



METALS
AUSTRALIA LTD



ANNUAL REPORT

2007

ABN: 38 008 982 474

CONTENTS

	Page No.
• Corporate Directory	1
• Review of Operations	2
• Directors' Report	10
• Income Statement	14
• Balance Sheet	15
• Statement of Changes in Equity	16
• Statement of Cash Flows	17
• Notes to the Financial Statements	18
• Directors' Declaration	37
• Independent Audit Report	38
• Auditor's Independence Declaration	40
• Corporate Governance Statement	41
• Shareholder Information	43





CORPORATE DIRECTORY

DIRECTORS

Hersh Solomon Majteles (Chairman)
Alexander Clemen
David Zukerman

COMPANY SECRETARY

Bruce McCullagh (resigned 18 October 2006)
Norman Grafton (appointed 18 October 2006)

REGISTERED OFFICE

1st Floor, 8 Parliament Place
West Perth WA 6005

Telephone: (08) 9481 7833
Facsimile: (08) 9481 7835
Email: mls@metalsaustralia.com.au
Website: www.metalsaustralia.com.au

SOLICITORS

Blakiston & Crabb
1202 Hay Street
West Perth WA 6005
PO Box 454
West Perth WA 6872
Telephone: (08) 9322-7644
Facsimile: (08) 9322 1506
Email: office@blakcrab.com.au

AUDITORS

Stantons International
1 Havelock Street
West Perth WA 6005

BANKERS

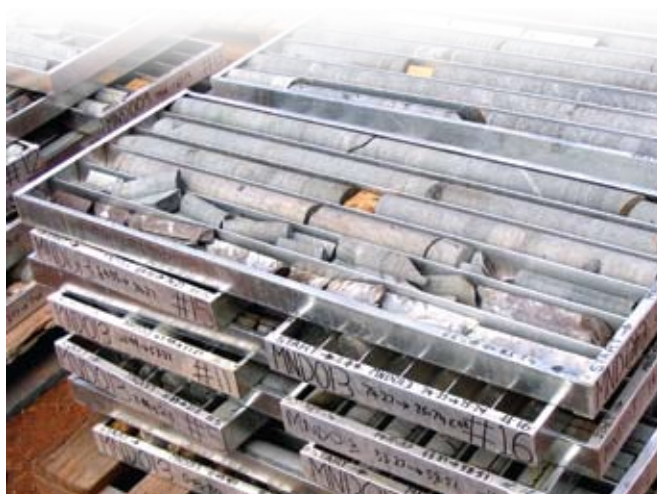
Westpac
40 St Georges Terrace
Perth WA 6000

SHARE REGISTRY

Computershare Investor Services
Level 2 Reserve Bank Building
45 St. Georges Terrace
Perth WA 6000

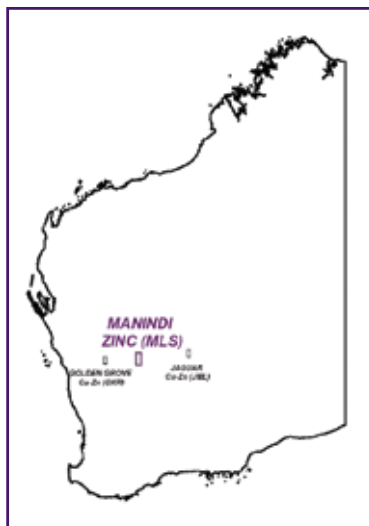
Investor Enquiries: (08) 9323 2059
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2096
perth.services@computershare.com.au

ASX code for shares: **MLS**





REVIEW OF OPERATIONS



1. MANINDI ZINC PROJECT, MURCHISON, WA. (M57/227,240, 533, P57/934-936, 938, 939, 942)

The Manindi Zinc Project is located in the East Murchison District of Western Australia, 20 kms southwest of the Youanmi minesite. The project comprises a series of volcanogenic massive sulphide zinc deposits. The geological environment shows similarities to those of other base metal sulphide deposits in the Yilgarn Craton of Western Australia such as the Golden Grove deposits located to the west of Manindi, at Yalgoo, and the Teutonic Bore / Jaguar deposits in the Eastern Goldfields.

Metals Australia Ltd ('Metals') completed a comprehensive diamond drilling programme at Manindi during the quarter. The programme was designed to test the extensions of the existing resources and allow an upgraded resource to be calculated.

Drilling has delineated broad zones of ore grade zinc mineralisation. Assaying from the current drilling programme has also demonstrated a metal 'zonation' within the various resources, including additional copper, silver and gold mineralisation.

The recent drilling has also delineated additional mineralisation in parallel lodes adjacent to the main lode in each resource. These adjacent lodes, in the foot and hanging wall positions, will add further tonnage to each resource.

A. RESULTS FROM THE MANINDI DIAMOND DRILLING PROGRAMME

KULTARR (ZONE D NTH)

Kultarr is the largest of the resource areas at Manindi. Utilising a 1% Zinc cut-off grade, Kultarr has a JORC resource of:

603,130 tonnes @ 7.66% Zinc*

*The above resource figure was calculated in 2000 and does not include the extensions to the mineralisation delineated through drilling undertaken by Metals in 2006-2007. The modeling of the new resource is discussed in a later section of this report.

Drilling continues to intersect significant economic zinc mineralisation over substantial widths at Kultarr. In addition multi-element geochemistry from the Kultarr sampling indicates that significant metal 'credits' occur within the ore body. These metal credits include copper, silver and gold.

Significant intercepts received from the recent drilling programme at Kultarr include:

MND 032	18.15 m @ 10.72% Zinc from 122.00 metres.
Including	3.00 m @ 27.57% Zinc from 122.50 metres.
And	2.00 m @ 16.30% Zinc from 133.10 metres.
MND 033	28.30 m @ 6.04% Zinc from 177.70 metres.
Including	4.00 m @ 15.93% Zinc from 177.70 metres.
And	7.00 m @ 14.96% Zinc from 199.00 metres.
Including	3.00 m @ 31.27% Zinc from 199.00 metres.
MND 036	23.50 m @ 6.50% Zinc, 0.28% Copper & 3.35 gpt Silver from 87.00 metres.
Including	8.00 m @ 6.28% Zinc, 2.91 gpt Gold and 4.06 gpt Silver and from 89.00 metres.
And	1.05 m @ 19.17% Zinc from 95.00 metres.
MND 038	12.00 m @ 14.52% Zinc, 0.23% Copper & 1.30 gpt Silver from 155.00 metres.

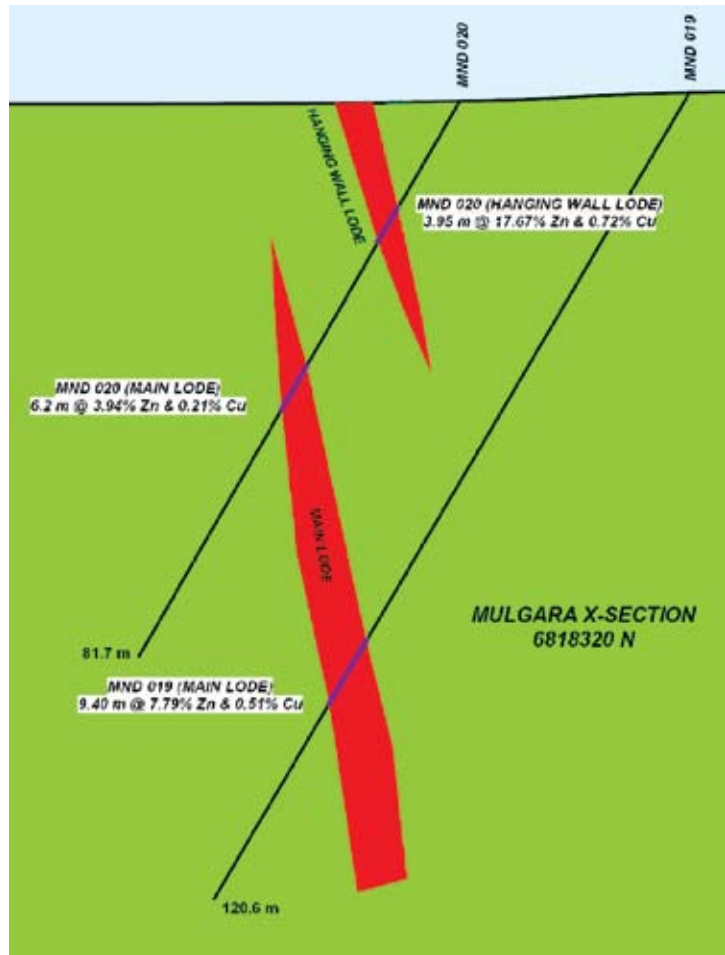


REVIEW OF OPERATIONS

And 4.25 m @ 9.22% Zinc from 89.00 metres.

Metals is now undertaking a detailed review of all historical drill assays from Kultarr. The gold mineralisation within the current sampling, such as in MND036 (8m @ 2.91 gpt Au), represents a substantial credit within the ore body, which requires further investigation. Selected mineralised intervals that may also host ore grade gold mineralisation will be resampled and assayed for gold.

MULGARA (ZONE B)



The current JORC resource at Mulgara, utilising a 1% Zinc cut-off grade, is:

218.240 t @ 7.77% Zn*

*The above resource figure was calculated in 2000 and does not include the extensions to the mineralisation delineated through drilling undertaken by Metals in 2006-2007. The modelling of the new resource is discussed in a later section of this report.

The mineralisation in the main lode at Mulgara is found approximately 20 metres below the surface, although the newly discovered hanging wall lode extends to surface. The mineralisation shows good continuity along strike, but it becomes more constrained at depth.

The diamond drilling at Mulgara (Zone B) was designed to infill on the existing drilling pattern, as well as test the extensions to the ore body, including the high-grade hanging wall lode.

Mulgara - Main Lode

The diamond drilling programme has tested the lode along its strike length and at depth. Significant assays from the main lode at Mulgara have included:

MND 016 4.00 m @ 19.76% Zinc & 0.23% Copper from 19.00 metres.

Including 2.25 m @ 31.55% Zinc & 0.10% Copper from 20.00 metres.

And 1.25 m @ 48.16% Zinc & 0.02% Copper
from 21.00 metres.

MND 019 9.40 m @ 7.79% Zinc & 0.51% Copper from 82.20 metres.

Including 1.90 m @ 13.99% Zinc & 0.59% Copper from 89.70 metres.

Mulgara - Hangingwall Lode

The hanging wall lode at Mulgara was discovered through detailed analysis of recent drilling. Logging of the drill core produced in 2006 noted the presence of significant copper mineralisation, which was subsequently assayed with the following result:



REVIEW OF OPERATIONS

MND 003 4.90 m @ 1.89% Zinc, 3.95% Copper, & 23 gpt Silver from 5.70 metres.

Subsequent drilling confirmed the continuation of copper-zinc mineralisation both along strike and at depth, including:

MND 020 5.92 m @ 17.67% Zinc & 0.72% Copper from 14.25 metres.

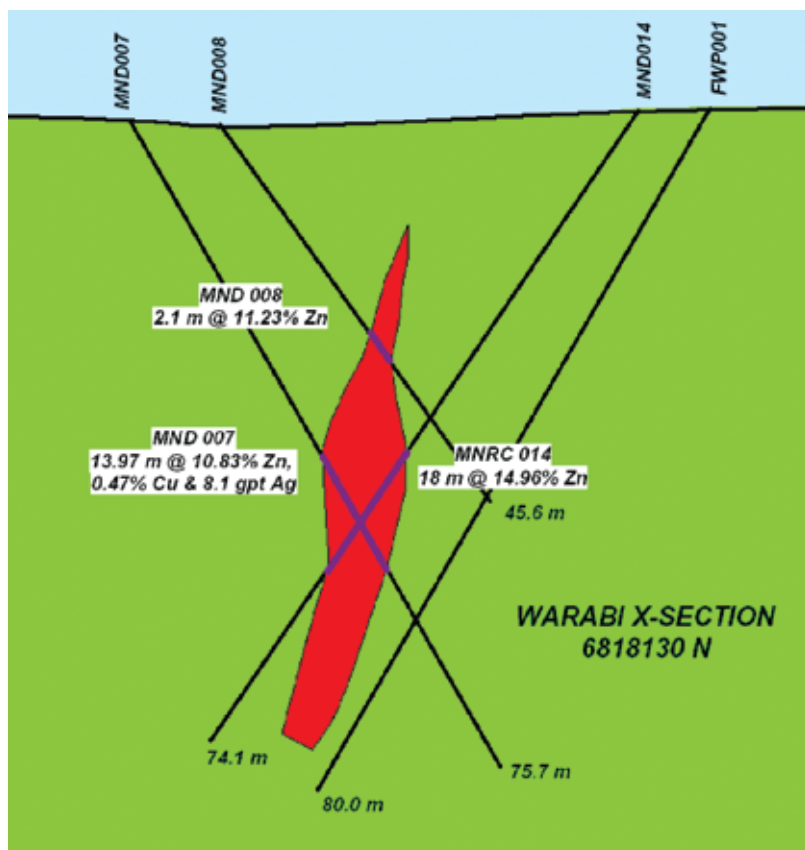
MND 023 3.95 m @ 17.22% Zinc & 0.28% Copper from 22.45 metres.

And 2.00 m @ 13.61% Zinc & 0.57% Copper from 38.50 metres.

The drilling at Mulgara has been successful in defining the extent of mineralisation within the main lode, with the footwall lode remaining open at depth and along strike. The hanging wall lode has strong potential to add **significant tonnage to the resource at Mulgara**.

The diamond drilling programme at Mulgara has extended the physical size of the resource along strike and at depth (see cross section below). It has also led to the discovery of the **high-grade copper-zinc hanging wall lode**.

WARABI (ZONE A)



The current JORC compliant resource at Warabi, utilising a 1% Zinc cut-off grade, is:

119,350 t @ 8.42% Zn*

*The above resource figure was calculated in 2000 and does not include the extensions to the mineralisation delineated through drilling undertaken by Metals in 2006-2007. The modeling of the new resource is discussed in a later section of this report.

The diamond drilling at Warabi (Zone A) was designed to infill on the existing drilling pattern, as well as to test both the up and down plunge extensions to the ore body. Significant results from the initial drilling programme included:

MND 007 13.97m @ 10.83% Zn, 0.47% Copper, 8.1 gpt Silver from 38.70 metres

Including 6.30m @ 14.40% Zinc from 38.70 metres

MND 008 2.10m @ 11.23% Zinc from 24.90 metres

MND 010 4.50m @ 4.78% Zinc from 22.00 metres

Including 1.00m @ 12.64% Zinc from 25.50 metres

MND 011 1.15 m @ 16.28% Zinc from 62.35 metres

A second phase of four drill holes was completed at Warabi to further test the shallow mineralisation encountered during the first phase of drilling. This drilling tested the ore body along both its northern and southern strike extents, with continued success:

MND 047 3.78 m @ 6.79% Zinc from 48.00 metres

MND 048 5.89 m @ 5.78% Zinc, 0.31% Copper & 7.57 gpt Silver from 23.91 metres



REVIEW OF OPERATIONS

And **11.60 m @ 3.16% Zinc, 0.28% Copper & 3.37 gpt Silver from 48.65 metres**

MND 049 16.90 m @ 11.82% Zinc, 0.61% Copper & 9.69 gpt Silver from 24.00 metres

The mineralisation at Warabi extends to the surface across the entire strike length of the ore body, while it becomes more constrained at depth. The resource continues to show excellent widths and grade within the main lode with indications of parallel lodes becoming more significant at depth. Drilling has extended the physical size of the resource both along strike and at depth.

B. ORE BODY MODELLING AND METALLURGICAL STUDIES

Metals has initiated a number of production-oriented studies in relation to the Manindi zinc deposits, namely:

(I) GEOLOGICAL & STRUCTURAL MODELLING

The recent drilling has added extensively to Metals' knowledge of the ore bodies. This information will now be utilised to create a geological model of the entire ore system. The modelling of the system will allow increased confidence in the resource modelling as well as highlighting additional areas for exploration.

The modelling will include a detailed analysis of the 'structural architecture' of the system, which is effectively the 'plumbing' in which the ore bodies have been formed. This modelling will also assist in delineating target lodes not yet intersected by the existing exploration programme. The geological model will improve the understanding of the deposit and allow more effective resource modelling.

(II) RESOURCE MODELLING

The current Manindi zinc deposits represent a substantial zinc resource, with excellent potential for increases in both tonnage and grade. The previous owners of the project last calculated the resource in 2000. Metals has since completed in excess of 7500 metres of RC and diamond drilling, which has yet to be included in the resource calculations.

The drilling undertaken by Metals has increased the physical size of the resources, both along strike and at depth. The recent drilling has frequently intersected high-grade zinc mineralisation in each of the deposits, which have additionally shown ore grade copper and gold mineralisation.

(III) METALLURGICAL & PRODUCTION STUDIES

BioHeap Leaching & Electrowinning

Test work undertaken by Metals in 2006 confirmed that Manindi ore is readily amenable to extraction by bacterial heap leach. Test work carried out by BioHeap Ltd on behalf of Metals showed that bacterial heap leaching was extremely effective in leaching zinc into solution. The test work achieved outstanding results, with zinc recoveries of 97.1% being achieved in amenability tests.

The detailed test results were then passed to Ammtec Ltd, who were commissioned to study the downstream processing routes for production of zinc metal on site.

The result of the studies carried out by Ammtec Ltd include ion exchange test work on the BioHeap 'zinc solutions'. This data was sent to Outokumpu (Finland) and Ecotec (Canada) in late 2006 for conceptual plant design and costings for a commercial ion exchange plant.

The test work and downstream studies undertaken by Ammtec, resulted in the design of a conceptual flowsheet for the process of the Manindi ore beginning with heap leach of zinc ore through to the production of zinc metal on site. The process involves heap leaching of the ore followed by ion exchange and then electrowinning. The studies also established conceptual capital costs and operating costs for the process. The test work undertaken to date demonstrates that the heap leach/electrowinning processing route is a viable option for the treatment of Manindi ore.

Conventional Flotation

Little test work had previously been undertaken on the viability of treating the Manindi ore by flotation to produce a zinc concentrate for sale.

As a result of the discovery of copper, gold and silver credits within the Manindi ore bodies, Metals has appointed a consultant metallurgist to oversee flotation, and other relevant test work, on the Manindi ore with a view to the production of a commercially saleable, export grade concentrate. Ore from the recently completed Manindi drilling programme is currently the subject of testing by Ammtec Ltd, under the supervision of Metals' consultant metallurgist.



REVIEW OF OPERATIONS

2. NAMIBIAN URANIUM PROJECTS

The Company concluded an agreement with a local Namibian title-holder to acquire the Mile 72 and Engo Valley projects in Namibia during the first quarter of 2007.

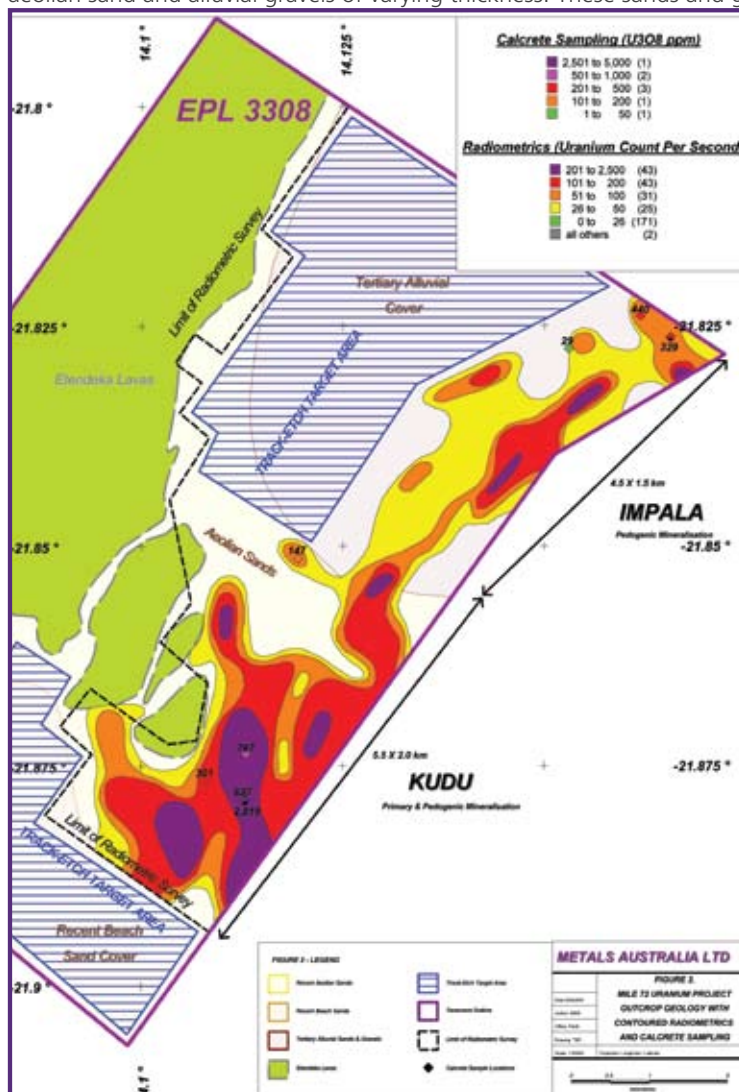
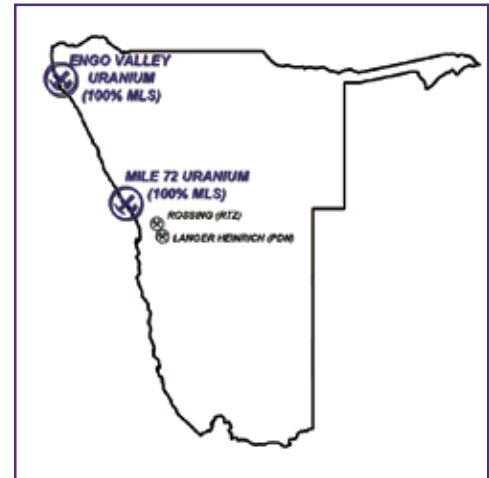
These project areas have had little or no exploration for the past twenty years and have yet to be explored utilising modern exploration techniques. The projects have the potential to host near surface, pedogenic and syngenetic uranium deposits.

A. MILE 72 (EXCLUSIVE PROSPECTING LICENSE 3308)

The Mile 72 project is located on the central coast of Namibia, within the Erongo province, approximately 115 kilometres to the northwest of RTZ's Rossing Uranium Mining Operations and is prospective for uranium mineralisation. The project has the potential to host both near surface, pedogenic uranium deposits and primary 'alaskite' style mineralisation.

The first phase of a systematic exploration programme of geophysical and geochemical sampling has been completed at the Mile 72 project (100% MLS) in Namibia. Reconnaissance exploration by Metals has previously generated results of up to 0.28% U₃O₈ from calcrete sampling. The project shows strong potential to host substantial near-surface pedogenic uranium deposits, as well as deeper alaskite hosted primary mineralisation.

The Mile 72 uranium project lies within a small depression on the central Namibian coast and is largely covered by surficial aeolian sand and alluvial gravels of varying thickness. These sands and gravels mask the radiometric and geochemical signature of the subsurface uranium mineralisation.



The initial phase of exploration at Mile 72 consisted of regional line traverses across the interpreted area of the palaeochannel, which covers more than 42 square kilometres. These traverses were surveyed on 500 metre line spacing, in an approximate northwest-southeast orientation, with radiometric readings at 500 metre intervals (or closer in areas of significant anomalism) along these lines. Where a suitable medium, such as calcrete, gypcrete or basement rock was encountered, samples of this material were taken for laboratory analysis.

The radiometric survey has been successful in defining two extensive anomalies along the mineralised trend of the Mile 72 palaeochannel system (see attached figure).

KUDU

The Kudu anomaly extends over 11 square kilometres, covers approximately 5.5 kilometres of strike and is over 2 kilometres wide. The anomaly shows peak radiometric values of over 1242 uranium counts per second. Recent sampling through this prospect area generated samples of up to 2819 ppm U₃O₈.

A detailed geological assessment of the prospect revealed that a thin veneer of wind-blown sand and gravel covers the Kudu prospect. This cover was cleared at each sample site to allow radiometric and geochemical sampling. The underlying stratigraphy was found to be a blend of uraniferous calcrete and gypcrete, overlying basement granites. An examination of these granites also discovered intrusive alaskites, the host rocks for the mineralisation at Rio Tinto's



REVIEW OF OPERATIONS

Rossing uranium mine. In addition, visible uranium oxide mineralisation or carnotite was sampled from the fracture planes of the granites.

The presence of alaskites is significant in that it points to a potential 'primary source' of the mineralisation already defined within the Mile 72 project area. These alaskites indicate 'depth' potential beyond the near-surface calcrete and gypcrete. The depth extensions of the mineralised system will be drill-tested as exploration progresses over the coming months.

The radiometric anomaly at Kudu becomes masked to the south, by increasingly wind-blown and beach sands near the coast. This obscured target area, which covers approximately 9 square kilometres, will be tested utilising 'track-etch' cups following the completion of the Phase 2 geophysical and geochemical survey, detailed below.

IMPALA

The Impala anomaly extends over 6.75 square kilometres, covers approximately 4.5 kilometres of strike and is over 1.5 kilometres wide. The anomaly shows peak radiometric values of over 640 uranium counts per second. Recent sampling through this prospect area generated samples of up to 440 ppm U3O8.

The Impala prospect is largely covered by deep wind-blown and alluvial sands and gravels, which have constrained the surface expression of the anomaly. The alluvial cover and depth of weathering through this prospect area has rendered the radiometrics only partially effective, hence the constrained anomaly in comparison to that at Kudu. The sampling has, nevertheless, highlighted the mineralised trend for later drill testing.

Increasingly deep alluvial sands and gravels mask the area immediately to the northwest of the Impala anomaly. These sediments completely blanket the target area and could not be effectively cleared at the sample sites to allow a 'meaningful' radiometric or geochemical sample to be taken. This obscured target area covers approximately 12.5 square kilometres and will be tested utilising 'track-etch' cups following completion of the Phase 2 geophysical and geochemical survey (see attached figure).

The second phase of exploration is already well advanced at Mile 72 and consists of detailed ground magnetics, radiometrics and geochemical sampling. The use of ground magnetics is designed to allow an interpretation of the underlying rock types and structure. In particular it will highlight areas of alaskite emplacement within the basement granites for drill testing.

The line traverses have been closed to 100 metre spacing, with radiometric and magnetic readings taken at 20 metre intervals along these lines. These traverses are being undertaken on foot by an experienced geological survey team. A total of over 360 line kilometres will be traversed during this phase of exploration.

This survey will more accurately delineate the anomalies defined during the first phase of exploration, as well as highlighting targets for trenching and drill-testing as part of the continuing exploration programme.

B. ENGO VALLEY (EXCLUSIVE PROSPECTING LICENSE 3306)

The Engo Valley project is located on the northwest coast of Namibia, in the Skeleton Coast Park and forms a broad erosion channel draining the northeastern interior of Namibia.

The project is accessed via the road to the defunct Cape Fria Radio Station and covers an area of over 19,400 hectares. The tenement lies along the southern strike extent of the Engo Valley uranium occurrences.

Gencor discovered the Engo Valley uranium deposits in the early 1970's during a regional airborne radiometric survey, which delineated anomalous mineralisation along more than 30 kilometres of the Engo Valley.

Ground radiometric surveys, mapping and sampling subsequently defined four deposits on the eastern flank of the Engo Valley, which are hosted by sediments of the Karoo sequence. The Karoo sediments host a number of uranium deposits throughout southern Africa including those in Tanzania, South Africa, and, most recently, A-Cap Resources Ltd's discovery at Mokobaesi in neighbouring Botswana.

Gencor explored the Engo Valley between 1973 and 1980, but focused their work on the main Engo Valley occurrence and its immediate surrounds, identifying a number of shallow, sediment hosted deposits, including the MUO & D1 occurrences. These two occurrences are listed in the Namibian Ministry of Mines & Energy publication, 'Mineral Resources of Namibia' as having a pre-JORC deposit. Regional mapping of the Engo Valley palaeochannel indicates that Karoo sediments underlie thin sand cover over more than 30 kilometres of strike, which includes the Metals project area.

The stratigraphy in the Engo Valley consists of basement Damara sediments, composed of schists, gneisses and calc-silicate rocks. Numerous small irregular granite bodies, and a large granitic body on the western flank of the Engo Valley have also intruded the basement sequence. These granites are thought to be the source of the uranium mineralisation.

The Damara basement is unconformably overlain by Karoo sediments, which consist of tillite, shales, conglomerate, marl, mudstone and sandstone. Uranium mineralisation is found in two distinct styles within the stratigraphy:



REVIEW OF OPERATIONS

1. **Disconformity** – this mineralisation is found associated with alluvial fan deposits within the basal units of the Karoo sediments. The mineralisation is typically found as carnotite and is associated with coarse clastic units within the stratigraphy.
2. **Shale Hosted** – the shale units within the Karoo sediments may be mineralised, showing fine-grained uraninite associated with pyrite and chalcopryite within the shale units.

Exploration & Targets

A recent review, and subsequent interpretation, of the Gencor radiometric data by Metals has delineated an extensive anomaly over the northwestern corner of EPL 3308.

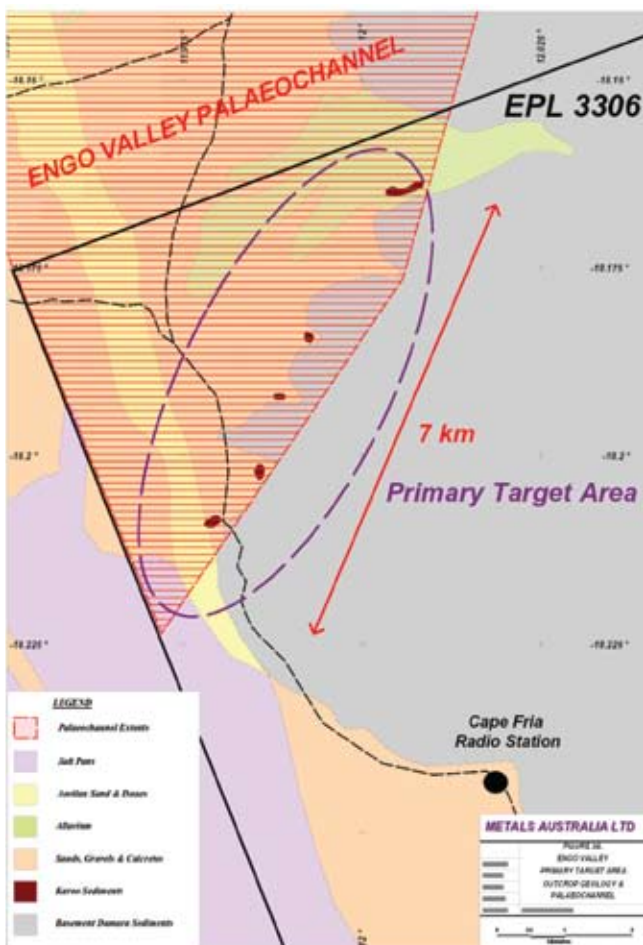
The radiometric anomaly covers more than 14 square kilometres of the southern Engo Valley palaeochannel. The anomaly has a strike length of over 7 kilometres and is more than 2 kilometres wide within the tenement area (see attached figure).

River sands and gravels cover much of the target area, which partially mask the radiometric signature of the underlying sediments. Despite this cover an extensive radiometric anomaly, with 'total count'* values from 1000 to over 2000 counts per second, covers the target area and is coincident with mapped sub to outcropping Karoo sediments.

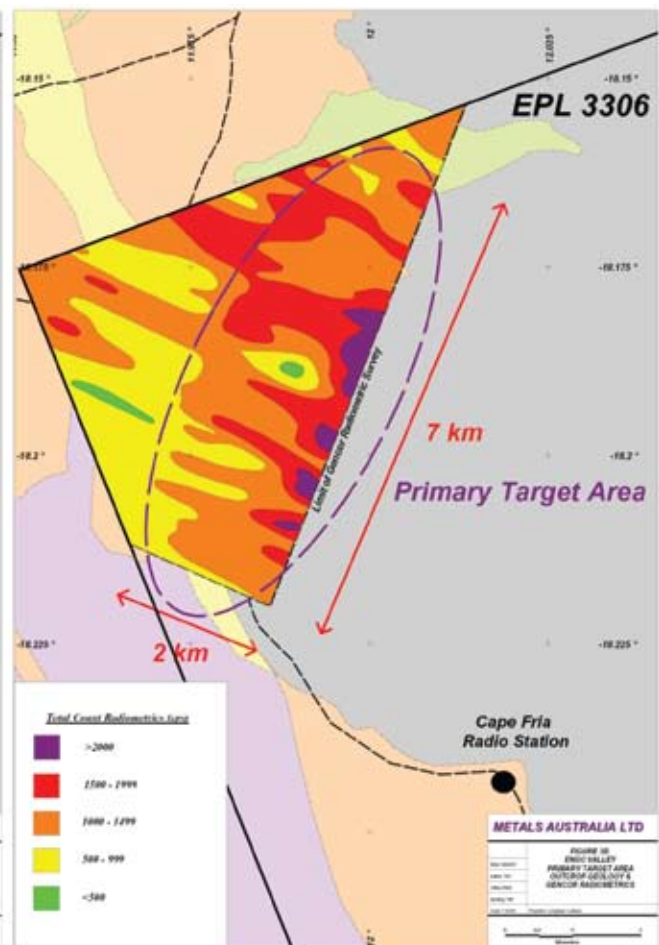
The primary target area will initially be explored utilising surface sampling to test for uranium mineralisation. Sampling will concentrate on sampling the Karoo sediments that lie on the margin on the Engo Valley palaeochannel.

The project is located along strike from the known uranium occurrences at Engo Valley and contains the southern strike extensions of the uraniferous Karoo sedimentary stratigraphy. Metals are currently obtaining the appropriate work orders and permits from the Namibian Ministry of Mines and Energy prior to commencing sampling within the project area.

*'total count' is a measure of the total radioactivity given off by all of the radioactive elements in the source rock or sediments. These include both uranium and thorium.



Outcrop Geology, Palaeochannel Extents & Primary Target Area



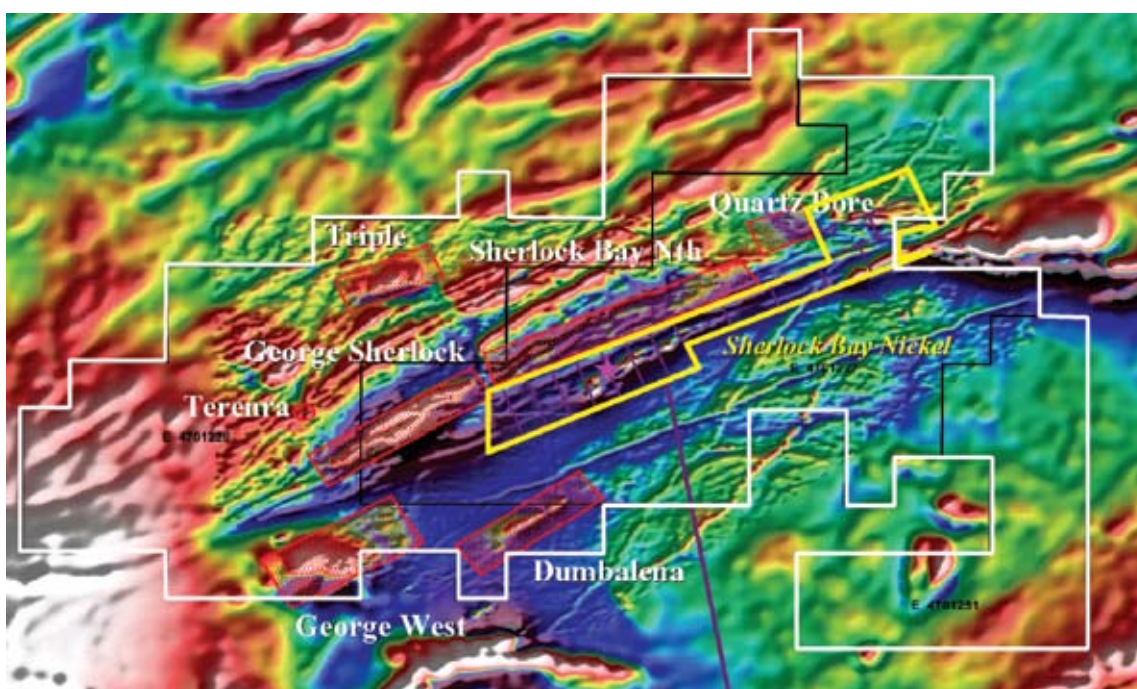
Outcrop Geology & Gencor Radiometrics

3. SHERLOCK BAY EXTENDED BASE - METAL PROJECT, PILBARA, WA

The Sherlock Bay Extended project is composed of a granted Exploration Licence (E 47/1227) and two Exploration Licence Applications (ELA 47/1769 and ELA 47/1770) which cover an area of more than 470 km² and surround the main Sherlock Bay nickel project area. The project is a joint venture between Australasian Resources Ltd (70% interest) and Metals Australia Ltd (30% interest). Australasian Resources are the managers of the project, with Metals being 'free-carried' through to the completion of a bankable feasibility study and the decision to commence commercial mining.

Australasian Resources, as the project managers, were recently advised that Mining Act objections lodged by Ngarluma Aboriginal Corporation over E47/1769 and E47/1770 have been withdrawn. This allows the tenements to be advertised under the Native Title Act, which entails a further 4 month notice period. Australasian Resources is therefore expecting that these tenements will be granted during the second half of 2007.

An initial programme of soil sampling on tenement E47/1227 was completed in January 2007 in order to test a number of anomalies identified by Metals and other previous explorers. A total of seven geophysical targets occur within the Sherlock Bay Extended Project area and require testing (see below).



Australasian Resources continue to evaluate the project area, with an emphasis on further delineating target areas for drilling.

Metallurgical Testing

Testing of the Manindi ores has previously focused upon potential heap leaching of the ores, and has shown recoveries of greater than 90% under laboratory conditions. Recently, the company has examined a more conventional method of production, namely the production of a concentrate for sale into the market place.

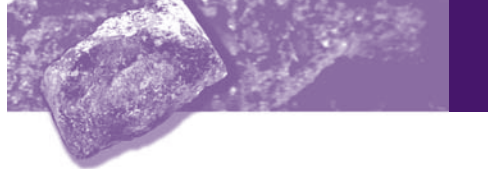
Flotation/concentrate test work has now been successfully completed on the ore from Zone D. The test work demonstrated that a commercial concentrate, exceeding 50% contained Zinc, can be produced by conventional methods from the ore.

A flow circuit based on these results is currently being designed by our consultant metallurgists.

Representative samples of the ores from both Zones A & B are being collated for testing, and comparison against the Zone D results in order to assist in the design of the concentrate flow circuit.

Competent Persons Declaration

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Timothy Putt of Exploration and Mining Information Systems, who is a member of The Australasian Institute of Geoscientists and Alex Clemen of Clemen & Associates Pty Ltd who is a member of the Australian Institute of Mining & Metallurgy. Mr. Putt and Mr Clemen have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resource and Ore Reserves". Timothy Putt and Alex Clemen consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.



Directors' Report

The Directors present their report on the consolidated entity consisting of Metals Australia Ltd and the entities it controls for the year ended 30 June 2007.

DIRECTORS

The following were Directors of Metals Australia Ltd during the financial year and up to the date of this report:

Hersh Solomon Majteles (Chairman)

David Zukerman

Alexander Clemen

PRINCIPAL ACTIVITIES

The principal continuing activities of the consolidated entity are the exploration of mineral deposits and investment.

RESULTS

The Group loss for the financial year after providing for income tax amounted to \$984,351 (2006: A profit of \$36,386).

DIVIDENDS

Since the end of the previous financial year, no dividend has been declared or paid by the Company.

SIGNIFICANT CHANGES

There have not been any significant changes in the state of affairs of the Group during the financial year, other than as noted in this financial report.

EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matter or circumstance not otherwise dealt with in the report or financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

LIKELY DEVELOPMENTS

The Group will continue to focus on its exploration and investment activities.

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

(a) Qualifications, experience and special responsibilities:-

(i) Hersh Solomon Majteles LLB

Mr Majteles has a Bachelor of Law Degree (University of WA) and is a solicitor in private practice in Western Australia. Mr Majteles has extensive experience in general commercial law. During the past three years, he has also served as a director of Eqitx Ltd.

(ii) Alexander Clemen B.Sc (Hons), M.Aus.I.M.M.

Mr Clemen is a qualified geologist with over 25 years experience practising in this field. He has worked for several large international mining companies in various parts of the world and has gained experience in exploring for gold, base metals, industrial minerals and diamonds. During the past three years he has served as a director of Golden Deeps Ltd and Sabre Resources Ltd.

(ii) David Zukerman

Mr Zukerman has an accounting and finance background. He has held a number of public company directorships in Australia and Asia during the past 25 years. During the past three years he has served as a director of Golden Deeps Ltd, Sabre Resources Ltd and Tiger Resources Ltd.

(b) Company Secretary

(i) Bruce McCullagh, CPA, ACIS (resigned 18 October 2006)

Mr McCullagh has wide experience in accounting, company secretarial and management in the petroleum and mineral industries in Australia, Libyan Arab Republic, the Arabian Gulf, United Kingdom and USA. He



DIRECTORS' REPORT

is a member of the Australian Society of Certified Practising Accountants and of the Chartered Institute of Secretaries.

(ii) Norman Grafton FCPA, FCIS (appointed 18 October 2006)

Mr Grafton has extensive experience in both Australian and international commerce, having previously been based in Singapore, Papua New Guinea and Jamaica. Prior to returning to Australia, he was Director of Finance and Company Secretary of the largest agro-industrial operation in Jamaica, on secondment from a major UK firm of corporate managers. During the last three years, he was a Director of Orchid Capital Limited.

(c) Relevant interests of Directors in shares and options of the Company at the date of this report:-

Name	Ordinary Shares	Options
H S Majteles	2,950,000	1,000,000
A Clemen	10	1,000,000
D Zukerman	500,000	1,000,000

(d) Directors' interest in contracts:-

No Director has an interest, whether directly or indirectly, in a contract or proposed contract with the Company.

REMUNERATION REPORT

Name	Short Term Directors Fees	Post Employment Super-annuation	Short Term Consulting	Equity Based Compensation	Total	Percentage Remuneration Consisting of options
	\$	\$	\$	\$	\$	%
H S Majteles	15,000	-	-	47,009	62,009	76
A Clemen	12,000	-	69,150	47,009	128,159	37
D Zukerman	-	-	30,004	47,009	77,013	61
TOTAL	27,000	-	99,154	141,027	267,181	

Directors receive a fixed fee (plus statutory superannuation), with executive directors being remunerated for any professional service conducted for the Company. Directors receive benefits in the form of share-based payments. On 2 March 2007, shareholders approved the grant of 1,000,000 options to each of the Directors. The options are exercisable at 5 cents per option at any time up to their expiry date of 30 September 2009. The fair value of the options was determined using the Black Scholes formula. No options lapsed or were exercised during the period under review.

There are no retirement schemes for any directors or any loans or any other type of compensation.

Board policy on the remuneration for this exploration Company is influenced by comparing fees paid to directors in other companies within the exploration industry, and then set at a level to attract qualified people, to accept the responsibilities of directorship. No director, executive or employee has an employment contract.

Being an exploration company, with no earnings, a relationship is yet to be established between an emolument policy and the company's performance.



DIRECTORS' REPORT

ANALYSIS OF MOVEMENT IN OPTIONS

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company Director is detailed below.

Name	Granted In Year \$	Value of Options		Total Option Value In Year \$
		Exercised In Year \$	Lapsed In Year \$	
H S Majteles	47,009	-	-	47,009
A Clemen	47,009	-	-	47,009
D Zukerman	47,009	-	-	47,009
	141,027	-	-	141,027

The value of options granted in the year is the fair value of the options calculated at grant date using the Black Scholes pricing model. The total value of options granted is included in the table above. This amount is allocated to remuneration as at the date of grant, which is also the date of vesting.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2007 and the number of meetings attended by each Director.

Name:	Eligible to attend:	Attended:
H S Majteles	9	9
A Clemen	9	4
D N Zukerman	9	9

The Company does not have a formally appointed audit committee as all Directors are involved in all activities of the Company and the size and scope of operations does not warrant its formation.

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

David Zukerman retired by rotation as a Director at the Annual General Meeting on 23 November 2006 and was re-elected.

At the forthcoming Annual General Meeting, Hersh Solomon Majteles retires by rotation as a Director and offers himself for re-election.

ENVIRONMENTAL ISSUES

The Company's objective is to ensure that a high standard of environmental care is achieved and maintained on all properties. There are no known environmental issues outstanding.

SHARE OPTIONS

As at the date of this report, the following options over unissued ordinary shares are on issue:

- 106,150,000 ASX listed options, each exercisable for one ordinary share on or before 30 November 2009 at an exercise price of 5 cents each, and
- 24,200,000 unlisted options, each exercisable for one ordinary share on or before 31 December 2010 at an exercise price of 10.5 cents each.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the independent auditor's declaration as required by section 307c of the Corporations Act 2001 is set out on page 40.



DIRECTORS' REPORT

NON AUDIT SERVICES

The following non audit services were provided by Stanton Partners Corporate Pty Ltd and Stanton Partners, which are related to the entity's auditor, Stanton International.

Stanton Partners Corporate Pty Ltd	\$525	Option valuation
Stanton Partners	\$1,510	Taxation compliance

The directors are satisfied that the provision of non audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non audit service provided, means that auditor independence was not compromised.

DIRECTORS' BENEFITS

Except as detailed in note 7 no Director of the Company has received or become entitled to receive during or since the end of the previous financial year, any benefit (other than a benefit included in the aggregate amounts of emoluments received or due and receivable by Directors shown in the accounts or the fixed salary of a full time employee of the Company or of a related corporation) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

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

D N Zukerman

DIRECTOR

Dated this 20th day of September 2007
Perth, Western Australia



METALS AUSTRALIA LTD

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent Entity	
	Note	2007	2006	2007	2006
		\$	\$	\$	\$
Revenue	4	1,258,500	523,920	1, 258,500	523,920
Expenditure					
Depreciation		1,870	-	1,870	-
Exploration costs		11,325	175,805	11,325	14,820
Management fee		156,485	150,000	156,485	150,000
Directors' fees and services		57,004	39,429	57,004	39,429
Stock exchange fees		54,264	18,403	54,264	18,403
Diminution in value of investments		-	-	167	-
Occupancy costs		143,797	63,346	143,797	63,346
Option issues expensed	25	1,641,697	-	1,641,697	-
Other operating costs		176,409	72,595	176,242	72,595
Provision against loans to subsidiaries		-	-	1,773,429	160,985
		<u>2,242,851</u>	<u>519,578</u>	<u>4,016,280</u>	<u>519,578</u>
Profit/(Loss) before income tax		(984,351)	4,342	(2,757,780)	4,342
Income tax	5	-	-	-	-
Profit/(loss) after income tax		<u>(984,351)</u>	<u>4,342</u>	<u>(2,757,780)</u>	<u>4,342</u>
Attributable to:					
Minority interest		-	32,044	-	-
Members of the parent entity	17	<u>(984,351)</u>	<u>36,386</u>	<u>(2,757,780)</u>	<u>4,342</u>
Earnings per share		2007 Cents	2006 Cents		
Basic loss per share	19	<u>(0.15)</u>	<u>0.01</u>		

The accompanying notes form part of these financial statements



METALS AUSTRALIA LTD

BALANCE SHEET AS AT 30 JUNE 2007

		Consolidated		Parent Entity	
	Note	2007	2006	2007	2006
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	8	4,643,695	6,254,474	4,643,695	6,254,474
Trade and other receivables	9	179,659	742,020	179,659	726,763
TOTAL CURRENT ASSETS		4,823,354	6,996,494	4,823,354	6,981,237
NON-CURRENT ASSETS					
Plant and equipment	10	51,616	-	51,616	-
Investments	11	1,991,169	1,215,520	1,991,169	1,215,520
Other financial assets	12	-	-	-	15,257
Exploration costs	13	1,914,919	-	141,490	-
TOTAL NON-CURRENT ASSETS		3,957,704	1,215,520	2,184,275	1,230,777
TOTAL ASSETS		8,781,058	8,212,014	7,007,629	8,212,014
CURRENT LIABILITIES					
Trade and other payables	14	64,839	186,750	64,839	186,750
TOTAL CURRENT LIABILITIES		64,839	186,750	64,839	186,750
TOTAL LIABILITIES		64,839	186,750	64,839	186,750
NET ASSETS		8,716,219	8,025,264	6,942,790	8,025,264
EQUITY					
Issued capital	15	22,010,523	22,010,523	22,010,523	22,010,523
Share option reserve	16	1,916,806	241,500	1,916,806	241,500
Accumulated losses	17	(15,211,110)	(14,151,242)	(16,984,539)	(14,226,759)
PARENT EQUITY INTEREST		8,716,219	8,100,781	6,942,790	8,025,264
Minority interest	18	-	(75,517)	-	-
TOTAL EQUITY		8,716,219	8,025,264	6,942,790	8,025,264

The accompanying notes form part of these financial statements



METALS AUSTRALIA LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

CONSOLIDATED ENTITY

	Issued Capital	Option Reserve	Accumulated Losses	Minorities	Total
	\$	\$	\$	\$	\$
Balance as at 1 July 2005	15,765,523	241,500	(14,353,628)	(43,473)	1,609,922
Adjustment on prospective application of AASB 139	-	-	166,000	-	166,000
Issue of shares	6,245,000	-	-	-	6,245,000
Profit attributable to members of parent entity	-	-	36,386	(32,044)	4,342
Balance at 30 June 2006	22,010,523	241,500	(14,151,242)	(75,517)	8,025,264
Grant of options	-	1,681,698	-	-	1,681,698
Capital raising costs	-	(6,392)	-	-	(6,392)
Loss attributable to members of parent entity	-	-	(984,351)	-	(984,351)
Prior years subsidiary losses transferred from minority interests to economic entity	-	-	(75,517)	75,517	-
Balance at 30 June 2007	22,010,523	1,916,806	(15,211,110)	-	8,716,219

PARENT ENTITY

Balance as at 1 July 2005	15,765,523	241,500	(14,353,628)	1,653,395
Adjustment on prospective application of AASB 139	-	-	166,000	166,000
Issue of shares	6,245,000	-	-	6,245,000
Profit attributable to members of parent entity	-	-	4,342	4,342
Balance at 30 June 2006	22,010,523	241,500	(14,226,759)	8,025,264
Grant of options	-	1,681,698	-	1,681,698
Capital raising costs	-	(6,392)	-	(6,392)
Loss attributable to members of parent entity	-	-	(2,757,780)	(2,757,780)
Balance at 30 June 2007	22,010,523	1,916,806	(16,984,539)	6,942,790

The accompanying notes form part of these financial statements

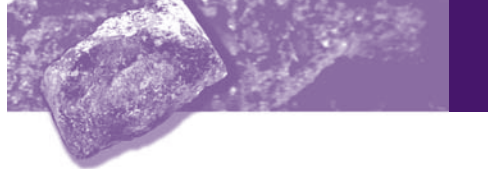


METALS AUSTRALIA LTD

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2007

Note	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cashflow from operating activities				
Payments to suppliers	(158,833)	(305,724)	(158,666)	(309,441)
Interest received	352,243	56,444	352,243	56,444
Net cash inflow/(outflow) from operating activities	20(a) 193,410	(249,280)	193,577	(252,997)
Cashflow from investing activities				
Loan to subsidiaries	-	-	(1,773,596)	(157,268)
Exploration	(1,914,919)	(175,805)	(141,490)	(14,820)
Proceeds from share sales	138,803	-	138,803	-
Purchase of shares	(11,250)	(400,000)	(11,250)	(400,000)
Purchase of assets	(53,486)	-	(53,486)	-
Sale of assets	3,055	-	3,055	-
Net cash (outflow) from investing activities	(1,837,797)	(575,805)	(1,837,964)	(572,088)
Cashflow from financing activities				
Proceeds from grant of options	40,000	-	40,000	-
Capital raising costs	(6,392)	-	(6,392)	-
Proceeds from issue of shares	-	5,696,938	-	5,696,938
Net cash inflow from financing activities	33,608	5,696,938	33,608	5,696,938
Net increase (decrease) in cash and cash equivalents held	(1,610,779)	4,871,853	(1,610,779)	4,871,853
Cash and cash equivalents at the beginning of the financial year	6,254,474	1,382,621	6,254,474	1,382,621
Cash and cash equivalents at the end of the financial year	8 4,643,695	6,254,474	4,643,695	6,254,474

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of Metals Australia Ltd (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 20th September 2007

Metals Australia Ltd is a company incorporated in Australia, limited by shares which are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are mineral exploration and investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on an accruals basis and on a historical cost basis, except for financial assets and liabilities, which have been measured at fair value.

The financial report is presented in Australian dollars.

The financial statements of the Company and Group have been prepared on a going concern basis which anticipates the ability of the Company and Group to meet its obligations in the normal course of the business. It is considered that the Company should obtain sufficient funds from capital raising to enable it to meet its obligations. If the Company is unable to continue as a going concern then it may be required to realise its assets and extinguish its liabilities, other than in the normal course of business and amounts different from those stated in the financial statements.

(b) Statement of compliance

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

The Company's financial report does not comply with IFRS as the Company has elected to apply the relief provided to parent entities by AASB 132 Financial Instruments: Presentation and Disclosure in respect of certain disclosure requirements.

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Group's accounting policies.

At the date of authorisation of the financial report, the following standards and Interpretations were in issue but not yet effective:

- | | |
|--|--|
| • AASB 7 "Financial Instruments: Disclosures" and consequential Amendments to other accounting Standards resulting from its issue. | Effective for annual reporting periods beginning on or after 1 January 2007. |
| • AASB 101 "Presentation of Financial Statements" – revised standard | Effective for annual reporting periods beginning on or after 1 January 2007. |
| • Interpretation 10 "Interim Financial Reporting and Impairment" | Effective for annual reporting periods beginning on or after 1 January 2007. |

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Metals Australia Ltd and its subsidiaries ('the Group').

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

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

NOTES TO THE FINANCIAL STATEMENTS

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

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Metals Australia Ltd has control.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately for the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(d) Interest in joint venture operation

The Group's interest in any joint venture operation is accounted for by recognising the Group's assets and liabilities from the joint venture, as well as expenses incurred by the Group and the Group's share of income earned from the joint venture, in the consolidated financial statements.

(e) Foreign currency translation

Both the functional and presentation currency of Metals Australia Ltd and its Australian subsidiaries is the Australian Dollar (A\$). The functional currency of the Namibian subsidiary is the Namibian Dollar (N\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of any overseas subsidiaries would be translated into the presentation currency of Metals Australia Ltd at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(f) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

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

Plant and equipment – over 3 to 5 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.



NOTES TO THE FINANCIAL STATEMENTS

(g) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(h) Recoverable amount of assets

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

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. that date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried

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

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale-investments

Available-for-sale-investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate economic component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(j) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development, or sale, of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on a discounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(k) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(l) Cash and cash equivalents

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

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



NOTES TO THE FINANCIAL STATEMENTS

(m) 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.

(n) Share-based payment transactions

(i) Equity settled transactions:

The Group provides benefits to Directors, management personnel and consultants of the Group in the form of share-based payments whereby personnel render services in exchange for shares.

The cost of these equity-settled transactions was measured by reference to the fair value of the equity instruments at the date on which they were granted. The fair value was determined using the Black Scholes formula.

In valuing equity-settled transactions, no account was taken of any performance conditions, other than conditions linked to the price of the shares of Metals Australia Ltd (market conditions). The cost of equity-settled transactions was recognised, together with the corresponding increase in equity, on the date of grant of the options.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(ii) Cash settled transactions:

The Group does not provide benefits to employees in the form of cash-settled share based payments.

Any cash-settled transactions would be measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

(o) Revenue

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

Sale of goods

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

Interest

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

Dividends

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

(p) Income tax

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and,
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

(q) Other taxes

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

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

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

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

(r) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(s) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(t) Earnings per share

Basic earnings per share is calculated as net profit/(loss) attributable to members of the parent, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit/(loss) attributable to members of the parent, adjusted for:

- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.



NOTES TO THE FINANCIAL STATEMENTS

(u) Comparatives

Comparatives are reclassified where necessary to be consistent with the current year's disclosures.

3. Significant Accounting Judgments, Estimates and Assumptions

In applying the Group's accounting policies, management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(i) Significant accounting judgments include:

(a) Classification of and value of investments

The Group has decided to classify investments in listed securities as "held for trading" investments and movements in fair value are recognised directly in the Income Statement. The fair value of listed shares has been determined by reference to published price quotations in an active market.

(b) Provision in and loans to subsidiaries

Investments in and loans to subsidiaries are fully provided for until such time as subsidiaries are in a position to repay loans.

(c) Exploration expenditure

The Group determines whether exploration expenditure is impaired on at least an annual basis based on historical information and best available current information. This requires an estimation of the recoverable amount as discussed in note 2 (j).

(ii) Significant accounting estimates and assumptions include:

(a) Share-based payment transactions

The Group measures the cost of equity-settled transactions with Directors, employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black Scholes formula, with the assumptions detailed in note 7. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measure the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted.

(b) Provision for rehabilitation

Where applicable, the Group makes provision for material restoration obligations. The amount recognised includes the cost of reclamation and site rehabilitation after taking into account any restoration works which are carried out during exploration. The provision for rehabilitation costs is determined from an estimate of future costs which may be incurred in rehabilitating exploration sites.

(c) Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and turnover policies (for motor vehicles). In addition, the condition of assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

NOTES TO THE FINANCIAL STATEMENTS

4. Revenue

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Surplus on sale of shares	25,178	-	25,178	-
Interest received	352,243	68,640	352,243	68,640
Sale of asset	3,055	-	3,055	-
Revaluation of investments	878,024	455,280	878,024	455,280
Total revenue	<u>1,258,500</u>	<u>523,920</u>	<u>1,258,500</u>	<u>523,920</u>

The surplus on sale of shares comprises:

Proceeds on sale	138,803	-	138,803	-
Cost of shares sold	(113,625)	-	(113,625)	-
Surplus on sale	<u>25,178</u>	<u>-</u>	<u>25,178</u>	<u>-</u>



NOTES TO THE FINANCIAL STATEMENTS

5. Income Tax

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Reconciliation of prima facie income tax benefit on profit/(loss) to income tax as provided in the financial statements	(984,351)	36,386	(2,757,780)	4,342
Prima facie income tax thereon at 30%	(295,305)	10,916	(827,334)	1,303
Add:				
Tax effect of:				
Diminution in value of investment	-	-	250	-
Provisions	1,350	1,002	1,350	1,002
Share based payments	492,509	-	492,509	-
Excess capital gain over accounting gain on sale	27,968	-	27,968	-
Write-downs to recoverable amounts	-	-	477,668	48,295
	<u>226,521</u>	<u>11,918</u>	<u>171,911</u>	<u>50,600</u>
Less:				
Tax effect of:				
Accounting exploration costs	(574,476)	48,295	42,447	-
Section 40-880 deduction	(16,824)	-	(16,824)	-
Income accrual	(8,465)	(3,659)	(8,465)	(3,659)
Unrealised gain on investments	(238,794)	(136,584)	(238,794)	(136,584)
Software write off	-	(17,926)	-	(17,926)
Income tax benefit not brought to account	<u>612,037</u>	<u>97,956</u>	<u>134,619</u>	<u>107,569</u>
Income tax attributable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax assets (at 30%)				
Provisions	(427,184)	3,150	323,141	3,150
Section 40-880	43,414	58,320	43,414	58,320
Capital exploration costs	(574,476)	-	(42,447)	-
Carried forward tax losses	<u>2,243,495</u>	<u>1,595,883</u>	<u>1,766,023</u>	<u>1,595,883</u>
Net deferred tax asset	<u>1,285,250</u>	<u>1,657,353</u>	<u>2,090,131</u>	<u>1,657,353</u>
Carry forward capital tax losses	<u>50,279</u>	<u>30,206</u>	<u>50,279</u>	<u>30,206</u>

The benefits will only be obtained if:-

- The companies derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised;
- The companies continue to comply with the conditions for deductibility imposed by the Law; and
- No changes in tax legislation adversely affect the companies in realising the benefits from the deductions for the losses.

NOTES TO THE FINANCIAL STATEMENTS

6. Auditor's Remuneration

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Amounts received or due and receivable by the Company's auditors for:				
Auditing and reviewing the Company's financial statements	23,654	8,811	23,654	8,811
Other services to the Company	2,035	1,377	2,035	1,377
	<u>25,689</u>	<u>10,188</u>	<u>25,689</u>	<u>10,188</u>

7. Remuneration of Directors

For the year ended 30 June 2007

Name	Short Term Directors Fees	Post Employment Super-annuation	Short Term Consulting	Equity Based Compensation	Total	% of Remuneration as Options
	\$	\$	\$	\$	\$	%
H S Majteles Non executive Director	15,000	-	-	47,009	62,009	76
A Clemen Non executive Director	12,000	-	69,150	47,009	128,159	37
D Zukerman Executive Director	-	-	30,004	47,009	77,013	61
	<u>27,000</u>	<u>-</u>	<u>99,154</u>	<u>141,027</u>	<u>267,181</u>	

The percentage of remuneration given as a result of options granted was 76% for Mr Majteles, 37% for Mr Clemen and 31% for Mr Zukerman.

For the year ended 30 June 2006

Name	Short Term Directors Fees	Post Employment Super-annuation	Short Term Consulting	Equity Based Compensation	Total	% of Remuneration as Options
	\$	\$	\$	\$	\$	%
H S Majteles Non executive Director	15,000	1,430	-	-	16,430	-
A Clemen Non executive Director	8,000	-	-	-	8,000	-
D Zukerman Executive Director	-	-	14,999	-	14,999	-
	<u>23,000</u>	<u>1,430</u>	<u>14,999</u>	<u>-</u>	<u>39,429</u>	



NOTES TO THE FINANCIAL STATEMENTS

The Company does not have any key management personnel, other than directors.

Directors receive a fixed fee, with executive directors being remunerated for any professional services conducted for the Company. Directors, management personnel and consultants received equity-based remuneration, (options). There are no retirement schemes for any directors or any loans or other type of compensation.

Directors' fees and statutory superannuation contributions are paid on a quarterly basis. Consulting fees for professional services are paid as events occur.

Shareholdings

Number of shares held by Directors as at 30 June 2007

Name	Balance 1 July 2006	Net Change	Balance at 30 June 2007
H S Majteles	2,950,000	-	2,950,000
D Zukerman	500,000	-	500,000
A Clemen	-	10	10
Totals	3,450,000	10	3,450,010

Compensation options granted to Directors during the year ended 30 June 2007

Number of Options held by Directors as at 30 June 2007

Name	Granted	Exercised	Expired	Vested and Exercisable as at 30 June 2007
H S Majteles	1,000,000	-	-	1,000,000
D Zukerman	1,000,000	-	-	1,000,000
A Clemen	1,000,000	-	-	1,000,000
Totals	3,000,000	-	-	3,000,000

The above options were granted on 2 March 2007 and vested immediately. They are exercisable at 5 cents each at any time up to their expiry date of 30 September 2009.

No options were granted during the previous year and none were exercised or expired during the period under review.

8. Cash and Cash Equivalents

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Represented by				
Cash at bank	143,695	3,493,944	143,695	3,493,944
Bank bills	4,500,000	2,760,530	4,500,000	2,760,530
	<u>4,643,695</u>	<u>6,254,474</u>	<u>4,643,695</u>	<u>6,254,474</u>

NOTES TO THE FINANCIAL STATEMENTS

9. Trade and Other Receivables

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Current				
Other debtors	<u>179,659</u>	<u>742,020</u>	<u>179,659</u>	<u>726,763</u>

10. Plant and Equipment

Plant and Equipment, at cost	53,486	16,273	53,486	16,273
Less: accumulated depreciation	<u>(1,870)</u>	<u>(16,273)</u>	<u>(1,870)</u>	<u>(16,273)</u>
	<u>51,616</u>	<u>-</u>	<u>51,616</u>	<u>-</u>

11. Investments

Investments listed on prescribed Stock Exchanges (at market value)	<u>1,991,169</u>	<u>1,215,520</u>	<u>1,991,169</u>	<u>1,215,520</u>
--	------------------	------------------	------------------	------------------

12. Other Financial Assets

Non-Current				
Investment in subsidiaries	-	-	350,167	351,000
Less: provision for diminution	-	-	(350,167)	(351,000)
Loans to subsidiaries	-	-	2,150,916	573,946
Less: provision for non-recovery	<u>-</u>	<u>-</u>	<u>(2,150,916)</u>	<u>(558,689)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,257</u>

13. Exploration Expenditure

Opening balance	-	-	-	-
Exploration expenditure	1,914,919	175,805	141,490	14,820
Exploration expenditure written off	<u>-</u>	<u>(175,805)</u>	<u>-</u>	<u>(14,820)</u>
	<u>1,914,919</u>	<u>-</u>	<u>141,490</u>	<u>-</u>

The company's exploration properties may be subject to claim(s) under native title, or contain sacred sites or sites of significance to Aboriginal people. As a result exploration properties or areas within the tenement may be subject to exploration and/or mining restrictions or incur a liability for compensation. It is not possible to quantify these restrictions and liabilities at this time.

14. Trade and other Payables

Current				
Payables	<u>64,839</u>	<u>186,750</u>	<u>64,839</u>	<u>186,750</u>



NOTES TO THE FINANCIAL STATEMENTS

15. Issued Capital

Movement in ordinary share capital of the Company during the last two years.

Date	Details	Number of Shares	Issue Price (cents)	Amount \$
1 July 2005	Balance	349,608,765		15,765,523
7 February 2006 through to 30 June 2006	Exercise of options Underwriting costs	320,000,000	2	6,400,000 (155,000)
30 June 2006	Balance	669,608,765		22,010,523
30 June 2007	Balance	669,608,765		22,010,523

16. Share Option Reserve

Date	Details	Number of Options	Unit Price (cents)	Amount \$
1 July 2005	Balance	320,000,000		241,500
7 February 2006 through to 30 June 2006	Exercise of options	(320,000,000)		-
30 June 2006	Balance	Nil		241,500
July to October 2006	Capital raising costs	-		(6,392)
30 November 2006	Grant of options	100,000,000	0.04	40,000
24 January 2007	Grant of options	3,150,000	4.01	126,328
8 March 2007	Grant of options to Directors	3,000,000	4.7	141,027
11 June 2007	Grant of options	24,200,000	5.679	1,374,342
30 June 2007	Balance	130,350,000		1,916,806

17. Accumulated Losses

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Accumulated losses at the beginning of the year	(14,151,242)	(14,353,629)	(14,226,759)	(14,397,101)
Prior years subsidiary losses	(75,517)	-	-	-
Adjustment on prospective application of AASB 139	-	166,000	-	166,000
Profit/(loss) for year	(984,351)	36,386	(2,757,780)	4,342
Accumulated losses at the end of the financial year	<u>(15,211,110)</u>	<u>(14,151,243)</u>	<u>(16,984,539)</u>	<u>(14,226,759)</u>

NOTES TO THE FINANCIAL STATEMENTS

18. Minority Interest

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Comprises:				
Share capital	2	2	-	-
Accumulated losses	(2)	(75,519)	-	-
	<u>-</u>	<u>(75,517)</u>	<u>-</u>	<u>-</u>

The parent company has taken over the losses of its subsidiaries as there is no firm commitment from the minority shareholders to provide additional funding to the subsidiary.

19. Earnings per Share

	Number	Number
Weighted average number of shares on issue during the financial year used in the calculation of basic earnings per share	669,608,765	373,814,564
Basic profit/(loss) per share – cents		
The diluted earnings per share is the same as the basic loss per share as the Group incurred a loss for the year.	(0.15)	0.01

20(a). Cashflow Information

Operating profit/(loss) after income tax	(984,351)	36,386	(2,757,780)	4,342
Exploration	-	175,805	-	14,820
Revaluation of investments	(878,024)	(455,280)	(878,024)	(455,280)
Surplus on sale of shares	(25,178)	-	(25,178)	-
Gain on disposal of fixed assets	(3,055)	-	(3,055)	-
Depreciation of plant & equipment	1,870	-	1,870	-
Decrease/(increase) in trade and other receivables	562,361	2,513	562,361	(1,204)
Increase/(decrease) in trade and other payables	(121,910)	23,340	(121,910)	23,340
Non cash share-based payments	1,641,697	-	1,641,697	-
Provision for loan to subsidiaries	-	-	1,773,429	160,985
Provision for investment in subsidiary	-	(32,044)	167	-
Net cash inflow/(outflow) from operating activities	<u>193,410</u>	<u>(249,280)</u>	<u>193,577</u>	<u>(252,997)</u>

20(b). Non cash share based payments

During the year, the Company granted 6,150,000 listed options and 24,200,000 unlisted options to Directors, management personnel and consultants. The fair value of these options has been calculated using the Black Scholes option pricing model, refer to Notes 7 and 25.



NOTES TO THE FINANCIAL STATEMENTS

21. Financial Instruments

(a) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

	Floating Interest Rate		Non-Interest Bearing		Total	Total
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
	5.55% - 6.35%	5.48% - 5.92%				
Financial Assets						
Cash and cash equivalents	4,643,695	6,254,474	-	-	4,643,695	6,254,474
Receivables	-	-	179,659	742,020	179,659	742,020
Investments	-	-	1,991,169	1,215,520	1,991,169	1,215,520
Total Financial Assets	4,643,695	6,254,474	2,170,828	1,957,540	6,814,523	8,212,014
Financial Liabilities						
Trade and other payables	-	-	(64,839)	(186,750)	(64,839)	(186,750)
Net Financial Assets	4,643,695	6,254,474	2,105,989	1,770,790	6,749,684	8,025,264

Reconciliation of Financial Assets to Net Assets

	Consolidated	
	2007	2006
	\$	\$
Net financial assets	6,749,684	8,025,264
Exploration expenditure	1,914,919	-
Plant & equipment	51,616	-
	8,716,219	8,025,264

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provision for doubtful debts, as disclosed in the balance sheet and notes to the financial report.

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.

(c) Net Fair Values

The carrying amount of financial assets and financial liabilities recorded in the financial statements represent their respective net fair values determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

(d) Financial Risk Management

The Group's financial instruments consist mainly of deposits with recognised banks, investments in bank bills up to 90 days, accounts receivable and accounts payable, and loans to subsidiaries. Liquidity is managed, when sufficient funds are available, by holding sufficient funds in a current account to service current obligations and surplus funds invested in bank bills. The Directors analyse interest rate exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The main risks the Group is exposed to through its financial instruments are the depository banking institution itself, holding the funds, and interest rates. The Group's credit risk is minimal as being an exploration company, no goods are sold, or services provided, for which consideration is claimed.

22. Investment in controlled entities

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding (%)		Book Value of Investment		Contribution to Consolidated	
			2007 %	2006 %	2007 \$	2006 \$	2007 \$	2006 \$
Karrilea Holdings Pty Ltd	Australia	Ordinary	80	80	-	-	(1,773,042)	(160,219)
Tapeko Investments Ltd (Deregistered)	Australia	Ordinary	-	100	-	-	-	(766)
New Mining Co (Pty) Ltd	Namibia	Ordinary	100	-	-	-	(167)	-

New Mining Company (Pty) Ltd was incorporated in Namibia on 4 March 2005 and acquired by the Company on 9 December 2005. It has a paid up capital of N\$1,000, made up of 100 shares of N\$10 each. Tapeko Investments was deregistered on 29 June 2007.

23. Related Parties

Subsidiaries Karrilea Holdings Pty Ltd and Tapeko Investments Ltd have been loaned \$2,150,916 and \$181,202 respectively. With the deregistration of Tapeko, that loan, which had been fully provided for, has now been written off. All transactions with Directors are disclosed in Note 7.

24. Segment Reporting

The company operates primarily in Western Australia and Namibia in the resources industry.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2006 and 2007.

Year ended 30 June 2007	Australia A\$	Namibia A\$	Consolidated A\$
Total segment revenue	1,258,500	-	1,258,500
Expenditure	(2,101,430)	(141,421)	(2,242,851)
Profit/(loss) after income tax	(842,930)	(141,421)	(984,351)
Segment assets	8,781,058	-	8,781,058
Segment liabilities	(64,839)	-	(64,839)
	8,716,219	-	8,716,219



NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006	Australia A\$	Namibia A\$	Consolidated A\$
Total segment revenue	523,920	-	523,920
Expenditure	(512,092)	(7,486)	(519,578)
Profit/(loss) after income tax	11,828	(7,486)	4,342
Segment assets	8,212,014	-	8,212,014
Segment liabilities	(186,750)	-	(186,750)
	8,025,264	-	8,025,264

25. Share Based Payment Plan

During the year, the Company granted the following options to Directors, management personnel and consultants:

- (1) 3,000,000 listed options to Directors, at an exercise price of 5 cents each, and expiring on 30 September 2009. The options were fair-valued at 4.70 cents per option, and vested immediately at date of grant.

The fair value of the options granted has been calculated using the Black Scholes option pricing model as follows:

Weighted average exercise price	5 cents
Weighted average life of options	2.3123 years
Underlying share price	7.3 cents
Expected volatility	88.315%
Risk free interest rate	5.966%

- (2) 3,150,000 listed options to management personnel and consultants, at an exercise price of 5 cents each, and expiring on 30 September 2009. The options were fair-valued at 4.01 cents per option, and vested immediately at date of grant.

The fair value of the options granted has been calculated using the Black Scholes option pricing model as follows:

Weighted average exercise price	5 cents
Weighted average life of options	2.844 years
Underlying share price	5.4 cents
Expected volatility	125%
Risk free interest rate	5.9%

- (3) 24,200,000 unlisted options to management personnel and consultants, at an exercise price of 10.5 cents each, and expiring on 31 December 2010. The options were fair-valued at 5.68 cents per option, and vested immediately at date of grant.

The fair value of the options granted has been calculated using the Black Scholes option pricing model as follows:

Weighted average exercise price	10.5 cents
Weighted average life of options	3.589 years
Underlying share price	9.5 cents
Expected volatility	83.774%
Risk free interest rate	6.204%

NOTES TO THE FINANCIAL STATEMENTS

None of the above options had been exercised up to 30 June 2007.

The fair value of the options granted has been calculated using the Black Scholes option pricing model.

Historical volatility has been the basis of determining expected share price volatility and it is assumed that this is indicative of future trends, which may not eventuate.

The life of option is based on the historical exercise patterns, which may not eventuate in the future.

The expense recognised for Director, employee and consultant services received during the year is shown in the table below:

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Expense arising from equity-settled share-based payment transactions for:				
(a) Directors	141,027	-	141,027	-
(b) employees and consultants	1,500,670	-	1,500,670	-
	<u>1,641,697</u>	<u>-</u>	<u>1,641,697</u>	<u>-</u>

Summary of Options Granted

The following table sets out the number (No.) and weighted average exercise price (WAEP) of, and movements in, share options issued during the year:

	2007 No.	2007 WAEP (cents)	2006 No.	2006 WAEP (cents)
Outstanding at beginning of year	-	-	-	-
Granted during the year	30,350,000	9.39	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	<u>30,350,000</u>	<u>9.39</u>	<u>-</u>	<u>-</u>

The outstanding balance as at 30 June 2007 is comprised of :

- (i) 6,150,000 options over ordinary shares with an exercise price of 5 cents each, exercisable at any time up to 30 September 2009;
- (ii) 24,200,000 options over ordinary shares with an exercise price of 10.5 cents each, exercisable at any time up to 31 December 2010.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2007 is 3.39 years (2006: nil).

The range of exercise prices for options outstanding at the end of the year was 5 to 10.5 cents (2006: nil).

The weighted average fair value of options granted during the year was 5.41 cents (2006: nil).



NOTES TO THE FINANCIAL STATEMENTS

26. Commitments

(i) Mining Tenements

As part of ongoing activities, the consolidated entity is required to commit to minimum expenditures to retain its interest in its mining tenements. Over the next five years this amounts to \$550,300, as follows:

Year Ending 30 June	Amount \$
2008	110,060
2009	110,060
2010	110,060
2011	110,060
2012	110,060
	<u>550,300</u>

(ii) Management Agreement

The Company has an agreement with a management service company for the provision of services at \$150,000 per annum plus CPI. Charges are at commercial terms in accordance with the agreement entered into on 1 August 2004 for a five year term.

27. Contingent Liabilities

No contingent liability exists for termination benefits under service agreements with directors or persons who take part in the management of the company. There were no contingent liabilities as at 30 June 2007.

28. Events Subsequent to Balance Date

Since year end, 1,042,000 shares in Tiger Resources Ltd have been sold for \$795,094, leaving a balance on hand of 983,000 shares, valued at \$471,840 as at 17 September 2007. The value of options in Tiger Resources Ltd has declined to \$146,250 as at that date as a result of prevailing market prices.

The Directors are not aware of any matter or circumstance not otherwise dealt with in the report or financial statements that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.



DIRECTOR'S DECLARATION

The Directors of the company declare that:

1. The financial statements and notes, as set out on pages 14 to 36 are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards, the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the company and economic entity.
2. The Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

SIGNED in accordance with a resolution of the Directors on behalf of the Board.



D N Zukerman
DIRECTOR

Dated this 20th day of September 2007
Perth, Western Australia



Stantons International

ABN 41 103 088 697

LEVEL 1, 1 HAVELOCK STREET
WEST PERTH WA 6005, AUSTRALIA
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204
www.stantons.com.au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF METALS AUSTRALIA LTD

Report on the Financial Report

We have audited the accompanying financial report of Metals Australia Ltd, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of Metals Australia Ltd are responsible for the preparation and fair presentation of the 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 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. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards, but that the financial report of the Company does not comply.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of

Member of Russell Bedford International



accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's Opinion

1. In our opinion:

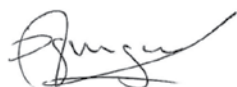
(a) the financial report of Metals Australia Ltd is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2.

STANTONS INTERNATIONAL
(An Authorised Audit Company)

Stantons International



Keith Lingard

Director

West Perth, Western Australia
20 September 2007



Stantons International

ABN 41 103 088 697

LEVEL 1, 1 HAVELOCK STREET
WEST PERTH WA 6005, AUSTRALIA
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204
www.stantons.com.au

20 September 2007

Board of Directors
Metals Australia Ltd
1st Floor,
8 Parliament Place
WEST PERTH WA 6005

Dear Directors

RE: METALS AUSTRALIA LTD

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Metals Australia Ltd.

As Audit Director for the audit of the financial statements of Metals Australia Ltd for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

STANTONS INTERNATIONAL
(Authorised Audit Company)

Keith Lingard
Director

CORPORATE GOVERNANCE

Metals Australia Ltd has adopted the Ten Essential Corporate Governance Principles and the Best Practice Recommendations as published by the Australian Stock Exchange Corporate Governance Council. These are set out in the company's website under the following headings:

Lay solid foundations for management and oversight by the Board

Structure the Board to add value and discharge responsibilities

Promotion of ethical and responsible decision making

Safeguard integrity in financial reporting

Make timely and balanced disclosure

Respect the rights of shareholders

Risk management

Enhance performance of the Company

Remunerate fairly and responsibly

Recognise the interests of stakeholders

Explanations for departures from best practice recommendations

Principle 1: Lay solid foundations for management and oversight by Board.

Functions of management and Board were formalized on June 28 2004. Prior to formal adoption, separate procedures existed and were practiced, by both Board and management.

Principle 2: Structure the Board to add value and discharge responsibilities.

The Company does not have a chief executive officer having delegated the management of the company to a management services company. Director David Zukerman is a member of the executive and a consultant to the management services company. The Company considers that for the purposes of best practice recommendations, David Zukerman's position is the equivalent of chief executive officer.

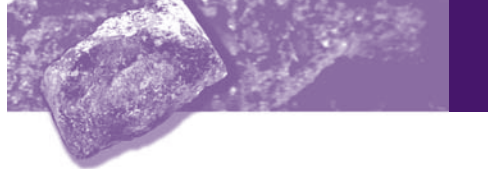
The Company recognises the ASX recommends that one individual should not hold a combination of positions. The Company has an independent chairman in Mr Majteles and the third director, Mr Clemen is independent. This arrangement is considered appropriate due to the small size of the Company and its economic practicalities.

A separate nomination committee has not been formed as the Board comprises just three members and it was considered that no efficiencies would be achieved. The whole Board carries out the duties, but with each member excluding himself from matters in which he has a material personal interest.

Principle 3: Promotion of an ethical and responsible decision making.

A code of conduct was adopted by the Company on June 28 2004. Prior to that time the Board considers its practices were the equivalent of a code of conduct. These practices are now outlined in the written code.

A written securities trading policy was adopted on June 28 2004. Prior to that time the Directors had an understanding of the appropriate time to trade in the Company's securities.



CORPORATE GOVERNANCE STATEMENT

Principle 4: Safeguard integrity in financial reporting.

A formal audit committee charter was adopted on June 28 2004 although a separate audit committee has not been formed, as due to the small size and structure of the Board, it was considered that no efficiencies would be achieved, hence the full Board carries out the function, of an audit committee. Mr Majteles and Mr Zukerman meet the requirements of financial literacy and experience.

Principle 5: Make timely and balanced disclosure.

Informal procedures were in place prior to June 28 2004 when written policies and procedures were implemented to ensure compliance with the ASX Listing Rules.

Principle 6: Respect the rights of shareholders.

The Company adopted a formal information strategy on June 28 2004 to communicate to shareholders through the website.

Principle 7: Risk Management.

The Company adopted a formal policy on risk management on June 28 2004. Prior to that time the Board had informal policies and procedures in place to identify and manage operational and financial risks.

Principle 8: Enhance performance of the Company.

The Company has a process for performance evaluation of the individual directors Board by way of an informal review by the Chairman.

Principle 9: Remunerate fairly and responsibly.

The Company adopted a remuneration committee charter on June 28 2004 but has not established a separate remuneration committee as due to its small size (three directors); all members are involved in assessing remuneration.

Principle 10: Recognise the interests of stakeholders.

The Company adopted a formal code of conduct to guide compliance with legal and other obligations in June 2004. Prior to that time the Board considered that its business practices were the equivalent of a code of conduct.

Summary

A profile of each director is shown in the Director's Report. The independent directors of the three person Board of the Company are H S Majteles and Alex Clemen. Each director may, with approval of the Chairman, seek independent professional advice to assist the director in the exercise and discharge of his duties as a director, and be reimbursed for reasonable expenses in obtaining that advice. The full board carries out the functions of a nomination committee in accordance with the Charter, relevant issues are considered at Board meetings on an as required basis.

The full three-man board carries out the functions of the audit committee with Mr Zukerman and Mr Majteles meeting the requirements of financial literacy, expertise and industry experience. During the Reporting Period the full board conducted informal reviews of the Company accounts on a six monthly basis.

A formal evaluation of the board was not carried out. With a board of three members, informal evaluation is conducted on an ongoing basis.

The full board carries out the functions of a remuneration committee. The level of fees paid to directors is influenced by comparing fees paid within the exploration industry and then set to attract qualified people to accept the responsibilities of directorship. Directors receive a fixed fee (plus statutory superannuation), with executive directors being remunerated for any professional services conducted for the Company. Directors do not receive any performance or equity based remuneration nor are there any retirement schemes for any directors.

CORPORATE GOVERNANCE STATEMENT

Board Structure

Name of Director	Year Appointed	Executive	Non-Executive	Independent	Seeking re-election at 2007 AGM
HS Majteles – Chairman	1987	NO	YES	YES	YES
A Clemen	1987	NO	YES	YES	NO
D Zukerman	2003	YES	NO	NO	NO

SHAREHOLDER INFORMATION

1. Distribution of Shareholders

(a) As at 17 September 2007 the distribution of members and their shareholdings were:-

Range of Holding	Holders	Shares Held	Percent
1 - 1,000	74	57,675	0.01
1,001 - 5,000	295	1,028,350	0.15
5,001 - 10,000	519	4,452,092	0.66
10,001 - 100,000	2,398	116,366,933	17.38
100,001 and over	983	547,703,715	81.79
	4,269	669,608,765	100.00

(b) There exist 577 shareholders with unmarketable parcels of shares.

(c) The twenty largest shareholders as at 17 September 2007 which represents 24.91% of the paid up capital were as follows:

Name of Holder	Number	%
Pan Pacific Mining Pty Ltd	35,000,000	5.23
Pio Services Limited	18,750,000	2.80
I-CAN Limited	17,000,000	2.54
L C Asia Limited	12,720,000	1.90
Thomas & Eileen Anne Doyle	10,400,000	1.55
Citicorp Nominees Pty Limited	9,629,340	1.44
ANZ Nominees Limited (Cash Income Account)	7,959,134	1.19
UBS Nominees Pty Ltd (TP00014 15 A/c)	5,464,304	0.82
Murray John Dean Brownlie	5,044,898	0.75
Jeannette Mary Evans	5,000,000	0.75
Miljenko, Iva & Frank Zuvela	5,000,000	0.75
Jayesh Mistry	4,408,833	0.66
Cofordo 235 Pty Ltd	4,369,414	0.65
Warren Richard & Victoria Margaret Smith	4,300,000	0.64
Icerig Nominees Pty Ltd	4,000,000	0.60
Erwin John Clayton	3,923,500	0.59
HSBC Custody Nominees (Australia) Pty Ltd	3,526,400	0.53
Takorin Pty Ltd (AJG Super Fund)	3,500,000	0.52
Sam Shay Nee Chong	3,400,000	0.51
Phuc Xuong Luu	3,262,484	0.49
Total	166,658,307	24.91



SHAREHOLDER INFORMATION

(d) Substantial Shareholders

The names of the substantial shareholders who have notified the Company in accordance with Section 671B of the Corporation Act 2001 are:

Name	Number of Ordinary Shares	Percentage of Issued Capital
Pan Pacific Mining Pty Ltd together with group member Caconda Pty Ltd	36,500,000	5.45%



SHAREHOLDER INFORMATION

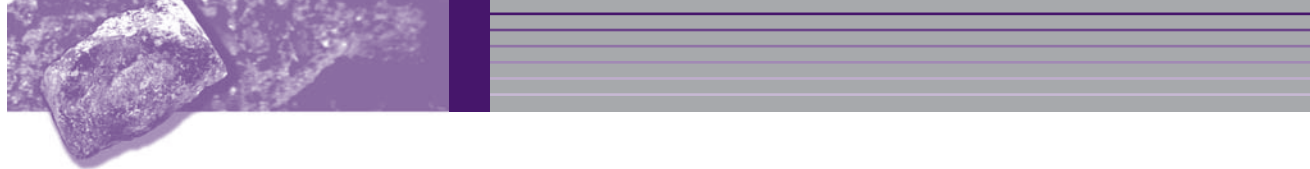
- (e) As at 17 September 2007 the distribution of optionholders for options with an exercise price of 5 cents, and which expire on 30 September 2009 were:-

Range of Holding	Holders	Shares Held	Percent
1 - 1,000	0	0	0.00
1,001 - 5,000	0	0	0.00
5,001 - 10,000	12	111,354	0.11
10,001 - 100,000	125	7,949,802	7.49
100,001 and over	154	98,088,664	92.41
	<u>291</u>	<u>106,150,000</u>	<u>100.00</u>

- (f) There exist 17 optionholders with unmarketable parcels of options.
- (g) The twenty largest optionholders in this class, as at 17 September 2007, which represents 48.40% of this class of options, were as follows:

Name of Holder	Number	%
Ross Langdon & Linda Alison Divett	7,500,000	7.07
Robert Foster & Irene Louise Colefax	5,000,000	4.71
Mario Giuliani	5,000,000	4.71
Roy Kendall	4,000,000	3.77
Elmasri Investments Pty Ltd	3,487,000	3.28
Thomas & Eileen Ann Doyle (Doyle Family Super A/c)	3,150,000	2.97
FNQ Wealth Creation Pty Ltd	2,100,000	1.98
UBS Nominees Pty Ltd (TP00014 15 A/c)	2,075,000	1.95
Clodene Pty Ltd	2,064,196	1.94
Sabstern Pty Ltd	2,002,800	1.89
Linden William Chin	2,000,000	1.88
Stanley Paulo	2,000,000	1.88
LC (Asia) Ltd	1,984,846	1.87
Madora View Pty Ltd (Thomas Family A/c)	1,703,274	1.60
Madora View Pty Ltd (Thomas Family Super A/c)	1,629,797	1.54
Sydney Valentine Nossiter	1,500,000	1.41
Daniel Wong	1,122,500	1.06
Salvatore Danz	1,070,000	1.01
Robyn Clemen	1,000,000	0.94
Loris & Mario Giuliani (Giuliani Super Fund A/c)	1,000,000	0.94
Total	<u>51,389,413</u>	<u>48.40</u>

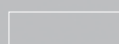
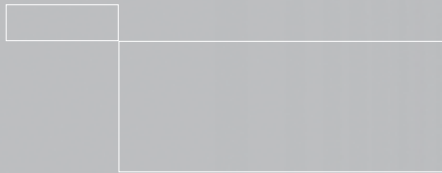
- (h) In addition, a further class comprising 24,200,000 unlisted options was created, having an exercise price of 10.5 cents, and which expire on 31 December 2010.



(These pages are intentionally left blank)



METALS AUSTRALIA LTD
www.metalsaustralia.com.au



Metals Australia Ltd

Level 1, 8 Parliament Place

West Perth, WA, 6005

Telephone: +61 8 9481 7833

Facsimile: +61 8 9481 7835

Email: mls@metalsaustralia.com.au

Website: www.metalsaustralia.com.au