2006 Annual Report

Latrobe Magnesium

Latrobe Magnesium Limited and its Controlled Entities

ABN 52 009 173 611

INDEX

COMPANY DIRECTORY

Directors
David Paterson, Chairman
Philip Bruce
Kevin Torpey
Rodney Foster

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Telephone: (02) 9251 0400
Facsimile: (02) 9251 0244

Auditors
Grant Thornton NSW
Level 17
383 Kent Street
Sydney NSW 2000

Share Registry
Computershare Investor Services Pty Limited
Level 3
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Sydney NSW 2000

Secretary
David Hughes

Bankers
National Australia Bank Limited
255 George Street
Sydney NSW 2000

Solicitors
Minter Ellison
Level 19
88 Philip Street
Sydney NSW 2000

Home Stock Exchange
Australian Stock Exchange
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Perth WA 6000

ASX CODE: LMG

REVIEW OF OPERATIONS

Latrobe Magnesium Project

(a) Calcium Oxide Removal Test work

During this year, the Company has concentrated their test work on determining the most cost effective method of removing the calcium oxide from the fly ash. The Hazelwood fly ash contains approximately 24% calcium oxide and 19% magnesium oxide in the fresh ash. The calcium removal has a significant impact on the project economics.

Worley Parsons and Metcon Laboratories have investigated the alternative removal options of the calcium by flotation tests and precipitation methods using various reagents. Flotation tests were not successful. The precipitation of the calcium was proven to be the preferred mechanism, however methods for reducing reagents usage cost still need to be investigated.

The recent Worley test work which used fly ash and carbon dioxide for the removal of the calcium contained in the ash.

Their report on the test work undertaken concluded that:

"The test work confirmed that dry ash is effective in replacing magnesium hydroxide in the neutralisation / purification step. "

(b) Independent Technical Review

Prior to committing to additional test work, the Board sought an independent technical review of the options available for calcium removal, the overall flow sheet proposed and to provide an assessment of the Latrobe Magnesium Project.

Directors have commissioned Process Essentials, a Brisbane based consulting firm that specialises in process development and has been involved in previous magnesium projects within Australia, to undertake this high level technical review.

This scope of the review will be:

- Review of the proposed flowsheets;
- Review calcium removal options;
- Identify operating costs for the calcium removal options; and
- Provide comment on their technical and economic assessment of the Project.

The review is expected to be available at the end of October 2006 and will be advised to the market at that time.

(c) DOTARS

The Company has had continued discussions with the Department of Transport and Regional Services ("DOTARS") representatives regarding the projects continued participation in the grant scheme which has been extended for a further period.

The DOTARS grant scheme has been extended for an additional year until 30 June 2007. DOTARS are willing to support companies that were previously enrolled in the scheme if those participants use the grant money by the end of February 2007 in an approved manner.

As the Project has been delayed by the above mentioned test work, DOTARS are concerned that Latrobe will not be in a position to spend the moneys that were previously allocated to this stage of the project. The money available to Latrobe under the grant which has not been claimed amounts to $1,237,380.

The Company is waiting on the receipt of the Process Essential's review before determining the appropriate steps involved to progress the Project. The Board has notified DOTARS that given this review is positive then it estimates that the additional laboratory test work, engineering work and cost estimate of work required to be performed within the above timeframe may approximate $500,000. DOTARS has advised the Company that as this revision would represent a major adjustment to the initial grant application and approval, the Company would need to submit a full new grant application which in turn will require a new approval from the Minister. The application would be for 50% of the additional $500,000 and also for the reimbursement of approximately $75,000 which has been expended under the initial grant but not yet been reimbursed.

REVIEW OF OPERATIONS (Continued)

Bangemall Exploration Area, Western Australia

(a) Exploration Area

The Company announced on 21 June 2006 that it had executed an agreement to acquire a 100% equity interest in exploration licence application E09/1293. Geologically the tenement is located on the northern contact between the Gascoyne Complex and the Bangemall Basin, centered on the Cobra Anticline (refer attached map) and covers an area of approximately 648km^2.

It encompasses poly-element potential with district scale dimensions and has excellent prospectivity for uranium and gold, as well as copper, lead zinc, silver and rare earth elements.

(b) Previous Exploration

Mining in the region has been confined to the high grade gold deposits of the Bangemall mining Centre. Exploration has occurred intermittently, with the last major works focused on identification of geochemical anomalies (rock chip and sediment sampling) by BHP in the mid to late 1990's. Potential exists for the identification of poly-elemental targets within the region, which the Company considers to be under explored by modern geological standards.

Preliminary data has been compiled from the Western Australian Mineral Exploration Database (WAMEX) and Department of Industry Resources reports.

Regional exploration for uranium and yttrium has been centered on Gascoyne Complex rocks. A scintillometer traverse indicated radioactivity, the significance of which is being investigated.

There are a number of gold shows within the tenements associated with the Bangemall Mining centre. The geology comprises the folded Bangemall Group sediments (Jillwarra Formation & Discovery Chert) which are intruded by dolerite sills. The gold found in this area occurs as saddle reefs and veins parallel to the axial-plane cleavage. Mineralization is associated with quartz veins in dolerite, shale and chert.

(c) Regional Mineralization

The Bangemall Basin is host to numerous gold, copper, lead and zinc occurrences including Abra (lead zinc) where a substantial exploration program is currently being carried out by Abra Mining Limited.

(d) Proposed Programme

The Company has completed a detailed assessment of past exploration data and is developing an exploration programme, which will be implemented once the exploration application has been granted and the title transferred to Latrobe. The Company believes that the exploration application should be granted early in the new year.

Future Investment Opportunities

Over the last twelve months, the Board has been actively pursuing a number of investment opportunities and projects that could enhance shareholders value. The potential acquisitions involve activities in the coal, gold, oil and gas sectors.

The Board has focused on opportunities that have the potential to provide positive cash flows within a short time period and also provide the Company with growth opportunities. Whilst the Company has not been able to finalise an acquisition, other than the Bangemall exploration area, it continues to actively identify and evaluate these resource based investment opportunities.

CORPORATE GOVERNANCE STATEMENT

Latrobe Magnesium Limited and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance.

The Board supports and aims to comply with the principles of good corporate governance and best practice recommendations set by the ASX Corporate Governance Council.

The Board continues to review its corporate governance framework in light of these principles to ensure they meet the interests of shareholders.

The Board recognises that given the current size of the Company and its level of operations it is not always appropriate or practical to fully comply with these principles and recommendations.

A description of the Company's main corporate governance practices is set out below. Unless otherwise stated, all of these practices were in place at year end.

The Board of Directors

The Board of Directors' (the Board) primary role is the protection and enhancement of long-term shareholder value. In fulfilling this role, the Board is responsible for the overall corporate governance of the Company and its controlled entities ensuring the consolidated entity is run in a proper manner.

Responsibilities and Functions of the Board

The Board operates in accordance with the broad principles set out in its Charter and Terms of Reference. The Charter details the Board's composition and responsibilities.

The responsibilities of the Board include:

- reporting to shareholders and the market;
- ensuring adequate risk management processes exist and are complied with;
- reviewing internal controls and internal and external audit reports;
- ensuring regulatory compliance;
- monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company's auditors;
- reviewing the performance of senior management;
- monitoring the Board composition, director selection and Board processes and performance;
- validating and approving corporate strategy;
- reviewing the assumptions and rationale underlying the annual plans and approving such plans; and
- authorising and monitoring major investment and strategic commitments.

The Board met 7 times during the year and directors' attendance is disclosed on page 13.

Term in Office

The term in office of each Director of the Company at the date of this report is as follows:

Name of Director	Term in Office
D O Paterson	4 Years, 1 Month
P F Bruce	3 Years, 1 Month
K A Torpey	4 Years, 5 Month
R D Foster	5 Months

Director Education

The Company provides a formal induction process for all new employees and directors to educate them on the nature of the business and its operations.

Chairman

The Chairman is responsible for leading the Board, ensuring that the Board activities are organised and efficiently conducted and for ensuring the directors are properly briefed for meetings. The Board's Charter and Terms of Reference specify that these are separate roles to be undertaken by separate people and that there should at all times be a clear division between the responsibilities of the Board and management.

Audit Committee

The members of the audit committee during the year were: -

- Mr D O Paterson – (Chairman) Non-Independent Non-Executive appointed 30 November 2005
- Mr P F Bruce – Independent Non-Executive
- Mr J S Keniry – Independent Non-Executive resigned 30 November 2005

The committee met twice during the year.

The responsibilities of the audit committee include:

- reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- monitoring corporate risk management practices;
- review and approval of the Group's accounting policies and procedures;
- reviewing the external and internal audit plans, and co-ordination between the internal and external auditors;
- reviewing the nomination, performance and independence of the external auditors; and
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

Nominations Committee

The Board has not yet formed a separate nominations committee and all matters that would normally be the responsibility of a nomination committee are dealt with by the full Board of Directors. In the event of a vacancy the Board seeks replacements with the appropriate skills and experience. Where necessary advice is sought from independent consultants.

Remuneration Committee

No remuneration committee exists as all matters that would normally be the responsibility of a remuneration committee are dealt with by the full Board of Directors. These responsibilities include:

- review and approval of the Group's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations to the Board on the remuneration of executive directors (including base salary, incentive payments, equity awards and service contracts);
- to review and approve the design of all equity based plans;
- to review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive directors.

Further information on directors and executive officers remuneration is set out in note 16 of the Financial Statements.

Board Members

Details of the members of the Board, their experience, expertise, qualifications and independent status are set out in the Directors Report under the heading "Information on Directors".

At the date of this report, the Board comprises four Non-Executive Directors, two of whom are deemed independent under the principles set out below.

This matter is part of a continual review process and as the Company develops, consideration will be given at the appropriate time to appoint a majority of independent Directors.

Director Independence

The Board has adopted specific principles in relation to Director independence. These state that to be deemed independent, a Director must be a Non-Executive and:

- not be a substantial shareholder of the company or an officer of or otherwise associated directly with a substantial shareholder of the Company;
- within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a Director after ceasing to hold any such employment;
- within the last three years not have been a principal of a material professional adviser or a material consultant to the company or any other group member, or an employee materially associated with the service provided;
- not be a material supplier or customer of the company or any other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- must have no material contractual relationship with the company or a controlled entity other than as a director of the group;
- not have been on the board for a period which could, or could reasonably be perceived to, materially interfere with the Directors ability to act in the best interests of the company;
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Directors ability to act in the best interests of the company.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or group or 5% of the individual Directors net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the Directors performance.

The Board considers that the current position of two of the four Directors being independent is appropriate and cost effective given the current stage of development of the Company.

Due Diligence Committee

The Board will from time to time form a due diligence committee to monitor any projects that require a due process of enquiry and substantiation.

External Auditors

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement and the scope and quality of the audit. In fulfilling its responsibilities the Board receives regular reports from management and the external auditors at least twice a year, and more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

The current auditors, Grant Thornton, were appointed on 13 November 1992. The current audit engagement partner was appointed on 24 October 2002. The Australian accounting bodies' statement on professional independence and the Corporations Act 2001 requires mandatory rotation of audit partners for listed companies every five years. Grant Thornton confirm that they conform with these requirements.

Grant Thornton are required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditors Report.

Risk Assessment and Internal Control Procedures

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requested the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

The Secretary has stated in writing to the Board that:

The Company's financial reports present a true and fair view in all material respects of the Company's financial condition and operating results and are in accordance with relevant accounting standards.

The integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Risk Assessment and Internal Control Procedures (continued)

The Company's risk management and internal compliance and control system is operating efficiently in all material respects.

The Board requires this declaration to be made bi-annually.

Policy on Dealing in Company Securities

The Company has a policy on how and when the directors and employees may deal in the Company's securities. The purpose of this policy is to ensure that the directors and employees deal in the Company's securities in a manner which properly reflects their fiduciary duty, and that they do not transact in those securities whilst in possession of price sensitive information.

This policy requires all directors and employees to seek approval from the Chairman and Company Secretary prior to dealing in the Company's securities.

Continuous Disclosure

The Company Secretary is responsible for communications with the ASX. The Company Secretary is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

The Company has a written policy on information disclosure that focuses on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities.

Communication with Shareholders

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company follows a communications strategy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Company; and
- encouraging and facilitating shareholder participation in general meetings.

The Company achieves this through the following avenues:

i) The Company's website **www.latrobemagnesium.com**.
The website provides detailed information about all aspects of the Company's operations.

ii) Regular mailings
The Company provides shareholders with the option of receiving copies of all announcements made to the ASX by mail or via an electronic link to our website, ensuring that all shareholders are kept informed about the Company.

Shareholders also have the option of receiving a hard copy of the Annual Report each year or they can elect to receive an electronic link to the website via e-mail.

iii) General meetings
All shareholders are invited to attend the Annual General Meetings which are held in Sydney. The full Board and senior executives are present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

The Company endeavours to ensure that all shareholder queries are dealt with promptly and courteously.

Ethical Standards

The Company has a Code of Conduct applicable to all employees and directors. The requirement to comply with the Code is mandatory and is communicated to all employees. The Code sets out standards of conduct, behaviour and professionalism.

Access to Independent Professional Advice

Each director has the right of access to all relevant Company information and to the Company's executives. The directors also have access to external resources as required to fully discharge their obligations as directors of the Company. The use of these resources is co-ordinated through the Chairman of the Board. No such advice has been sought during the year.

DIRECTORS' REPORT

Your Directors present their report on the Consolidated Entity (The Group) consisting of Latrobe Magnesium Limited and the Entities it controlled for the financial year ended 30 June 2006.

DIRECTORS

The following persons were Directors of Latrobe Magnesium Limited during the financial year and up to the date of this report.

D O Paterson (Chairman)		
P F Bruce		
K A Torpey		
R D Foster	-	appointed a Director on 21 April 2006 and continues in office at the date of this report.
DR J S Keniry	-	Chairman of Directors from the beginning of the financial year until his resignation on 30 November 2005. Mr D O Paterson replaced DR J S Keniry as Chairman of Directors.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the consolidated entity consisted of:

- Advancement of the Latrobe Magnesium Project with the evaluation of alternative proven technologies used for the production of magnesium metal and the various processes for the removal of calcium oxide.
- Identification and evaluation of other resource based investment opportunities to enhance shareholder value.

REVIEW OF OPERATIONS

The consolidated net loss of the Economic Entity after providing for income tax and eliminating outside equity interests amounted to $211,288 compared to a net loss of $681,612 for the corresponding period.

Dividends

The directors have not recommended the payment of a final dividend.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the Consolidated Entity during the financial year were as follows:

a) An increase in the contributed equity of $1,022,273 (from $22,569,377 to $23,591,650) as a result of:

	2006 $
- Issue of 30,000,000 fully paid ordinary shares at $0.005 pursuant to a private placement in February 2006	150,000
- Issue of 80,000,000 fully paid ordinary shares at $0.006 pursuant to a private placement in February 2006	480,000
- Issue 2,500,000 fully paid ordinary shares at $0.006 to convert debt to equity in February 2006	15,000
- Issue of 40,000,000 fully paid ordinary shares at $0.011 pursuant to a private placement in May 2006	440,000
	1,085,000
LESS transaction costs arising on share issues	(62,727)
Net increase in share capital	1,022,273

b) Expansion of Investment Base

The Directors propose to expand the economic entity's investment base to enhance shareholder value by identifying and evaluating for acquisition suitable resource based investment opportunities.

As the initial stage of this process on 21 June 2006, the Company announced the acquisition of the Bangemall Uranium and Gold Project in the Gascoyne Region of Western Australia.

The project consists of a 200 graticular block exploration licence application E09/1293 covering an area of approximately 648km^2 .

The 100% equity Interest in the Bangemall Project is being acquired for the consideration of the issue of 10 million fully paid ordinary Latrobe Magnesium shares.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the company's financial report has been prepared in accordance with those standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report.

MATTERS SUBSEQUENT TO BALANCE DATE

On 1 September 2006, the Company issued 5 million fully paid ordinary shares as part consideration for the acquisition of exploration licence application E09/1293, as discussed above. The balance of the consideration will be paid on completion of the transfer of the tenement.

Except for the matter referred to above, there is no other matter or circumstance that has arisen since 30 June 2006 that has significantly affected or may significantly affect:

a the operations, in financial years subsequent to 30 June 2006, of the consolidated entity;
b the results of those operations; or
c the state of affairs, in financial years subsequent to 30 June 2006, of the consolidated entity.

LIKELY DEVELOPMENTS

Except for information disclosed on certain developments and the expected results of those developments included in this report under review of operation, further information on likely developments in the operations of the consolidated entity and the expected results of those operations have not been disclosed in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATIONS

The economic entity's operations are subject to normal State and Federal Environmental Regulations. There were no breaches of these regulations during the year or to the date of this report.

INFORMATION ON DIRECTORS

David Oliver Paterson – Non Executive Director **Age 52**

Experience and Expertise
Mr Paterson is a qualified non-practising Chartered Accountant and a graduate from the University of Queensland. He was a founding partner of Europacific and has held an Investment Dealers Licence since 1990. Prior to forming Europacific in 1990, he was a Group Manager of the Corporate Services Division of Tricontinental Corporation Limited responsible for NSW and Queensland. He also worked for Coopers & Lybrand in Brisbane and Sydney in their Corporate Services Division. He has been involved in a wide range of corporate advisory assignments and underwritings of both debt and equity for a number of public and private companies.

Mr Paterson has experience in the property and mining industries, in relation to:-

- Project financing;
- Financial analysis;
- Valuations; and
- The raising of debt and equity.

Appointed as a Director on 23 August 2002

David Oliver Paterson – Non Executive Director (continued)

Other Current Public Company Directorships
Medcare Holdings Pty Ltd, Country Pipelines Pty Ltd, Central Ranges Pipeline Pty Ltd and Zentrum Schulzendorf Verwaltung GMBH.

Former Public Company Directorships In Last 3 Years
None

Special Responsibilities
Chairman of the Board of Directors
Member of Audit Committee

Interests in Securities
35,933,333 ordinary shares in Latrobe Magnesium Limited. Of these shares 17,607,333 ordinary shares are held by Rimotran Pty Limited, as trustee for the David Paterson Super Fund Account, and 18,326,000 fully paid ordinary shares held in trust by Emesco Agents Pty Limited for and on behalf of Rimotran Pty Limited. Rimotran Pty Limited is a company controlled by D O Paterson.

Philip Francis Bruce – Non Executive Director **Age 54**

Experience and Expertise
Mr Bruce is a director of P F Bruce & Associates, which provides corporate and project management services. Mr Bruce is a mining engineer with over thirty years resource industry experience in Australia, South Africa and Indonesia in operations, project development and corporate management. He was the CEO of PT BHP Indonesia, Managing Director of Triako Resources Limited and was the General Manager – Development for Plutonic Resources Limited, where he was technically responsible for acquisition and development of resource projects during the company's period of growth from $35 million to over $1 billion in market capitalisation.

Appointed as a Director on 4 September 2003

Other Current Public Company Directorships
Managing Director of Hill End Gold Limited

Former Public Company Directorships In Last 3 Years
None

Special Responsibilities
Member of Audit Committee

Interests in Securities
3,441,490 ordinary shares in Latrobe Magnesium Limited. These shares are registered in the name of Diazill Pty Limited of which Mr Bruce is a Director.

Kevin Anthony Torpey – Non Executive Director **Age 67**

Experience and Expertise
Mr Torpey is a Chartered Professional Engineer and a graduate from Sydney University. Over the last 40 years he has been involved in the development of many diverse major projects involving oil, iron ore, aluminium, nickel, lead/zinc, uranium, magnesite, coal and gold, located locally and in Ireland and Indonesia. Generally these projects have been associated with major companies such as Consolidated Goldfields, EZ Industries, Alcan, International Nickel, Tara Minerals Limited (Ireland), Noranda, Denison Mines (Canada), Toyota, Mitsubishi and Iwatani.

For the last 20 years his association has mainly been as a corporate officer initially as Managing Director of Denison Mines (Australia) and then Managing Director of Devex Limited. Over the last few years he has acted as a consultant to a number of companies involved in mining projects and new technologies. He is currently a Director of Camberwell Coal Pty Ltd.

Appointed a Director on 11 April 2002

Other Current Public Company Current Directorships
Imperial Corporation Ltd.

Former Public Company Directorships In Last 3 Years
Non-Executive Director of Bemax Resources Ltd from October 2000 to 18 September 2003.

Special Responsibilities
None

Kevin Anthony Torpey (continued)

Interests in Securities
65,333,334 ordinary shares in Latrobe Magnesium Limited. Of these shares, 32,013,334 shares are held by Famallon Pty Ltd (Famallon No.2 Super Fund). Mr Torpey is a principal of Famallon Pty Ltd and a beneficiary of the fund and 33,320,000 ordinary shares are held in trust by Emesco Agents Pty Limited for and on behalf of K A Torpey.

Rodney David Foster – Non Executive Director Age 45

Experience and Expertise
Mr Foster is a geologist with over 20 years experience in the gold exploration and mining industry in Western Australia and Victoria.

Mr Foster's experience covers commodities including gold based metals and energy. He previously worked for Pancontinental Mining at Paddington, Samantha Exploration, CSR's Gold Resources Pty Ltd and North Kalgurli Mines on the Golden Mile, Money Mining NL and he was founding Managing Director of Goldminco NL, a Victorian based exploration company.

Appointed a Director on 21 April 2006 (prior appointment on Board from the period of 15 January 1998 to 14 November 2002)

Other Current Public Company Directorships
Pacrim Energy Limited

Former Public Company Directorships in Last 3 Years
None

Special Responsibilities
None

Interests in Securities
6,000,000 ordinary shares in Latrobe Magnesium Limited, Of these shares 500,000 are held as a direct interest and 5,500,000 shares are held by Rodney Foster and Debra Foster as trustees for the Foster Family Super Fund.

COMPANY SECRETARY

The Company Secretary is Mr David Hughes. Mr Hughes was appointed to the position of Company Secretary on 14 August 2002. Before joining Latrobe Magnesium Limited he has held similar positions with other listed companies for over 20 years. He is currently acting as Company Secretary or joint Company Secretary of the following other listed public companies:

Imperial Corporation Limited, Hudson Investment Group Limited, Hudson Resources Limited and International Concert Attractions Limited.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2006, and the number of meetings attended by each Director were:

	Directors' Meetings		Audit Committee Meetings	
Director	**Attended**	**Held Whilst in Office**	**Attended**	**Held Whilst in Office**
D O Paterson	7	7	1	1
P F Bruce	5	7	2	2
K A Torpey	7	7	-	-
R D Foster	1	2	-	-
J S Keniry	3	3	1	1

The Board has yet to appoint a Nominations and Remuneration Committee. The matters that would normally be the responsibility of these committees are dealt with by the full Board of Directors.

Retirement, Election and Continuation in Office of Directors

- Mr P F Bruce is the Director retiring by rotation at the next annual general meeting of the Company. Mr Bruce being eligible offers himself for re-election.
- Mr R D Foster retires in accordance with article 12.4 of the Company's constitution, which provides that Directors will hold office until the next annual general meeting of the Company. Mr Foster being eligible offers himself for re-election.

REMUNERATION REPORT

This report outlines the Remuneration Arrangements in place for Directors and Executives of Latrobe Magnesium Limited.

Principles used to determine the nature and amount of remuneration are:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage / alignment of executive compensation
- Transparency
- Appropriateness for level of operations

Remuneration Committee

The Board has not yet formed a separate Remuneration Committee and all matters that would normally be the responsibility of a Remuneration Committee are dealt with by the full Board of Directors.

Directors and Key Management Personnel

The full Board of Directors sets remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Executive remuneration and other terms of employment are reviewed annually having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation. Directors and executives are also able to participate in an Employee Share Acquisition Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's operations.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by shareholders from time to time.

The Board undertakes an annual review of its performance and the performance of the Board Committees against goals set at the start of the year.

Details of the nature and amount of each element of the emoluments of each Director of Latrobe Magnesium Limited and each specified officer of the Company and the Consolidated Entity receiving the highest emoluments are set out in the following tables.

Directors 2006	**Primary** Base Emoluments	Super Contributions	**Equity** Options	Total
	$	$	$	$
D O Paterson	19,000	1,710	-	20,710
P F Bruce	12,000	1,080	-	13,080
K A Torpey	12,000	1,080	-	13,080
R D Foster	2,308	-	-	2,308
DR J S Keniry	10,000	360	-	10,360
	55,308	4,230	-	59,538
Key Management Personnel				
D L Hughes	30,000	-	-	30,000

Key Management Personnel

There are no additional executives employed by Latrobe Magnesium Limited other than those already disclosed.

Service Agreements

There are currently no service agreements in place formalising the terms of remuneration of Directors or specified executives of the Company and the consolidated entity.

Loans to Directors and Key Management Personnel

There were no loans made to Directors or key management personnel of the Company and the Consolidated Entity during the period commencing at the beginning of the financial year and up to the date of this report.

There are no loans outstanding at the date of this report.

Director Shareholdings

Directors	**Balance at beginning of year / date of appointment**	**Purchased Under Share Plan**	**Options exercised**	*** Net Change Other**	**Balance at 30 June 2006**
D O Paterson	35,933,333	-	-	-	35,933,333
P F Bruce	3,441,490	-	-	-	3,441,490
K A Torpey	65,333,334	-	-	-	65,333,334
** R D Foster	6,000,000	-	-	-	6,000,000
J S Keniry	2,425,955	850,000	-	-	3,275,955

*Net change other refers to shares purchased or sold during the financial year.

** R D Foster was appointed a director on 21 April 2006

Share Options Granted to Directors and Key Management Personnel

There were no options granted during or since the end of the financial year to any of the Directors or key management personnel of the Company and the Consolidated Entity as part of their remuneration.

Options

- No options were granted over unissued shares during the financial year.
- No options were exercised during the financial year.
- No options were granted in the period from the end of the financial year and up to the date of this report.

At the date of this report there were no unissued ordinary shares of Latrobe Magnesium Limited under option.

INDEMNIFICATION

During or since the end of financial year the Company has not been indemnified or made a relevant agreement to indemnify an officer or auditor of the Company or any related body corporate against liability incurred as such an officer or auditor. In addition, the Company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

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.

TAX CONSOLIDATION

Effective 1 July 2002, for the purposes of income taxation, Latrobe Magnesium and its 100% owned subsidiaries have formed a tax consolidation group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Consolidated Entity are important.

Details of the amounts paid or payable to Grant Thornton NSW for services provided during the year are set out below.

Audit and Review of Financial Reports	$47,141
Other Services	-
	$47,141

There were no non-audit services provided by Grant Thornton NSW during the year.

In the event that Grant Thornton NSW are engaged on assignments additional to their statutory audit duties, the Board of Directors will ensure that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

A copy of the auditors' independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 18 and forms part of this report.

AUDITOR

Grant Thornton NSW continues in office in accordance with Section 327 of the Corporations Law.

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

D. Paterson

D O Paterson
Director

Sydney 29 September 2006

Grant Thornton

Chartered Accountants
Business Advisers and Consultants

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF LATROBE MAGNESIUM LIMITED AND ITS CONTROLLED ENTITIES

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Latrobe Magnesium Limited and its controlled entities for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton NSW

GRANT THORNTON NSW
Chartered Accountants

A J Archer

A J ARCHER
Partner

Sydney 29 September 2006

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DIRECTORS' DECLARATION

The Directors of Latrobe Magnesium Limited declare that:

a The financial statements and notes of the company and of the consolidated entity, set out on pages 20 to 47 are in accordance with the Corporations Act 2001, including:

- **i** Giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

- **ii** Complying with Accounting Standards and the Corporations Regulations 2001; and

b The chairman and the company secretary have each declared that:

- **i.** The financial records of the company for the financial year have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
- **ii.** The financial statements and notes for the financial year comply with the Accounting standards
- **iii** The financial statements and notes for the financial year give a true and fair view; and

c. In the directors' opinion there are reasonable grounds to believe the company will be able to pay its debts as and when they fall due.

The company and a wholly owned subsidiary have entered into a deed of cross guarantee under which the company and its subsidiaries guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

Signed in accordance with a resolution of Directors made pursuant to Section 295(4) of the *Corporations Act 2001.*

On behalf of the Directors

D. Paterson

D O PATERSON
Director

Dated in Sydney this 29th day of September 2006

INCOME STATEMENT
For the year ended 30 June 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Revenue	3	9,517	139,327	9,517	139,327
Administration expenses		(150,191)	(420,250)	(149,981)	(420,171)
Research and evaluation expenses		(70,583)	(400,689)	(70,583)	(400,687)
Finance costs		(31)		(31)	
Loss before income tax		(211,288)	(681,612)	(211,078)	(681,531)
Income tax expense		-	-	-	-
Loss attributable to members of the parent entity		(211,288)	(681,612)	(211,078)	(681,531)
Basic loss per share (cents per share)	20	(0.051)	(0.193)		
Diluted loss per share (cents per share)	20	(0.051)	(0.193)		

The above income statement should be read in conjunction with the accompanying notes.

BALANCE SHEET
As at 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	5	855,686	149,202	854,662	147,968
Trade and other receivables	6	48,767	32,983	48,767	32,983
TOTAL CURRENT ASSETS		904,453	182,185	903,429	180,951
NON-CURRENT ASSETS					
Trade and other receivables	6	-	-	61,339	61,339
Financial assets	7	-	-	6,017,066	6,017,066
Property, plant and equipment	8	3,022	3,842	3,022	3,842
Intangible assets	9	5,684,000	5,684,000	-	-
TOTAL NON-CURRENT ASSETS		5,687,022	5,687,842	6,081,427	6,082,247
TOTAL ASSETS		6,591,475	5,870,027	6,984,856	6,263,198
CURRENT LIABILITIES					
Trade and other payables	10	82,572	172,109	82,572	172,109
TOTAL CURRENT LIABILITIES		82,572	172,109	82,572	172,109
NON-CURRENT LIABILITIES					
Trade and other payables	10	-	-	333,064	333,064
TOTAL NON-CURRENT LIABILITIES		-	-	333,064	333,064
TOTAL LIABILITIES		82,572	172,109	415,636	505,173
NET ASSETS		6,508,903	5,697,918	6,569,220	5,758,025
EQUITY					
Issued capital	11	23,591,650	22,569,377	23,591,650	22,569,377
Reserves	12	1,315,402	1,315,402	1,315,402	1,315,402
Accumulated losses		(18,398,149)	(18,186,861)	(18,337,832)	(18,126,754)
TOTAL EQUITY		6,508,903	5,697,918	6,569,220	5,758,025

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2006

Economic Entity	Ordinary Share Capital	Reserves	Accumulated Losses	Total
Balance 1 July 2004	21,860,952	1,315,402	(17,505,249)	5,671,105
Loss for period	-	-	(681,612)	(681,612)
Total recognised income and expenses for the period	-	-	(681,612)	(681,612)
Shares issued during the period	784,000	-	-	784,000
Cost of shares issued	(75,575)	-	-	(75,575)
Balance 1 July 2005	22,569,377	1,315,402	(18,186,861)	5,697,918
Loss for period	-	-	(211,288)	(211,288)
Total recognised income and expenses for the period	-	-	(211,288)	(211,288)
Shares issued during the period	1,085,000	-	-	1,085,000
Cost of shares issued	(62,727)	-	-	(62,727)
Balance 30 June 2006	23,591,650	1,315,402	(18,398,149)	6,508,903

Parent Entity	Ordinary Share Capital	Reserves	Accumulated Losses	Total
Balance 1 July 2004	21,860,952	1,315,402	(17,445,223)	5,731,131
Loss for period	-	-	(681,531)	(681,531)
Total recognised income and expenses for the period	-	-	(681,531)	(681,531)
Shares issued during the period	784,000	-	-	784,000
Cost of shares issued	(75,575)	-	-	(75,575)
Balance 1 July 2005	22,569,377	1,315,402	(18,126,754)	5,758,025
Loss for period	-	-	(211,078)	(211,078)
Total recognised income and expenses for the period	-	-	(211,078)	(211,078)
Shares issued during the period	1,085,000	-	-	1,085,000
Cost of shares issued	(62,727)	-	-	(62,727)
Balance 30 June 2006	23,591,650	1,315,402	(18,337,832)	6,569,220

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Grants received		-	132,248	-	132,248
Payments to suppliers and employees		(310,275)	(695,293)	(310,065)	(695,212)
Interest received		9,517	7,079	9,517	7,079
Finance costs		(31)	-	(31)	-
Net cash used in operating activities	18b	(300,789)	(555,966)	(300,579)	(555,885)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		-	(3,068)	-	(3,068)
Net cash used in investing activities		-	(3,068)	-	(3,068)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		1,070,000	594,000	1,070,000	594,000
Costs of share issues		(62,727)	(75,575)	(62,727)	(75,575)
Net cash provided by financing activities		1,007,273	518,425	1,007,273	518,425
Net (decrease) / increase in cash held		706,484	(40,609)	706,694	(40,528)
Cash at beginning of the financial year		149,202	189,811	147,968	188,496
Cash at end of financial year	18a	855,686	149,202	854,662	147,968

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report and covers the economic entity of Latrobe Magnesium Limited and its controlled Entities and Latrobe Magnesium Limited as an individual parent entity. Latrobe Magnesium Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

It is also recommended that the financial report be considered together with any public announcements made by Latrobe Magnesium Limited and its controlled entities during the year ended 30 June 2006, in accordance with continuous disclosure obligations arising under both the Corporation Act 2001 and Australian Stock Exchange Listing Rules.

Statement of Compliance

Latrobe Magnesium Limited and its controlled entities, and Latrobe Magnesium Limited as an individual parent entity have prepared financial statements in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

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

In accordance with AASB1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to the 2005 comparative figures.

This is the first financial report of Latrobe Magnesium Limited to be prepared in accordance with AIFRS. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report are detailed in Note 2.

A summary of significant accounting policies of the group under AIFRS are disclosed below. The accounting policies have been consistently applied, unless otherwise stated.

a. **Principles of Consolidation**

A controlled entity is any entity controlled by Latrobe Magnesium Limited whereby Latrobe Magnesium Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

All controlled entities have a June financial year end.

A list of controlled entities is contained in Note 13 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

b. **Income Tax**

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

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

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

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. Deferred tax assets in relation to tax losses are not brought to account unless there is convincing evidence of realisation of the benefit.

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

Latrobe Magnesium Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the ATO on 2 January 2003 that it had formed an income tax consolidated group to apply from 1 July 2002. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

c. **Foreign Currency Transactions and Balances**

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

d. **Property, Plant and Equipment**

Each Class of property, plant and equipment is carried at cost, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present valued in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment - straight-line	30-40%

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

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

e. **Intangibles**

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Research and development

In process research and development costs acquired as part of a business combination are recognised at fair value. Subsequent expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life, and once the asset is held ready for use, are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

f. **Finance Costs**

Finance costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other finance costs are recognised in income in the period in which they are incurred.

g. **Cash and Cash Equivalents**

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

h. **Revenue**

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

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

i. **Goods and Services Tax (GST)**

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

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

j. **Government Grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the cost they are compensating.

k. **Share-based payments**

For equity-settled share-based payment transactions, the company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received.

l. **Financial Instruments**

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction cots, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are no quoted in an active market and are stated at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

l. **Financial Instruments (continued)**

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

m. **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

n. **Going Concern Basis of Accounting**

The financial statements have been prepared on a going concern basis.

NOTE 2: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

Reconciliation of equity reported under previous generally accepted accounting principles (GAAP) to equity under Australian equivalents to IFRS.

a. At the date of transition to IFRS: 1 July 2004

	Economic Entity			**Parent Entity**		
	Previous GAAP at 1 July 2004	**Effect of Transition**	**IFRS**	**Previous GAAP at 1 July 2004**	**Effect of Transition**	**IFRS**
CURRENT ASSETS						
Cash and cash equivalents	189,811	-	189,811	188,496	-	188,496
Trade and other receivables	23,310	-	23,310	23,310	-	23,310
TOTAL CURRENT ASSETS	213,121	-	213,121	211,806	-	211,806
NON-CURRENT ASSETS						
Receivables				61,339	-	61,339
Other financial assets				6,017,066	-	6,017,066
Property, plant and equipment	1,594	-	1,594	1,594	-	1,594
Other assets	6,997,540	(6,997,540)	-	1,259,035	(1,259,035)	-
Intangible assets	-	5,684,000	5,684,000	-	-	-
TOTAL NON-CURRENT ASSETS	6,999,134	(1,313,540)	5,685,594	7,339,034	(1,259,035)	6,079,999
TOTAL ASSETS	7,212,255	(1,313,540)	5,898,715	7,550,840	(1,259,035)	6,291,805
CURRENT LIABILITIES						
Trade and other payables	227,610	-	227,610	227,610	-	227,610
TOTAL CURRENT LIABILITIES	227,610	-	227,610	227,610	-	227,610
NON-CURRENT LIABILITIES						
Payables	-	-	-	333,064	-	333,064
TOTAL NON-CURRENT LIABILITIES	-	-	-	333,064	-	333,064
TOTAL LIABILITIES	227,610	-	227,610	560,674	-	560,674
NET ASSETS	6,984,645	(1,313,540)	5,671,105	6,990,166	(1,259,035)	5,731,131
EQUITY						
Issued Capital	21,860,952	-	21,860,952	21,860,952	-	21,860,952
Reserves	1,315,402	-	1,315,402	1,315,402	-	1,315,402
Accumulated losses	(16,191,709)	(1,313,540)	(17,505,249)	(16,186,188)	(1,259,035)	(17,445,223)
TOTAL EQUITY	6,984,645	(1,313,540)	5,671,105	6,990,166	(1,259,035)	5,731,131

NOTE 2: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

b. At the end of the last reporting period under previous GAAP: 30 June 2005

The adoption of IFRS has not resulted in any material adjustments other than the reclassification from other assets to intangible assets.

c. Reconciliation of profit or loss for the year ended 30 June 2005

	Economic Entity			Parent Entity		
	Previous GAAP	**Effect of Transition**	**IFRS**	**Previous GAAP**	**Effect of Transition**	**IFRS**
Other income	7,079	-	7,079	7,079	-	7,079
Employee benefits expense	(121,850)	-	(121,850)	(121,850)	-	(121,850)
Depreciation expense	(820)	-	(820)	(820)	-	(820)
Research and evaluation expenses	-	(268,317)	(268,441)	-	(268,439)	(268,439)
Exploration/evaluation costs	(1,581,981)	1,581,981	-	(1,527,431)	1,527,431	-
General and administration	(169,270)	-	(169,270)	(169,270)	-	(169,270)
Consultancy expense	(119,786)	-	(119,786)	(119,786)	-	(119,786)
Other expenses from ordinary activities	(8,524)	-	(8,524)	(8,445)	-	(8,445)
Loss before income tax	(1,995,152)	1,313,540	(681,612)	(1,940,523)	1,258,992	(681,488)
Income tax expense	-	-	-	-	-	-
Loss attributable to members of parent entity	(1,995,152)	1,313,540	(681,612)	(1,940,523)	1,258,992	(681,531)

Under Australian Accounting Standards the project has been accounted for in accordance with AASB 1022 – Accounting for the Extractive Industries as the project has been in the evaluation stage. On transition to AIFRS, AASB 6 – Exploration for and Evaluation of Mineral Resources provides a narrower definition in relation to the recognition of exploration and evaluation assets. Accordingly the directors have assessed that the project will not meet the recognition criteria under AASB 6, however the rights to the project, which were acquired in 2002, still meet the recognition criteria of an intangible asset under AASB 138 – Intangibles. Costs incurred subsequent to the acquisition of these rights meet the definition of research and under AIFRS in accordance with AASB 138 will be expensed as incurred.

The effect of the transition is a reclassification of the exploration and evaluation costs to intangibles. Costs that have previously been capitalised will be written off as incurred. This will result in a reduction to opening retained earnings of $1,313,664 and a reduction in current year losses of $1,313,664 (being the net impact of the reversal of the expenditure written off of $1,581,981 and the exploration and evaluation expenditure incurred during the year of $268,317.

d. Reconciliation of cash flow statement for the year ended 30 June 2005.

The adoption of IFRS has not resulted in any material adjustments to the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 3: LOSS FROM ORDINARY ACTIVITIES

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
The following revenue and expense items are relevant in explaining the financial performance for the period.				
I) Revenue				
Government grants	-	132,248	-	132,248
Finance Income	9,517	7,079	9,517	7,079
	9,517	139,327	9,517	139,327
II) Expenses				
Depreciation	820	820	820	820
Research and evaluation expenses	70,583	400,689	70,583	400,687
Finance Costs	31	-	31	-

NOTE 4: INCOME TAX EXPENSE

The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:				
Loss from ordinary activities before income tax	(211,288)	(681,612)	(211,078)	(681,531)
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	(63,386)	(204,484)	(63,323)	(204,459)
Increase in income tax benefit due to:				
Non-allowable deductions	(16,776)	(22,673)	(16,776)	(22,673)
Timing differences and tax losses not brought to account as future income tax benefit.	80,162	227,157	80,099	227,132
Income tax benefit attributable to loss from ordinary activities before income tax	-	-	-	-

Future income tax benefit not taken to account

The potential future income tax benefit arising from tax losses has not been taken to account because of the absence of convincing evidence of the realisation of the benefit.

Benefit of tax losses carried forward:				
Tax losses carried forward	1,569,032	1,488,870	1,550,927	1,470,828
Capital losses	37,436	37,436	37,436	37,436
	1,606,468	1,526,306	1,588,363	1,508,264

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

	Economic Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
NOTE 5: CASH AND CASH EQUIVALENTS				
Cash at bank	855,686	149,202	854,662	147,968

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
NOTE 6: TRADE AND OTHER RECEIVABLES				
CURRENT				
GST recoverable	39,234	13,450	39,234	13,450
Rental bond	9,533	9,533	9,533	9,533
Other debtors		10,000	-	10,000
	48,767	32,983	48,767	32,983
NON-CURRENT				
Loans to third parties	2,561,754	2,561,754	2,561,754	2,561,754
Less: Provision for non-recovery	(2,561,754)	(2,561,754)	(2,561,754)	(2,561,754)
Loans to controlled entity	-	-	61,339	61,339
	-	-	61,339	61,339

Loans to third parties are secured by a fixed and floating charge over the assets of the third parties.
Loans to controlled entities are unsecured and are interest free and have no fixed term of repayment.

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
NOTE 7: FINANCIAL ASSETS				
NON-CURRENT				
Investment in other entities:				
Unlisted investments – at cost	15,000	15,000	15,000	15,000
Less: provision for impairment	(15,000)	(15,000)	(15,000)	(15,000)
	-	-	-	-
Investments in controlled entities at cost	-	-	6,388,203	6,388,203
Less: provision for impairment	-	-	(371,137)	(371,137)
	-	-	6,017,066	6,017,066
Investments in other entities:				
EPIC Systems Inc	99,527	99,527	99,527	99,527
Less: provision for non impairment	(99,257)	(99,527)	(99,527)	(99,527)
	-	-	-	-
	-	-	6,017,066	6,017,066

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
NOTE 8: PROPERTY, PLANT AND EQUIPMENT				
PLANT AND EQUIPMENT				
Plant and equipment				
At cost	4,776	4,776	4,776	4,776
Accumulated depreciation	(1,754)	(934)	(1,754)	(934)
Total Property, Plant and Equipment	3,022	3,842	3,022	3,842

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment	Total
	$	$
Economic Entity:		
Balance at the beginning of year	3,842	3,842
Additions	-	-
Depreciation expense	(820)	(820)
Carrying amount at the end of year	3,022	3,022
Parent Entity:		
Balance at the beginning of year	3,842	3,842
Additions	-	-
Depreciation expense	(820)	(820)
Carrying amount at the end of year	3,022	3,022

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

	Economic Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
NOTE 9: INTANGIBLE ASSETS				
Acquired in-process research and development, at cost	5,684,000	5,684,000	-	-

As the project is not held ready for use, the company is required to perform an annual impairment test. The key assumptions underlying this impairment test have been based on data provided in the Worley Pre-feasability Study and subsequent reports. The key assumptions include a budgeted cash flow period of 20 years, based on market information for metal prices and exchange rates, and use a discount rate of 13%.

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
NOTE 10: TRADE AND OTHER PAYABLES				
CURRENT				
Trade creditors	82,572	172,109	82,572	172,109
	82,572	172,109	82,572	172,109
NON-CURRENT				
Unsecured liabilities:				
Loans from controlled entities	-	-	333,064	333,064
	-	-	333,064	333,064

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

	Economic Entity		Parent Entity	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
NOTE 11: ISSUED CAPITAL				
Share capital: 525,112,440 (2005: 372,612,440) shares	23,591,650	22,569,377	23,591,650	22,569,377
	23,591,650	22,569,377	23,591,650	22,569,377
(a) Ordinary shares				
Movement in ordinary share capital:				
Balance at beginning of the reporting period	22,569,377	21,804,952	22,569,377	21,804,952
Shares issued				
— 30,000,000 fully paid ordinary shares issued at 0.5 cents each pursuant to a private placement	150,000	-	150,000	-
— 80,000,000 fully paid ordinary shares issued at .6 cents each pursuant to a private placement	480,000	-	480,000	-
— 2,500,000 fully paid ordinary shares issued at .6 cents each to convert debt to equity	15,000	-	15,000	-
— 40,000,000 fully paid ordinary shares issued at 1.1 cents each pursuant to a private placement	440,000	-	440,000	-
— 30,000,000 fully paid ordinary shares issued at 1.5 cents each pursuant to share purchase plan	-	450,000	-	450,000
— 3,605,965 fully paid ordinary shares issued in December 2004 pursuant to the conversion of debt to equity	-	120,000	-	120,000
— 20,000,000 fully paid ordinary shares issued at 1cent pursuant to a private placement	-	200,000	-	200,000
— 1,166,669 fully paid ordinary shares issued at 6c in settlement of the share component of former CEO’s remuneration package	-	70,000	-	70,000
Transaction costs relating to share issues	(62,727)	(75,575)	(62,727)	(75,575)
Balance at reporting date	23,591,650	22,569,377	23,591,650	22,569,377

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 11: ISSUED CAPITAL (continued)

	Economic Entity		Parent Entity	
	2006	**2005**	**2006**	**2005**
	No.	**No.**	**No.**	**No.**
Balance at beginning of the reporting period	372,612,440	317,839,806	372,612,440	317,839,80
Shares issued during period				
- 17 February 2006	30,000,000	-	30,000,000	-
- 27 February 2006	2,500,000	-	2,500,000	-
- 28 February 2006	80,000,000	-	80,000,000	-
- 6 May 2006	40,000,000	-	40,000,000	-
- 7 July 2004	-	30,000,000	-	30,000,000
- 12 December 2004	-	3,605,965	-	3,605,965
- 14 April 2005	-	20,000,000	-	20,000,000
- 14 June 2005	-	1,166,669	-	1,166,669
Balance at the end of the reporting period	525,112,440	372,612,440	525,112,440	372,612,44

Fully paid ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Options

At 30 June 2006 there were no unissued shares under option.

Employee Share Scheme

For information relating to the Latrobe Magnesium Limited Share Acquisition Plan including details of shares issued during the financial year, refer to Note 24: Employee Benefits.

	Economic Entity		Parent Entity	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
NOTE 12: RESERVES				
General reserve	1,315,402	1,315,402	1,315,402	1,315,402

The general reserve is used from time to time to transfer profits from retained earnings. There is no policy of regular transfer.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 13: CONTROLLED ENTITIES

Controlled Entities

	Country of Incorporation	Percentage Owned (%)	
		2006	**2005**
Parent Entity:			
Latrobe Magnesium Limited	Aust	-	-
Subsidiaries of Latrobe Magnesium Limited			
Money Management WA Pty Ltd	Aust	100	100
Gold Mines of WA Pty Ltd	Aust	100	100
Magnesium Investments Pty Ltd	Aust	100	100

Deed of Cross Guarantee

Latrobe Magnesium Limited, Money Management WA Pty Ltd and Gold Mines of WA Pty Ltd are parties to a Deed of Cross Guarantee which has been lodged with and approved by the Australian Securities and Investment Commission. Under the Deed of Cross Guarantee each of the above named companies guarantees the debts of the other named companies.

The following are the aggregate totals, for each category, relieved under the deed:

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 13: CONTROLLED ENTITIES (continued)

	Closed Group 2006	Parties to Deed of Cross Guarantee 2006	Closed Group 2005	Parties to Deed of Cross Guarantee 2005
Financial information in relation to:				
(i) Income Statement				
Net loss after tax				
Loss from ordinary activities before income tax	(211,078)	(211,078)	(1,940,523)	(1,940,523)
Income tax expense relating to ordinary activities	-	-	-	-
Loss from ordinary activities after income tax expense	(211,078)	(211,078)	(1,940,523)	(1,940,523)
Total changes in equity other than those resulting from transactions with owners as owners	(211,078)	(211,078)	(1,940,523)	(1,940,523)
(ii) Accumulated losses				
Accumulated losses at the beginning of the financial year	(18,126,754)	(18,126,754)	(16,186,231)	(16,186,231)
Profit from ordinary activities after income tax expense	(211,078)	(211,078)	(1,940,523)	(1,940,523)
Dividends provided for or paid	-	-	-	-
Accumulated losses at the end of the financial year	(18,337,832)	(18,337,832)	(18,126,754)	(18,126,754)
(iii) Balance Sheet				
CURRENT ASSETS				
Cash and cash equivalents	867,364	867,364	147,970	147,970
Trade and other receivables	48,767	48,767	32,983	32,983
TOTAL CURRENT ASSETS	916,131	916,131	180,953	180,953
NON-CURRENT ASSETS				
Trade and other receivables	61,339	61,339	61,339	61,339
Financial assets	-	-	-	-
Property, plant and equipment	3,022	3,022	3,842	3,842
Other assets	5,684,000	5,684,000	5,684,000	5,684,000
TOTAL NON-CURRENT ASSETS	5,748,361	5,748,361	5,749,181	5,749,181
TOTAL ASSETS	6,664,492	6,664,492	5,930,134	5,930,134

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 13: CONTROLLED ENTITIES (continued)

	Closed Group 2006	Parties to Deed of Cross Guarantee 2006	Closed Group 2005	Parties to Deed of Cross Guarantee 2005
CURRENT LIABILITIES				
Trade and other payables	95,272	95,272	172,109	172,109
Interest bearing liabilities	-	-	-	-
TOTAL CURRENT LIABILITIES	95,272	95,272	172,109	172,109
NON-CURRENT LIABILITIES				
Trade and other payables	-	-	-	-
TOTAL NON-CURRENT LIABILITIES	-	-	-	-
TOTAL LIABILITIES	95,272	95,272	172,109	172,109
NET ASSETS	6,569,220	6,569,220	5,758,025	5,758,025
EQUITY				
Issued capital	23,591,650	23,591,650	2,569,377	22,569,377
Reserves	1,315,402	1,315,402	1,315,402	1,315,402
Accumulated losses	(18,337,832)	(18,337,832)	(18,126,754)	(18,126,754)
	6,569,220	6,569,220	5,758,025	5,758,025

NOTE 14: CAPITAL AND LEASING COMMITMENTS

The company did not extend its option to renew the property lease at the end of the one year term for an additional term of six months. The premises are currently occupied on a monthly tenancy with rent payable monthly in advance.

There are no capital expenditure commitments as at 30 June 2006.

NOTE 15: SEGMENT REPORTING

The economic entity operates predominantly in one industry within Australia. The principal activities of the economic entity is the continued development of the Latrobe Magnesium metals project, and the identification and evaluation of other resource based investment opportunities.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 16: REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Names and positions held of parent entity directors at any time during the financial year are:

David Paterson	Chairman — Non-Executive
Philip Bruce	Director — Non-Executive
Kevin Torpey	Director — Non-Executive
Rodney Foster	Director — Non-Executive
John Keniry	Director — Non-Executive

John Keniry resigned as both Chairman and Non-Executive Director on 30 November 2005. David Paterson replaced John Keniry as Chairman of the Board of Directors.

Details of the nature and amount of each major element of the emoluments of each director of the Company and each named officer of the Company and the economic entity receiving the highest emoluments are:

	Primary			
2006	**Base Emoluments**	**Super Contributions**	**Options**	**Total**
Directors	**$**	**$**	**$**	**$**
D O Paterson	19,000	1,710	-	20,710
P F Bruce	12,000	1,080	-	13,080
K A Torpey	12,000	1,080	-	13,080
R D Foster	2,308	-	-	2,308
J S Keniry	10,000	360	-	10,360
	55,308	4,230	-	59,538
Key Management Personnel				
Secretary of the Company				
D L Hughes	30,000	-	-	30,000

Of the total base emoluments paid to D L Hughes, $15,000 was satisfied by the issue of 2,500,000 fully paid ordinary share at an issue price of $0.006 on 27 February 2006.

The service and performance criteria set to determine remuneration are included at the end of Note 18.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 16: REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

	Primary			
2005	**Base Emoluments**	**Super Contributions**	**Options**	**Total**
Directors	**$**	**$**	**$**	**$**
J S Keniry	24,000	2,160	-	26,160
C W Sylvester	140,000	450	-	140,450
P F Bruce	12,000	1,080	-	13,080
D O Paterson	12,000	1,080	-	13,080
K A Torpey	12,000	1,080	-	13,080
	200,000	5,850	-	205,850
Key Management Personnel				
Secretary of the Company				
D L Hughes	30,000	-	-	30,000

Shareholdings

Number of shares held by Parent Entity Directors and Key Management Personnel.

Directors	**Balance at beginning of year / date of appointment**	**Share purchase plan**	**Options exercised**	*** Net Change Other**	**Balance at 30 June 2006**
D O Paterson	35,933,333	-	-	-	35,933,333
P F Bruce	3,441,490	-	-	-	3,441,490
K A Torpey	65,333,334	-	-	-	65,333,334
** R D Foster	6,000,000	-	-	-	6,000,000
J S Keniry	2,425,955	850,000	-	-	3,275,955

*Net change other refers to shares purchased or sold during the financial year.

** R D Foster was appointed a director on 21 April 2006

Key Management Personnel					
D L Hughes	40,000	2,500,000	-	-	2,540,000

Optionholdings

There were no options over unissued shares in the company held during the financial year by any director or key management personnel of the company including their related entities.

NOTE 16: REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Remuneration Practices

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future.

NOTE 17: RELATED PARTY TRANSACTION

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

Transactions with and amounts receivable from and payable to directors of related parties or their director related entities which:

a. occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is resonable to expect the entity would have adopted if dealing with the director or director related entities at arms length in the same circumstances;

b. do not have the potential to adversely affect decisions about the allocations of scarce resources made by users of the financial report, or the discharge of accountability by the director's if disclosed in the financial report only by general description; and

c. are trivial or domestic in nature must be excluded from the detailed disclosures required. Such transactions and amounts receivable or payable shall be disclosed in the financial report by general description.

Directors and Director Related Entities

The names of persons who were directors of the Company at any time during the financial period are as follows:

- D O Paterson
- P F Bruce
- K A Torpey
- R D Foster
- J S Keniry

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 17: RELATED PARTY TRANSACTIONS (continued)

		Economic Entity		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
I)	D O Paterson is an Executive of the Europacific Group of Companies. During the period, fees were paid in relation to capital raisings. These services were provided on normal commercial terms and conditions.	-	25,500	-	25,500
	Directors and consulting fees were paid to Lakelands Investments Pty Ltd, of which J S Keniry is a principal. These services are provided on normal commercial terms and conditions.	12,940	-	12,940	-
	C W Sylvester is a Director of Rossing Pty Ltd. During the period 1 July 2004 to 1 January 2005 Rossing Pty Ltd provided technical consulting services to the economic entity amounting to $78,000(2004 - $97,727).	-	78,000	-	70,000
	During the period Mr C W Sylvester, former CEO, acquired fully paid ordinary shares in Latrobe Magnesium Limited in settlement of the share component of his remuneration package:				
	- 3,605,965 shares issued in December 2004 pursuant to conversion of debt to equity.	-	120,000	-	120,000
	- 1,166,609 shares issued in June 2005 as share component of Mr C W Sylvester's salary for the period 1 July 2004 to 1 January 2005	-	70,000	-	70,000
II)	Other related entities				
	Secretarial fees were paid to Lithgow Quarrying and Excavation Co. Pty Ltd of which D L Hughes is a principal. These services were provided on normal commercial terms and conditions	30,000	30,000	30,000	30,000

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$

NOTE 18: CASH FLOW INFORMATION

a. Reconciliation of Cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Cash at Bank	855,686	149,202	854,662	147,968
	855,686	149,202	854,662	147,968

b. Reconciliation of cash flow from operating activities to operating loss after income tax:

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Net loss	(211,288)	(681,612)	(211,078)	(681,531)
Add/ non cash flows in operating loss:				
Remuneration paid by the issue of shares	15,000	190,000	15,000	190,000
Depreciation	820	820	820	820
Changes in Assets and Liabilities:				
(Increase)/Decrease in receivables and other current assets	(15,784)	(9,673)	(15,784)	(9,673)
(Decrease) in creditors	(89,537)	(55,501)	(89,537)	(55,001)
Net Cash (used in) / provided by Operating Activities	(300,789)	(555,966)	(300,579)	(555,885)

c. Acquisition and Disposal of Entities

There was no acquisition or disposal of controlled entities during the 2006 or 2005 financial years.

d. Non-cash Financing and Investing Activities

Share Issue

2,500,000 fully paid ordinary shares were issued in February 2006 at $0.006 to convert secretarial fees totalling $15,000 to equity.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 19: STAND-BY ARRANGEMENTS AND UNUSED CREDIT FACILITIES

During the 2005 financial year the economic entity had a $100,000 overdraft facility. This facility was secured by a fixed and floating charge over the Company's assets.

This facility was relinquished during the current financial year and the security is in the process of being released.

The economic entity does not currently have any stand-by arrangements established with banks to provide funds or support facilities.

	Economic Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
Overdraft Facility:				
Facility	-	100,000	-	100,000
Amount utilised	-	-	-	-
Unused facilities	-	100,000	-	100,000

	Economic Entity	
	2006 cents	2005 cents
NOTE 20: LOSS PER SHARE		
(a) Reconciliation of loss to net loss		
Basic loss per share (cents per shares)	(0.051)	(0.193)
Diluted loss per share (cents per share)	(0.051)	(0.193)
a. Loss used in the calculation of EPS	(211,288)	(681,612)
b. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	417,153,536	353,757,229
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	417,153,536	353,757,229

There were no unlisted shares under option at 30 June 2006.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 21: FINANCIAL INSTRUMENTS

a. Interest Rate Risk

The economic 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 classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate	Floating Interest Rate $	Non-interest Bearing $	Total $
2006				
Financial Assets:				
Cash and cash equivalents	4.10	854,362	1,324	855,686
Trade and other receivables		-	110,106	110,106
		854,362	111,430	965,792
Financial Liabilities:				
Trade and other payables		-	82,572	82,572
		-	82,572	82,572
2005				
Financial Assets:				
Cash and cash equivalents	3.55	147,669	1,533	149,202
Trade and other receivables		-	94,322	94,322
		147,669	95,855	243,524
Financial Liabilities:				
Trade and other payables		-	172,109	172,109
		-	172,109	172,109

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, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

NOTE 21: FINANCIAL INSTRUMENTS (Continued)

c. Net Fair Values of Financial Assets and Liabilities

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following basis:

Recognised financial instrument:

Monetary financial assets and liabilities not readily traded on an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows. The carrying amounts of cash assets, receivables, payables, bank loans and lease liabilities approximate net fair value.

NOTE 22: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities for the year ended 30 June 2006 (2005: Nil).

During 2006, the company has prepared a claim for lodgement with DOTARS seeking to be reimbursed approximately $75,000 of costs incurred on the project. As at 30 June 2006, the grant reimbursement has not yet been received.

NOTE 23: EMPLOYEE BENEFITS

Employees Share Acquisition Plan

The Directors have approved the implementation of a Share Acquisition Plan.

The Plan provides for eligible participants to purchase shares in the company tax effectively through salary sacrifice. Shares will be acquired on the Australian Stock Exchange at prevailing market prices on or about the first trading day following the normal monthly pay day. The shares including transaction costs will be met by the pre-tax remuneration forgone by the Plan participant. Administration costs of the Plan will be met by the company.

The minimum contribution under the Plan is $2,400 per annum. Participants can allocate up to 100% of their gross remuneration.

During the period under review, 850,000 shares were purchased in accordance with the employee share acquisition plan.

NOTE 24: EVENTS SUBSEQUENT TO REPORTING DATE

On 1 September 2006 the Company issued 5 million fully paid ordinary shares as part consideration for the acquisition of exploration licence relating to the Bangemall Uranium and Gold Project in the Gascoyne Region of Western Australia.

The balance of the consideration will be paid on completion of the transfer of the tenement.

Except for the matter referred to above, there is no other matter or circumstance that has arisen since 30 June 2006 that has significantly affected or may significantly affect:

a the operations, in financial years subsequent to 30 June 2006, of the consolidated entity;
b the results of those operations; or
c the state of affairs, in financial years subsequent to 30 June 2006, of the consolidated entity.

Grant Thornton

Chartered Accountants
Business Advisers and Consultants

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LATROBE MAGNESIUM LIMITED AND ITS CONTROLLED ENTITIES

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statements, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Latrobe Magnesium Limited its controlled entities, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LATROBE MAGNESIUM LIMITED AND ITS CONTROLLED ENTITIES (cont)

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Latrobe Magnesium Limited its controlled entities is in accordance with:

(a) 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 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Grant Thornton NSW

GRANT THORNTON NSW
Chartered Accountants

A J Archer

A J ARCHER
Partner

Sydney 29 September 2006

ADDITIONAL INFORMATION

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

SHAREHOLDING

a. **Distribution of Shareholders as at 21 September 2006**

Category (size of Holding)	Holders	Shares Held	Issued Capital (%)
1 – 1,000	125	86,833	0.02
1,001 – 5,000	329	1,081,250	0.20
5,001 – 10,000	279	2,422,543	0.46
10,001 – 100,000	695	32,169,769	6.07
100,001 – and over	398	494,352,045	93.25
	1,826	530,112,440	100.00

b. The number of shareholdings held in less than marketable parcels is 1,269.

c. **Substantial Shareholders**

The names of the substantial shareholders listed in the holding company's register as at 21 September 2006 are:

	Shareholder	Number of Ordinary Fully Paid Shares Held	Interest (%)
1	Emesco Agents Pty Ltd <Magnesium Shareholder A/C>	99,960,000	18.86
2	Fammallon Pty Ltd <Famallon No2 Super Fund A/C>	32,013,334	6.04

d. **Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

a. At meetings of members each member is entitled to vote in person or by proxy or attorney or, in the case of a member which is a body corporate, by representative duly authorized;

b. On a show of hands every member entitled to vote and be present in person or by proxy or attorney or representative duly authorized shall have one (1) vote;

c. On a poll every member entitled to vote and be present in person or by proxy or attorney or representative duly authorized shall have one (1) vote for each fully paid share of which they are a holder.

ADDITIONAL INFORMATION

e. Twenty largest shareholders as at 21 September

	Shareholder	Number of Ordinary Fully Paid Shares Held	Holding (%)
1	Emesco Agents Pty Ltd <Magnesium Shareholder A/C	99,960,000	18.86
2	Fammallon Pty Ltd <Famallon No2 Super Fund A/C>	32,013,334	6.04
3	Rimotran Pty Limited <David Paterson S/Fund>	17,607,333	3.32
4	Europacific Corp Pty Ltd <Robert Donohoe S/F A/C>	14,104,666	2.66
5	Mr Desmond Joseph Keegan	12,000,000	2.26
6	Europacific Corporation Pty Ltd	8,700,000	1.64
7	Mr Shayne Daley	7,957,675	1.50
8	UBS Wealth Management Australia Nominees Pty Ltd	7,000,000	1.32
9	Mr Ulysses Ganas	6,000,000	1.13
10	Mr Robert Gordon	6,000,000	1.13
11	Mr Rodney Foster & Mrs Debra Foster <Foster Family S/F A/C>	5,500,000	1.04
12	National Nominees Limited	5,402,500	1.02
13	Boom Securities (HK) Ltd <Clients Account>	5,000,000	0.94
14	Comp-World Limited	5,000,000	0.94
15	Kelmist Pty Ltd	5,000,000	0.94
16	UOB Kay Hian Private Limited <Clients A/C>	5,000,000	0.94
17	Wentworth Millswyn Holdings Pty Ltd	5,000,000	0.94
18	Mr John Paul Dawson	4,800,000	0.91
19	Mr Kenneth Freeland	4,000,000	0.75
20	MR Ianaki Semerdziev	3,800,000	0.72
		259,845,508	49.00