late 1980's had identified a host of gold occurrences, including the Champagne Vein and West Aardvark occurrence. However, a new gold occurrence 0.5 kilometres southwest of the West Aardvark occurrence and 5 kilometres east of the Champagne vein was discovered which yielded values far in excess of previous discoveries on the property. Four samples from angular blocks of quartz vein float assayed between 12.2 and 62.0 ounces gold per ton, with assays of the sample rejects returning grades between 14.54 and 39.20 ounces gold per ton. The angular nature of the 0.5 metre scale quartz boulders suggested to prospectors that the boulders had not traveled far from source, as did the fact that the showing sits on the north flank of a large soil anomaly outlined by previous reconnaissance-scale soil geochemical work programs.

Further exploration work, mainly prospecting and hand-trenching, was carried out and in July, and the Company subsequently announced the discovery of outcropping bonanza-grade gold mineralization. A total of four samples were collected from hand-trenched outcrops of the quartz-iron carbonate veins from which the bonanza-grade boulders were sourced. The vein, which carries abundant visible gold and varies between 5 and 30 cm thickness in outcrop, was exposed over a 5-6 meter length, beyond which it is covered by overburden. The samples collected from it assayed 115.4, 25.3, 4.1 and 0.95 oz/ton Au (3955.1, 869.7, 141.4, and 32.5 g/t, respectively). A grab sample of wallrock to the vein also returned 5.2 oz/ton gold. A number of nearby quartz vein float boulders containing visible Au were also discovered, with one 120 metres to the southwest yielding 0.82 oz/ton Au, and one 100 metres to the southeast yielding 0.55 oz/ton Au.

In the late fall, a follow-up soil geochemical program was conducted. Geochemical anomalies on the

1,064 sample soil grid clearly outlines an east-northeast to west-southwest mineralized trends which encompass the discovery outcrop. The bonanza-grade vein strikes northeast to east-northeast, dips steeply to the northwest, and is hosted by well foliated meta-conglomerate of the Mishibishu greenstone belt. The aim of the soil sampling was to trace the bonanza-grade vein system beyond its limits in the hand trench beneath surficial cover (till, soil, and vegetation), and to identify similar targets in the immediate vicinity. Because soil geochemistry is a proven exploration tool in the district, a 2km x 1km cut grid was established, with tightly spaced control lines (50 metres) and closely-spaced sampling (12.5 metres) in the area of the grid immediately surrounding the exposed vein.

As mentioned above, the sampling clearly outlines an east-northeast to west-southwest mineralized trend, averaging approximately 100 metres in width, which encompasses the discovery outcrop. The soil geochemistry also outlines a parallel but somewhat less continuous trend to the north. Both trends, as well as other more isolated areas of anomalous soils, are defined by the presence of common highly anomalous samples (>25 ppb Au, ranging up to 1,399 ppb Au), and that they coincide with mineralization is confirmed by the local presence within them of outcropping mineralized veins. However, detailed sampling in the immediate vicinity of the bonanza-grade gold mineralization demonstrates that even soil samples collected adjacent to sub-cropping bonanza-grade veins may yield analyses which are at background levels for the Pukaskwa area (i.e., 5 ppb Au or even less). As a result, the mineralized trends themselves are obviously, and commonly, of more significance than the absolute values of individual soil geochemical samples within them, although high individual samples clearly merit close attention. The east-northeast to west-southwest mineralized trends are also part of a broader belt of anomalous gold geochemistry that is defined by historical data generated during exploration of the belt in the late 1980's and early 1990's. That data was obtained utilizing wider-spaced sampling on more reconnaissance-style grids, but the data show that the bonanza-grade occurrence and the mineralized trends outlined in the present soil sampling program lie within an east-northeast trend of anomalous Au values which has a minimum strike length of approximately seven kilometres. It is part of a regional mineralized trend known as the Mishibishu gold belt, which coincides with a belt of relatively high strain known as the Mishibishu deformation zone.

Since the bonanza-grade veins on the Pukaskwa property may contain up to several percent sulphides (pyrite, chalcopyrite, galena, sphalerite, and molybdenite), and because other Au-bearing quartz veins on the Pukaskwa property also commonly contain other sulphides (e.g., arsenopyrite), the soil geochemistry of pathfinder elements such as Cu, Pb, Zn, and As, can be used to help trace mineralized zones beneath surficial cover, and therefore the soil samples were analyzed for a multi-element exploration ICP package. The results of the multi-element soil geochemical work were very encouraging and they show that the bonanza-grade vein and the belt of elevated Au geochemistry that encompasses it are coincident with a zone of anomalous arsenic and base metals geochemistry in soils. More significantly, the results for the pathfinder elements accentuate several zones within that belt aside from the area immediately surrounding the bonanza-grade vein, and clearly suggest that these zones warrant the highest-priority follow-up. One of these zones, approximately 500 metres northeast of the bonanza-grade vein, is larger

than that surrounding the vein, but equally highly anomalous. And, like the bonanza-grade zone, this newly-recognized zone is also coincident with a strongly anomalous Au-in-soil geochemical anomaly--it therefore has excellent exploration potential.

Within the context of extensive late 1980's to early 1990's era reconnaissance soil geochemical grid work on the Pukaskwa property, the new data show that the anomalies described above represent extremely attractive exploration targets. The historic data, which has recently been compiled by Windarra, are continuous for at least 15 km of strike length and they encompass the grid area sampled more recently. The newly defined anomalies lie central to the broadest, most continuous, and most geochemically-enriched part of several mineralized sub-trends within the previously defined, regional-scale mineralized belt known as the Mishibishu gold belt. The Mishibishu belt appears to coincide with a zone of relatively high strain, although local geologic controls on mineralization in the zone are not currently well understood. The bonanza-grade vein, and many other vein occurrences in this trend, appear to be hosted by well foliated but relatively competent meta-conglomerate in a part of the Mishibishu belt in which finer-grained and relatively incompetent clastic rocks predominate.

At one occurrence within the bounds of the recently defined soil geochemical anomalies, the well foliated host rocks contain relatively abundant disseminated sulphides (arsenopyrite and pyrite), but relatively little quartz vein material. This occurrence, which has come to be known as the "Middle Finger Lake zone", was initially recognized by following up a local magnetometer high. It represents a somewhat different and very exciting style of mineralization from the more typical relatively sulphide-poor, free gold-bearing quartz veins at most of the gold occurrences on the property. Because trenching over the Middle Finger Lake zone returned excellent results, with both significant widths and excellent grades of gold mineralization, Windarra undertook the Induced Polarization survey and further magnetometer work in July of this year. The main goal of the geophysical work was to trace the zone of chargeable sulphide mineralization beneath soil and vegetation cover, with the further goal of identifying new areas of exploration interest on the West Aardvark grid. Both goals were met.

The Induced Polarization survey showed clearly that the Middle Finger Lake zone, and the Au-As soil geochemical anomaly which surrounds it, is coincident with a well-defined, 50-75m wide zone of high chargeability (35mV/V). The anomalous zone trends east-northeast to west-southwest, and can be traced over a strike length of 900 meters. It remains open to the southeast, in the vicinity of Aardvark Lake. On its western end, across a prominent north-northeast trending linear feature outlined well by the geophysical surveys, the zone appears to be truncated, or at least to lose some strength.

A similar but somewhat more subdued and discontinuous chargeability anomaly occurs southwest of, and overlaps with, the western end of the Middle Finger Lake zone anomaly, occurring between it and the Au veins at the Bonanza-grade zone. This anomaly, although less prominent than the chargeability anomaly at the Middle Finger Lake zone, has a strike length of 1.4 kilometres, and remains open to the west. And, like the chargeability high at the Middle Finger Lake zone, it is also coincident, in part, with an extensive

Au-As soil geochemical anomaly--it represents an extensive and exciting exploration target, much of which remains untested. Where it has been tested, such as at the East and West Duddy trenches, and at the Upper Cedar trench, mineralization was at least locally similar style to that at the Middle Finger Lake zone. At the Upper Cedar trench, Middle Finger Lake style mineralization yielded up to 9 g/t Au across one metre in chip samples, with supportive values averaging approximately 300 ppb Au across several metres of wallrock. At the Duddy trenches, mineralization consists predominantly of quartz vein-type, and although many of the grab samples collected have yielded significant grades, commonly between 5 and 15 g/t Au, and ranging up to 27 g/t Au, the veins do not approach the tenor of the veins at the Bonanza-grade zone. The immediately adjacent area is still considered to have excellent exploration potential, however, as the soil geochemistry suggests that the trenches may be located on the southern margin of the zone of greatest potential.

The Bonanza-grade zone itself has little geophysical expression in terms of chargeability, resistivity, or magnetics. However, it is ready for drill-testing, and the surrounding area, particularly to the east and northeast, still has great exploration potential, in particular because of the presence of the elevated and extensive soil geochemical anomaly and the proximity of the veins with their consistently spectacular grades.

Following completion of the geophysical surveys, a short trench mapping program was undertaken on the West Aardvark grid, mainly with the aim of providing further definition of targets for a diamond drilling program. Results of the mapping program are detailed in a report by O'Neill et al. (2006), and they help to provide a better geologic understanding of gold mineralization on the property. In addition, the mapping, together with some new soil geochemical work, has helped to extend the known mineralized zones, and has helped outline several new targets. As mentioned previously, gold at the Pukaskwa property occurs in association with quartz, arsenopyrite, pyrite, chalcopyrite, galena and sphalerite, and it occurs in two main styles, which together provide excellent exploration targets. The first and most obvious style of mineralization, that of classic quartz veins bearing free and sulphide-associated gold, occurs within both conglomeratic and finer-grained clastic rocks. In this style, alteration selvages, typically chloritic, are negligible. The Bonanza-grade zone, which yields multi-ounce gold values, is the most obvious example of this style of mineralization; it is hosted by competent conglomeratic rocks. A second style of mineralization is best exemplified at the Middle Finger Lake zone. There, quartz veining occurs only very locally, as quartz stringer veins, and the mineralization is characterized by the presence of layers of disseminated to semi-massive arsenopyrite within a zone of heavy chlorite alteration several metres or more thick. A well-developed foliation is typical of the host rocks, which are fine-grained argillaceous rocks, and channel samples average over 5 g/t gold across nearly 6 metres. The fact that both styles of mineralization occur locally in several of the trenches mapped strongly suggests the potential for the coincidence of the two styles, with Bonanza grade-type veins occurring within an envelope of Middle Finger Lake-style mineralization. Such a coincidence represents the true exploration upside of the Pukaskwa property, an upside which definitely merits further testing in the form of diamond drilling, excavator trenching, and detailed soil geochemistry.

In summary, a great deal was accomplished on the Pukaskwa property during 2006. The focus of the past several years on the West Aardvark area has yielded excellent results, and the targets generated in that area, such as at the Middle Finger Lake and Bonanza-grade zones, are ready for drill-testing. Furthermore, work in the past year has also identified areas which require further trenching and detailed mapping, which should most likely be followed by drill-testing. Such areas include the geochemical anomalies eastward and northeastward from the Bonanza-grade zone, and the chargeability anomaly *en echelon* with, and to the southwest of, the Middle Finger Lake zone.

### ***Magnacon Properties***

The Magnacon Properties consist of 19 freehold patented claims and 7 leasehold patented claims at the Magnacon Property plus one leasehold claim (replacing 40 former mining claims) at the contiguous Magnacon East Property. In 2003, the claims were converted to 20-year leases. Windarra owns a 25% interest and Wesdome Gold Mines Ltd. (formerly River Gold Mines Ltd.) (“Wesdome”) owns a 75% interest and is the operator of the exploration program.

The Magnacon Property is the site of the former producing Magnacon Mine, which produced 34,000 ounces of gold between early 1989 and July 1990. Windarra has expended approximately \$17 million dollars since 1985 on the Properties. A total in excess of an estimated \$70 million dollars has been spent by all parties between 1985 to 2000 on the exploration and development of the Properties.

In February 2004, Wesdome proposed a \$6.8 million underground exploration and development program of which Windarra’s share of costs would approximate \$1.7 million. This involved 1,825 metres of development, 15,000 metres of drilling, and approximately 30,000 tonnes of test mining. During 2004, Windarra engaged the services of Peter Tallman, P. Geo, an independent geological consultant, to visit the property and review the budget and program, and to prepare a report to the Board. After a review of the proposed program and budget, Windarra notified the operator of its objection to the scope of the exploration program and, accordingly, has not made any further payments to Wesdome.

During the year ended September 30, 2005, the Company received notice from the operator that the Company’s interest in these claims has been diluted to 22.2% as a result of non-payment of the Company’s share of exploration expenditures on the claims since January 1, 2004 in an amount of approximately \$340,000. As the work program undertaken by the operator was not approved by the Company, no provision has been made in the accounts of the Company for any liability associated with unpaid exploration expenditures.

## **CRA Tax Case**

In 1995, Windarra sold an 11.12% interest in the Magnacon Mine property to Westward. CRA questioned the valuation of the property as reported by Windarra consultants, Watts Griffis and McQuat. In May 2000, Westward's 1995 Corporate Income Tax Return was reassessed and Westward filed Notice of Appeal with the Tax Court of Canada. The appeal was partially allowed, and a judgment received from the Court in February 2006. As a result of this judgment, Westward has a liability at September 30, 2006 representing taxes, accrued interest and a portion of the CRA legal costs in the amount of \$920,754.

The Company is taking steps to work out a settlement with CRA in order to allow Westward to continue in the acquisition and exploration of mineral properties. At this time, CRA has not taken any active steps to collect the debt and the Company has hired a consultant to facilitate a settlement. The Company has filed a Notice of Intention to Make a Proposal pursuant to provisions of the Bankruptcy and Insolvency Act.

## **Exploration Financing**

The following table sets forth the Company's use of proceeds for its recent private placements:

<b>Financings</b>	<b>Proposed Use of Proceeds</b>	<b>Actual Use of Proceeds to September 30, 2006</b>
\$335,000- October 2005	-\$245,000 for property exploration on the Pukaskwa Property -\$90,000 for working capital	\$ 245,000 on Pukaskwa property
\$100,000 – June 2006	-\$100,000 for property Exploration on the Pukaskwa Property	\$100,000 on Pukaskwa property
\$135,000 – July 2006	-\$130,000 for property exploration on the Pukaskwa Property -\$5,000 for working capital	\$110,000 on Pukaskwa property

## **SELECTED ANNUAL INFORMATION**

This discussion should be read in conjunction with the Company's annual audited financial statements dated September 30, 2006.

	<b>Year ended September 30, 2006</b>	<b>Year ended September 30, 2005</b>	<b>Year ended September 30, 2004</b>
Loss for the year	\$ (1,060,419)	\$ (137,233)	\$ (111,299)
Basic and Diluted Loss Per Share	\$ (0.04)	\$ (0.01)	(\$0.01)
Total Assets	\$1,091,531	\$ 691,513	\$ 640,712
Mineral Properties and Deferred Exploration Expenditures	\$ 979,316	\$ 523,131	\$ 405,786

### September 30, 2006 compared to September 30, 2005

During the year ended September 30, 2006, the Company's total assets increased by \$400,018 as compared to September 30, 2005 due largely to deferred exploration expenditures in the amount of \$456,185. The Company has a working capital deficiency of \$1,096,978 (2005 - \$151,770) This amount is significantly higher than the previous year as a result of the amount payable to the Canada Revenue Agency.

The Company's expenses for the year ended September 30, 2006 were \$352,908 (2005 - \$462,682). This decrease is, for the most part, attributed to a reduction in professional and technical consulting fees of \$168,981 relating to the resolution of Company's tax case with CRA with an offsetting increase in public relations fees in the amount of \$33,430. Gains on sale of long-term investments in the amount of \$118,938 (2005 - \$291,504) reduced the Company's loss before income taxes for the year to \$232,665 (2005 - \$137,233). The gain on sale of long-term investments included a gain of \$22,591 on sale of shares of Stingray Minerals Inc. a company with a common director.

### September 30, 2005 compared to September 30, 2004

The Company's total assets of \$691,513 at September 30, 2005 are comparable to the Company's total assets balance at September 30, 2004 of \$640,712. Working capital deficiency increased to \$(151,770) from \$(96,581) in 2005, primarily as a result of an increase in accounts payable at September 30, 2005 by approximately \$64,000 over 2004 due to an increase in legal and technical fees accrued relating to the Westward tax case of approximately \$47,000, and accruals on the Pukaskwa mineral property in the amount of \$ 24,000.

The Company's expenses during the year ended September 30, 2005 were \$462,682, up from 2004 expenses of \$360,058. This increase was mainly a result of additional professional fees and technical consulting costs related to the Company's tax case with CRA. The Company's 2005 loss before other items was partially offset by gains on sale of long term investments of \$291,504 (2004 - \$190,810). \$282,501 of this amount arose on sale of shares of Stingray Minerals Inc. a company with a common director.

### SUMMARY OF QUARTERLY RESULTS

QUARTER ENDING	Sept. 30 2006	June 30 2006	Mar. 31 2006	Dec. 31 2005	Sept. 30 2005	June 30 2005	Mar. 31 2005	Dec.31 2004
Income (loss) before income taxes	\$ (33,060)	\$(72,464)	\$(59,078)	\$(68,063)	\$(57,820)	\$(171,798)	\$(78,423)	\$170,808
Earnings (Loss) Per Share	\$ 0.00	\$(0.04)	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.01

The loss for the fourth quarter 2006 is \$33,060 compared to a loss of \$57,820 for the fourth quarter 2005. While administrative costs remained relatively stable, gain on sale of investments increased by approximately \$62,000 and there was no dilution gain in 2006 (2005 – \$33,000).

## **LIQUIDITY AND CAPITAL RESOURCES**

Working capital deficiency has increased to \$1,096,978 at September 30, 2006 from \$151,770 in 2005. With the exception of the CRA amount payable of \$920,754, the Company's working capital situation has been determined by its ability to offset expenses against gains obtained through the continued divestment of investments. During the year, the Company was successful in raising capital through private placement financings and the sale of investments. The Company completed three private placements pursuant to which it raised total proceeds of \$570,000. In October 2005, the Company issued 300,000 units at a price of \$0.30 per unit and 700,000 flow-through units at a price of \$0.35 per unit for total proceeds of \$335,000. Each flow-through unit and non flow-through unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share of the Company at a price of \$0.40 for a period of one year from closing.

In June 2006, the Company issued 60,000 units and 340,000 flow-through units at a price of \$0.25 per unit for total proceeds of \$100,000. Each flow-through unit and non flow-through unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of \$0.35 for a period of one year.

In July 2006, the Company issued 20,000 units and 520,000 flow-through units at a price of \$0.25 per unit for total proceeds of \$135,000. Each flow-through unit and non flow-through unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of \$0.35 per share for a period of one year.

Other than option payments and its participation in the Magnacon Joint Venture, Windarra has no ongoing property commitments. There is a bill in dispute with respect to the Magnacon Joint Venture in the approximate amount of \$340,000. This matter is described more fully under "Magnacon Joint Venture Properties" in this report.

## **TRANSACTIONS WITH RELATED PARTIES**

The Company entered into the following transactions with related parties during the year ended September 30, 2006:

- a) paid or accrued corporate and administration fees of \$36,006 to Susan Tessman, Corporate Secretary of the Company;
- b) paid or accrued management fees of \$42,000 to John Pallot, President of the Company;

- c) paid or accrued geological consulting fees included in mineral property and exploration costs of \$59,978 and management fees of \$1,563 to Charlie Greig, a director of the Company.
- d) Issued 100,000 common shares valued at \$24,500 to Messina pursuant to the Pukaskwa claims agreement;
- e) sold 57,000 common shares of Messina Minerals Inc. for total proceeds of \$79,752, resulting in a gain of \$67,782. At September 30, 2006 the Company held 210,042 common shares of Messina with a market value of \$252,050; and
- f) sold 55,500 common shares of a public company related by virtue of a former common director for total proceeds of \$32,391, resulting in a gain of \$22,591. As at September 30, 2006, the Company held 231 common shares of this company with a market value of \$152.

Included in accounts payable at September 30, 2006 is \$34,926 owing to officers and directors of Company.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company's Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") are responsible for the establishment and maintenance of a system of disclosure controls and procedures. This system is designed to provide reasonable assurance that information required to be disclosed by the Company under various securities legislation or the rules of regulatory agencies is appropriately reported within the time periods specified.

The Certifying Officers evaluate the system periodically throughout the year. They have concluded that the Company's disclosure controls are effective in providing reasonable assurance that material information relating to the Company is accumulated, reviewed by management and reported within the time periods specified.

The Certifying Officers are also responsible for the establishment of a system of internal controls over financial reporting. This system is designed to provide reasonable assurance regarding the reliability and timeliness of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principals.

Ultimate responsibility for financial reporting rests with the Board of Directors. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and is composed of a majority of independent outside directors. It meets periodically with management and the external auditors to review accounting, auditing and internal control matters and regularly reports its findings and recommendations to the Board of Directors.

## OUTSTANDING SHARE DATA

As at September 30, 2006 the Company had 26,121,909 shares outstanding. During the fourth quarter a private placement was completed for the issuance of 20,000 non flow-through and 520,000 flow-through units at a price of \$0.25 per unit. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of \$0.35 per share for a period of one year.

At the end of the fiscal year the Company had the following stock options outstanding:

Date of Grant	Name	Amount	Exercise Price	Expiry Date	Type
July 29, 2004	John Pallot	600,000	\$0.10	July 29, 2007	Director
July 29, 2004	Susan Tessman	140,000	\$0.10	July 29, 2007	Officer
July 29, 2004	Gary McDonald	200,000	\$0.10	July 29, 2007	Director
May 2, 2005	Robert Fraser	200,000	\$0.20	May 2, 2008	Director
June 8, 2005	Charles Greig	200,000	\$0.23	June 8, 2008	Director
Oct. 11, 2005	Peter Tallman	100,000	\$0.32	Oct. 11, 2007	Director (Advisory)
<b>TOTAL</b>		<b>1,440,000</b>			

At the end of the year the Company had the following warrants outstanding:

Number of Warrants	Number of Shares	Exercise Price	Expiry Date
1,000,000	1,000,000	\$0.40	Oct 6, 2006
400,000	400,000	\$0.35	June 5, 2007
540,000	540,000	\$0.35	July 18, 2007
<b>TOTAL</b>	<b>1,940,000</b>		

Subsequent to the year end, 1,000,000 warrants exercisable at \$0.40 expired.

## ADDITIONAL INFORMATION

Additional information on Windarra Minerals Ltd. can be found by visiting the Company's website at [www.windarra.com](http://www.windarra.com) and by viewing regulatory filings on SEDAR at [www.sedar.com](http://www.sedar.com).

**ADDITIONAL INFORMATION FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE:****MINERAL PROPERTIES AND DEFERRED DEVELOPMENT COSTS****THREE MONTHS ENDED SEPTEMBER 30, 2006**

	Pukaskwa Claims, Ontario	Magnacon Claims, Ontario	Three months September 30 2006
Balance, beginning of period	\$ 447,219	\$ 405,786	\$ 853,005
Additions during the period:			
Acquisition	-	-	-
Assay costs	3,803	-	3,803
Geology	89,088	-	89,088
Camp costs	4,606	-	4,606
Equipment rental	-	-	-
Travel and helicopter	28,814	-	28,814
	126,311	-	126,311
Balance, end of period	\$ 573,530	\$ 405,786	\$ 979,316

**THREE MONTHS ENDED SEPTEMBER 30, 2005**

	Pukaskwa Claims, Ontario	Magnacon Claims, Ontario	Three months September 30 2005
Balance, beginning of period	\$ 85,738	\$ 405,786	\$ 491,524
Additions during the period:			
Acquisition	-	-	-
Assay costs	472	-	472
Geology	10,073	-	10,073
Camp costs	4,416	-	4,416
Equipment rental	280	-	280
Travel and helicopter	16,366	-	16,366
	31,607	-	31,607
Balance, end of period	\$ 117,345	\$ 405,786	\$ 523,131

During the quarter, the Company did not work on the Magnacon Claims as there is a dispute with the operator. It is hoped this dispute can be resolved (see note 4 to the financial statements)

## FOURTH QUARTER STATEMENT OF OPERATIONS

	Three Months Ended September 30	
	2006	2005
<b>EXPENSES</b>		
Amortization	\$ 365	\$ 424
Corporate and administration fees	8,881	8,774
Management and financial fees	20,843	12,460
Office and miscellaneous	8,998	12,212
Professional fees	41,449	40,081
Public relations	3,668	1,759
Regulatory fees and transfer agent fees	2,341	(4,112)
Rent	5,730	5,730
Stock-based compensation	-	8,028
Technical consulting	-	-
Travel and related costs	-	2,646
<b>Loss before other items</b>	<b>(92,275)</b>	<b>(88,002)</b>
<b>OTHER ITEMS</b>		
Interest income	304	92
Gain on sale of investments	58,911	(2,910)
Dilution gain	-	33,000
	59,215	30,182
<b>LOSS FOR THE PERIOD</b>	<b>\$ (33,060)</b>	<b>\$ (57,820)</b>

### SCHEDULE OF SHARE CAPITAL

As at the date of this Management Discussion & Analysis

Common Shares outstanding	26,121,909
Options outstanding	1,440,000
Warrants outstanding	1,940,000
Fully diluted share capital	29,501,909

## **AUDITORS' REPORT**

To the Shareholders of  
Windarra Minerals Ltd.

We have audited the consolidated balance sheets of Windarra Minerals Ltd. as at September 30, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

November 17, 2006

A Member of *SC INTERNATIONAL*

**WINDARRA MINERALS LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT SEPTEMBER 30**

	2006	2005
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 10,413	\$ 80,374
Receivables	45,156	2,183
Prepaid expenses	2,386	1,734
	<u>57,955</u>	<u>84,291</u>
<b>Equipment (Note 3)</b>	3,405	4,865
<b>Mineral properties and deferred exploration costs (Note 4)</b>	979,316	523,131
<b>Investment in partnership (Note 5)</b>	100	100
<b>Long-term investments (Note 6)</b>	50,755	79,126
	<u>\$ 1,091,531</u>	<u>\$ 691,513</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 234,179	\$ 236,061
Payable to Canada Revenue Agency (Note 7)	920,754	-
	<u>1,154,933</u>	<u>236,061</u>
<b>Shareholders' equity (deficiency)</b>		
Capital stock (Note 8)	22,351,051	21,869,431
Subscriptions received	-	19,425
Contributed surplus (Note 8)	202,743	123,373
Deficit	(22,617,196)	(21,556,777)
	<u>(63,402)</u>	<u>455,452</u>
	<u>\$ 1,091,531</u>	<u>\$ 691,513</u>

**Nature and continuance of operations (Note 1)**  
**Contingency (Note 14)**

**On behalf of the Board:**

“*John Pallot*” \_\_\_\_\_ Director      “*Gary McDonald*” \_\_\_\_\_ Director

The accompanying notes are an integral part of these consolidated financial statements.

**WINDARRA MINERALS LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED SEPTEMBER 30**

	2006	2005
<b>EXPENSES</b>		
Amortization	\$ 1,460	\$ 1,395
Corporate and administration fees	36,006	33,171
Management and financial fees	59,648	49,469
Office and miscellaneous	24,007	25,436
Professional fees	55,544	181,587
Public relations	42,201	8,771
Regulatory fees and transfer agent fees	29,598	30,052
Rent	22,920	22,470
Stock-based compensation (Note 8)	79,370	59,803
Technical consulting	-	42,938
Travel and related costs	2,154	7,590
<b>Loss before other items and income taxes</b>	<u>(352,908)</u>	<u>(462,682)</u>
<b>OTHER ITEMS</b>		
Interest income	1,305	945
Gain on sale of investments (Note 6)	118,938	291,504
Dilution gain	-	33,000
	<u>120,243</u>	<u>325,449</u>
<b>Loss before income taxes</b>	<u>(232,665)</u>	<u>(137,233)</u>
<b>INCOME TAXES</b>		
Future income tax recovery (Note 10)	93,000	-
Income tax reassessment (Note 7)	(920,754)	-
	<u>(827,754)</u>	<u>-</u>
<b>Loss for the year</b>	(1,060,419)	(137,233)
<b>Deficit, beginning of year</b>	<u>(21,556,777)</u>	<u>(21,419,544)</u>
<b>Deficit, end of year</b>	<u>\$ (22,617,196)</u>	<u>\$ (21,556,777)</u>
<b>Basic and diluted loss per common share</b>		
	\$ (0.04)	\$ (0.01)
<b>Weighted average number of common shares</b>		
<b>outstanding during the year</b>	<u>25,059,991</u>	<u>23,778,690</u>

The accompanying notes are an integral part of these consolidated financial statements.

**WINDARRA MINERALS LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED SEPTEMBER 30**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$(1,060,419)	\$ (137,233)
Items not affecting cash:		
Amortization	1,460	1,395
Gain on sale of investments	(118,938)	(291,504)
Stock-based compensation	79,370	59,803
Future income tax recovery (Note 10)	(93,000)	
Income tax reassessment	920,754	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(42,973)	10,043
(Increase) decrease in prepaid expenses	(652)	20
Increase (decrease) in accounts payable and accrued liabilities	6,796	33,153
Net cash used in operating activities	<u>(307,602)</u>	<u>(324,323)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral properties and deferred exploration costs	(440,363)	(65,192)
Proceeds from sale of long-term investments	147,309	369,113
Purchase of equipment	-	(3,218)
Net cash provided by (used in) investing activities	<u>(293,054)</u>	<u>300,703</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital stock issued for cash	550,575	23,500
Share issue costs	(19,880)	-
Subscriptions received	-	19,425
Net cash provided by financing activities	<u>530,695</u>	<u>42,925</u>
<b>Change in cash during the year</b>	<b>(69,961)</b>	<b>19,305</b>
<b>Cash, beginning of year</b>	<u>80,374</u>	<u>61,069</u>
<b>Cash, end of year</b>	<u>\$ 10,413</u>	<u>\$ 80,374</u>

**Supplemental disclosure with respect to cash flows (Note 12)**

The accompanying notes are an integral part of these consolidated financial statements.

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated under the laws of British Columbia and its principal business activities include the acquisition and exploration of mineral properties.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production. The Company is considered to be in the exploration stage as it has not yet earned significant revenues.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing, to commence profitable operations in the future and to achieve a favorable settlement of the debt of the subsidiary company, Westward Explorations Ltd. (“Westward”) to the Canada Revenue Agency. Westward has filed a Notice of Intention to Make a Proposal pursuant to provisions of the Bankruptcy and Insolvency Act (Note 7).

These financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate.

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	2006	2005
Working capital (deficiency)	\$ (1,096,978)	\$ (151,770)
Deficit	\$ (22,617,196)	\$ (21,556,777)

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## **2. BASIS OF PRESENTATION**

### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its approximate 71% interest in Westward Explorations Ltd. ("Westward"). All inter-company transactions and balances have been eliminated upon consolidation.

### **Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

### **Equipment**

Equipment, consisting of office equipment, is recorded at cost less accumulated amortization. Amortization is being provided for using the declining balance method at the rate of 30% per annum.

### **Mineral properties and deferred exploration costs**

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven and probable reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral exploration interests is based on cash paid, the assigned value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

**2. BASIS OF PRESENTATION (cont'd)**

**Asset retirement obligations**

Asset retirement obligations require recognition of a legal liability for obligations relating to retirement of property, plant and equipment, and arising from the acquisition, construction, development or normal operation of those assets. Such asset retirement cost must be recognized at fair value in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

**Investment in partnership**

The Company's investment in a partnership is accounted for by the cost basis of accounting.

**Long-term investments**

Long-term investments include publicly-traded securities which are recorded at cost and adjusted to net realizable value if there is a decline in value that is other than temporary.

**Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Flow-through common shares**

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Capital stock is reduced and future income tax liability increased by the estimated tax benefits transferred to shareholders. Upon renunciation of flow-through expenditures, a portion of the future income tax assets that were not recognized in previous years due to the recording of a valuation allowance are recognized as a recovery of income taxes on the statement of operations.

**2. BASIS OF PRESENTATION (cont'd)**

**Stock-based compensation**

The Company uses the fair value method of accounting for all stock-based compensation and estimates the fair value at the date of grant using the Black-Scholes option pricing model. Any consideration paid by the option holders to purchase shares is credited to capital stock.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented this calculation proved to be anti-dilutive.

Loss per share is calculated using the weighted-average number of common shares outstanding during the year.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**3. EQUIPMENT**

	September 30 2006			September 30 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 13,155	\$ 9,750	\$ 3,405	\$ 13,155	\$ 8,290	\$ 4,865

**WINDARRA MINERALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

	September 30, 2006		
	Pukaskwa Claims, Ontario	Magnacon Claims, Ontario	Total
Balance, beginning of year	\$ 117,345	\$ 405,786	\$ 523,131
Additions during the year			
Acquisition	24,500	-	24,500
Assay costs	29,651	-	29,651
Camp costs	36,342	-	36,342
Equipment rental	40,605	-	40,605
Geology	219,816	-	219,816
Travel and helicopter	105,271	-	105,271
	456,185	-	456,185
Balance, end of year	\$ 573,530	\$ 405,786	\$ 979,316

	September 30, 2005		
	Pukaskwa Claims, Ontario	Magnacon Claims, Ontario	Total
Balance, beginning of year	\$ -	\$ 405,786	\$ 405,786
Additions during the year:			
Acquisition	20,875	-	20,875
Assay costs	4,131	-	4,131
Camp costs	9,362	-	9,362
Equipment rental	1,755	-	1,755
Geology	40,497	-	40,497
Travel and helicopter	40,725	-	40,725
	117,345	-	117,345
Balance, end of year	\$ 117,345	\$ 405,786	\$ 523,131

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd)**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

**Magnacon Claims, Ontario**

The Company holds a 25% interest in certain freehold patented and leasehold patented claims situated in the Sault Ste. Marie Mining Division, Ontario. The operator on the claims has advised the Company that the Company's interest in these mineral claims has been diluted to 22.2% as a result of non-payment of the Company's share of exploration expenditures since January 1, 2004, in an amount of approximately \$340,000, an amount for which no provision has been made in the accounts of the Company as at September 30, 2006. The Company has advised the operator that it disputes this claim on the basis that the exploration costs pertain to a work program that the Company has not approved (Note 14).

**Magnacon East Block Claims, Ontario**

The Company holds a 25% interest in certain claims in the Sault Ste. Marie Mining Division, Ontario. The Company previously wrote-down related mineral property and deferred exploration costs to a nominal value. The Company was not required to contribute to field geology and surface drilling costs incurred during the year ended September 30, 2006 but will be required to contribute its proportionate share of the expenses in future work programs.

**Pukaskwa Claims, Ontario**

During the year ended September 30, 2004, the Company entered into an option agreement with Messina Minerals Inc. ("Messina"), a company related by way of common directors, to acquire a 100% interest in certain mineral claims in the Sault Ste. Marie Mining Division, Ontario. Under the terms of the agreement, the Company has issued 225,000 common shares at a value of \$45,375 and is required to issue an additional 125,000 common shares on or before May 31, 2007.

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd)**

**Tulks South, Newfoundland**

During the year ended September 30, 2002, the Company, pursuant to an assignment agreement, was granted a 2% net smelter returns royalty on Messina's share of production from the Tulks South massive sulphide property in Newfoundland. Messina has the right to buy back the Windarra Royalty at any time prior to commercial production for \$2,000,000.

**5. INVESTMENT IN PARTNERSHIP**

During the year ended September 30, 2003, the Company, with two other companies, formed a general partnership which acquired an interest in the 1999 Investment Co. Limited Partnership, an Alberta limited partnership.

No cash distributions were received by the Company in the year ended September 30, 2006 or in the year ended September 30, 2005.

**6. LONG-TERM INVESTMENTS**

The Company holds the following investments:

	September 30 2006	September 30 2005
Shares of publicly traded companies, quoted market value \$285,752 (September 30, 2005 - \$421,720)	\$ 50,755	\$ 79,126

During the year ended September 30, 2006, the Company sold 55,500 (September 30, 2005 – 405,500) common shares of Stingray Minerals Inc., a company with a former common director, for proceeds of \$32,391 (September 30, 2005 – \$359,501), resulting in a gain of \$22,591 (September 30, 2005 – \$282,501). The Company also sold 57,000 common shares of Messina for proceeds of \$79,752, resulting in a gain of \$67,782 and sold 110,000 common shares of Nikos Explorations Ltd. for proceeds of \$35,166, resulting in a gain of \$28,565.

**WINDARRA MINERALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**7. PAYABLE TO CANADA REVENUE AGENCY**

In May 2000, Westward's 1995 Corporate Income Tax Return was reassessed and Westward filed Notice of Appeal with the Tax Court of Canada. The appeal was partially allowed, and a judgment received from the Court in February 2006. As a result of this judgment, the Company has a liability at September 30, 2006 representing taxes, accrued interest and a portion of the CRA legal costs in the amount of \$920,754. Interest is calculated at the CRA prescribed interest rate.

The Company is taking steps to work out a settlement with CRA including hiring a consultant to facilitate a settlement. At this time, CRA has not taken any active steps to collect the debt. Westward has filed a Notice of Intention to Make a Proposal pursuant to provisions of the Bankruptcy and Insolvency Act.

**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount \$	Contributed Surplus \$
Authorized			
Unlimited common shares without par value			
Issued			
Balance at September 30, 2004	23,721,909	21,817,526	71,100
Issued for property acquisitions	125,000	20,875	-
Issued for cash	235,000	23,500	-
Fair value of stock options	-	-	59,803
Transfer fair value of options exercised	-	7,530	(7,530)
Balance at September 30, 2005	24,081,909	21,869,431	123,373
Issued for property acquisitions	100,000	24,500	-
Issued for cash	1,940,000	570,000	-
Offering costs	-	(19,880)	-
Fair value of stock options	-	-	79,370
Tax benefits renounced to flow-through subscribers	-	(93,000)	-
Balance at September 30, 2006	26,121,909	22,351,051	202,743

**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)**

The Company completed private placements as follows:

- October 7, 2005 - issued 300,000 units at a price of \$0.30 per unit and 700,000 flow-through units at a price of \$0.35 per unit for total proceeds of \$335,000. Each flow-through unit and non flow-through unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share of the Company at a price of \$0.40 for a period of one year from closing. Subsequent to the year end, these share purchase warrants expired.
- June 5, 2006 - issued 60,000 units and 340,000 flow-through units at a price of \$0.25 per unit for total proceeds of \$100,000. Each flow-through unit and non flow-through unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of \$0.35 for a period of one year.
- July 18, 2006 – issued 20,000 units and 520,000 flow-through units at a price of \$0.25 per unit for total proceeds of \$135,000. Each flow-through unit and non flow-through unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of \$0.35 per share for a period of one year.

During the year ended September 30, 2006, the Company issued 100,000 common shares to Messina as part of the Pukaskwa agreement (Note 4) at a value of \$24,500.

At September 30, 2006, the Company had 1,940,000 share purchase warrants outstanding and exercisable at an average exercise price of \$0.38 per share, as follows:

Number of Warrants	Exercise Price	Expiry Date
1,000,000	\$0.40	October 6, 2006 (subsequently expired)
400,000	\$0.35	June 5, 2007
540,000	\$0.35	July 18 2007
1,940,000		

**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)**

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted average Exercise price
Balance, September 30, 2004 and 2005	-	\$ -
Granted	1,940,000	\$ 0.38
Balance, September 30, 2006	1,940,000	\$ 0.38

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

Following is a summary of stock options outstanding at September 30, 2006:

Number of Shares	Exercise Price	Expiry Date
940,000	\$ 0.10	July 29, 2007
200,000	\$ 0.20	May 2, 2008
200,000	\$ 0.23	June 8, 2008
100,000	\$ 0.32	October 11, 2007
1,440,000		

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2004	1,175,000	\$ 0.10
Options granted	400,000	0.22
Options exercised	(235,000)	0.10
Balance, September 30, 2005	1,340,000	0.13
Options granted	100,000	0.32
Options exercised	-	
Balance, September 30, 2006	1,440,000	\$ 0.15
Number of options currently exercisable	1,440,000	\$ 0.15

**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)**

During the year ended September 30, 2005, 235,000 stock options were exercised for proceeds of \$23,500.

**Stock-based compensation**

During the year ended September 30, 2006, the Company granted 100,000 (2005 – 400,000) stock options which vested upon granting. Stock-based compensation expense using the Black-Scholes option pricing model was \$21,620 (2005 - \$59,803) which was also recorded as contributed surplus on the balance sheet. The weighted average fair value of the options granted was \$0.22 (2005 - \$0.15)

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year ended September 30, 2006:

Risk-free interest rate	3.80%
Expected life of options	2 years
Annualized volatility	115%
Dividend rate	0.00%

Westward granted 875,000 (2005 – Nil) stock options during fiscal 2006 resulting in compensation expensed and contributed surplus of \$57,750 (2005 – \$Nil) which is reflected in the consolidated financial statements.

**9. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties during the year ended September 30, 2006:

- a) paid or accrued corporate and administration fees of \$36,006 (2005 - \$33,171) to an officer of the Company;
- b) paid or accrued management fees of \$42,000 (2004 - \$39,650) to an officer and director of the Company;
- c) paid or accrued geological consulting fees included in mineral property and exploration costs of \$59,978 and management fees of \$1,563 (2005 – \$Nil) to a director of the Company;
- d) issued 100,000 (2005 – 125,000) common shares valued at \$24,500 (2005 - \$20,875) to Messina pursuant to the Pukaskwa claims agreement (Note 4);

**9. RELATED PARTY TRANSACTIONS (cont'd)**

- e) sold 57,000 (2005 – Nil) common shares of Messina for total proceeds of \$79,752, resulting in a gain of \$67,782. As at September 30, 2006, the Company held 210,042 (September 30, 2005 – 267,042) common shares of Messina with a market value of \$252,050 (2005 – \$352,495); and
- f) sold 55,500 (2005 – 405,500) common shares of Stingray for total proceeds of \$32,391 (2005 - \$359,501), resulting in a gain of \$22,591 (2005 - \$282,501). As at September 30, 2006, the Company held 231 (2005 – 55,731) common shares of this company with a market value of \$152 (2005 – \$36,225).

Included in accounts payable at September 30, 2006 is \$34,926 (September 30, 2005 - \$3,771) owing to officers and directors of the Company.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

**10. INCOME TAXES**

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes is as follows:

	2006	2005
Loss for the year before taxes	\$ (232,665)	\$ (137,233)
Expected income tax recovery	\$ (85,000)	\$ (48,000)
Other	1,000	(47,000)
Partnership income subject to tax	586,000	1,675,000
Resource expenditures	(520,000)	(1,554,000)
Unrecognized (recognized) benefits of non-capital losses	(75,000)	16,000
Recognized benefits of capital losses	-	(42,000)
Total income tax recovery	\$ (93,000)	\$ -

**10. INCOME TAXES (cont'd)**

The significant components of the Company's future income tax assets are as follows:

	2006	2005
Future income tax assets:		
Non-capital loss carryforwards	\$ 166,000	\$ 228,000
Capital loss carryforward	190,000	183,000
Financing costs	5,000	-
Capital assets	20,000	29,000
Resource expenditures	3,567,000	4,172,000
Net future income tax assets before valuation allowance	3,948,000	4,612,000
Less: valuation allowance	(3,948,000)	(4,612,000)
Net future income tax assets	\$ -	\$ -

Partnership income accounted for on a cost basis is \$Nil (2005 - \$Nil) whereas allocated partnership income for income tax purposes is \$1,599,456 (2005 - \$4,753,470).

The Company has available non-capital losses of approximately \$536,000 for deduction against future taxable income. These losses, if not utilized, will expire through to 2026. Subject to certain restrictions, the Company also has resource deductions available to reduce taxable income in future years. The Company also has capital losses totalling \$1,230,000 which can be carried forward indefinitely.

Future tax benefits which may arise as a result of these non-capital losses and resource expenditures have been offset by a valuation allowance and have not been recognized in these financial statements.

During the year ended September 30, 2006, the Company issued 1,560,000 common shares on a flow-through basis for gross proceeds of \$460,000. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. The Company has renounced exploration expenditures of \$244,300 which resulted in a future income tax recovery of \$93,000 and a charge against capital stock.

**11. SEGMENTED INFORMATION**

The Company primarily operates in Canada in one industry segment being the acquisition and exploration of mineral properties.

**12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

During the year ended September 30, 2006, the Company issued 100,000 (2005 – 125,000) common shares at a value of \$24,500 (2005 - \$20,875) to Messina as part of the Pukaskwa agreement (Note 4). At September 30, 2006, the Company had accrued \$22,600 (2005 - \$31,278) of deferred exploration costs.

**13. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, investment in partnership, long-term investments, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

**14. CONTINGENCY**

During the year ended September 30, 2005, the Company received notice from the operator of the joint venture on the Magnacon claims that the Company's interest in these claims has been diluted to 22.2% as a result of non-payment of the Company's share of exploration expenditures on the claims since January 1, 2004 in an amount of approximately \$340,000 (Note 4). Management is of the opinion that the work program undertaken by the operator was not approved by the Company and, accordingly, it is management's opinion that dilution, if any, of the Company's interest in the claims will be less than that claimed by the operator. It is management's opinion that ultimate resolution of this matter cannot be determined at this time, therefore no dilution of the Company's interest has been reflected in these financial statements and no provision has been made in the accounts of the Company for any liability associated with unpaid exploration expenditures.

## Form 52-109F1 – Certification of Annual Filings

I, John Pallot, President and CEO of Windarra Minerals Ltd., certify that:

1. I have reviewed the annual filings (as this term is identified in Multilateral Instrument 52-109 *Certification of Disclosure in Issuer's Annual and Interim Filings*) of Windarra Minerals Ltd. for the period ending September 30, 2006.
2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings;
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared;
  - b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
  - c) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation; and
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

January 12, 2007

*"John Pallot"*

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John Pallot  
President and CEO

## Form 52-109F1 – Certification of Annual Filings

I, Gary McDonald, CFO of Windarra Minerals Ltd., certify that:

1. I have reviewed the annual filings (as this term is identified in Multilateral Instrument 52-109 *Certification of Disclosure in Issuer's Annual and Interim Filings*) of Windarra Minerals Ltd. for the period ending September 30, 2006.
2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings;
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - a. designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared;
  - b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
  - c) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation; and
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

January 12, 2007

*"Gary McDonald"*

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Gary McDonald  
CFO

## CORPORATE DATA

JANUARY 2007

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### DIRECTORS AND OFFICERS

John Pallot, President/Director  
Gary McDonald, C.F.O./Director  
Robert Fraser, Director  
Charles Greig, Director  
Susan Tessman, Corporate Secretary

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### CAPITALIZATION

Authorized:	Unlimited
Issued:	26,121,909
Options:	1,440,000
Warrants:	1,940,000

### LISTINGS

TSX Venture Exchange  
Trading Symbol: WRA  
Cusip No.: 973151 10 3