LATROBE MAGNESIUM LIMITED
AND ITS CONTROLLED ENTITIES

ABN 52 009 173 611

HALF YEAR
FINANCIAL REPORT

31 DECEMBER 2006

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LATROBE MAGNESIUM LIMITED
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COMPANY DIRECTORY

Directors
David Oliver Paterson (Chairman)
Philip Francis Bruce
Kevin Anthony Torpey
Rodney Foster

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Level 7
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Telephone: (02) 9251 0400

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

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

Secretary
David Laurence 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
2 The Esplanade
Perth WA 6000

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DIRECTORS' REPORT

The directors submit the financial report of the consolidated entity for the half-year ended 31 December 2006.

DIRECTORS

The names of directors who held office during or since the end of the half-year:

D O Paterson, Chairman
P F Bruce
K A Torpey
R D Foster

The directors have been in office for the whole of the period.

REVIEW OF OPERATIONS

The consolidated loss of the group for the half-year after providing for income tax was $151,945 (2005: $96,669).

LATROBE MAGNESIUM PROJECT

During the period under review, the Company executed an ash supply agreement with Hazelwood Power, which extends its previous agreement to 31 December 2009. A high level independent technical review of the Latrobe Magnesium Project was undertaken by Process Essentials, a Brisbane based consulting firm, specialising in process development with previous involvement in magnesium projects in Australia.

The scope of the review included:

- Review of proposed flowsheets
- Review of calcium removal options
- Identify operating costs for the calcium removal options: and
- Provide comment on their technical and economical assessment of the project.

The technical review confirmed previous test work undertaken by Worley Parsons that dry ash and the precipitation process was effective in the removal of calcium oxide in the neutralisation /purification step and recommended some modifications to the process configuration. Process Essentials further concluded that the adoption of proven Russian technology was technically and commercially appropriate. Due to the current state of the magnesium market, work on progressing the bankable feasibility study has been deferred. Project development work over the next twelve months will concentrate on the continued refinement of project capital and operating costs.

The Dotars grant lapsed during the period.

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DIRECTORS' REPORT (CONT'D)

BANGEMALL EXPLORATION AREA WESTERN AUSTRALIA

In June 2006 the Company 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, centred on the Cobra anticline. The original application covered an area of approximately 648km^2.

The Company has completed a detailed assessment of past exploration data and following the issue of the notice of intention to grant has undertaken initial rock chip sampling and hand held scintillometer work to allow formulation of the first years exploration programme to be implemented on transfer of the licence.

SUBSEQUENT EVENTS

Exploration licence E09/1293 was recently granted by the Western Australian Department of Industry and Resources. The tenement comprises 154 blocks of the original 200 blocks applied for.

A transfer instrument has been lodged with the Department of Industry and Resources to transfer the tenement to Latrobe Magnesium Limited.

The balance of the consideration, being 5,000,000 fully paid ordinary shares have been issued. Including this issue the Company now has 535,112,440 ordinary fully paid shares on issue.

FUTURE DIRECTION

With regard to the Latrobe Magnesium Project, the board proposes now that it has obtained some certainty in relation to an appropriate technology process and its related capital and operating costs to secure a long term strategic partner interested in participating in the project by way of a joint venture.

In addition the board continues to actively pursue other resource based investment opportunities with potential to provide short-term positive cash flows and growth opportunities.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 14 for the half-year ended 31 December 2006 and forms part of this report.

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

D. Paterson

D O Paterson
Chairman
Dated at Sydney this 15th day of March 2007.

LATROBE MAGNESIUM LIMITED
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CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Note	Consolidated Entity	
		31 December 2006 $	31 December 2005 $
Revenue			
Other revenue		16,594	779
Administration expenses		(168,213)	(97,448)
Finance Costs		(326)	-
Loss before income tax expense		(151,945)	(96,669)
Income tax expense		-	-
Loss attributable to members of the parent entity	2	(151,945)	(96,669)
Basic Earnings per share (cents per share)		(0.03)	(0.03)
Diluted earnings per share (cents per share)		(0.03)	(0.03)

The financial statements should be read in conjunction with the accompanying notes.

LATROBE MAGNESIUM LIMITED
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CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	Consolidated Entity	
		31 December 2006 $	**30 June 2006 $**
Current Assets			
Cash and cash equivalents		719,031	855,686
Trade and other receivables		36,826	48,767
Total Current Assets		755,857	904,453
Non-Current Assets			
Mining tenements		60,000	-
Property plant & equipment		2,612	3,022
Intangible assets		5,684,000	5,684,000
Total Non-Current Assets		5,746,612	5,687,022
Total Assets		6,502,469	6,591,475
Current Liabilities			
Trade and other payables		85,511	82,572
Total Current Liabilities		85,511	82,572
Total Liabilities		85,511	82,572
Net Assets		6,416,958	6,508,903
Equity			
Issued capital	3	23,651,650	23,591,650
Reserves		1,315,402	1,315,402
Accumulated losses		(18,550,094)	(18,398,149)
Total Equity		6,416,958	6,508,903

The financial statements should be read in conjunction with the accompanying notes.

LATROBE MAGNESIUM LIMITED
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2006

	Share Capital			
	Ordinary	Reserves	Accumulated Losses	Total
	$	$	$	$
Balance at 1 July 2005	22,569,377	1,315,402	(18,186,861)	5,697,918
Loss for period	-	-	(96,669)	(96,669)
Total recognised income and expenses for the period	-	-	(96,669)	(96,669)
Balance at 31 December 2005	22,569,377	1,315,402	(18,283,530)	5,601,249
Balance at 1 July 2006	23,591,650	1,315,402	(18,398,149)	6,508,903
Loss for period	-	-	(151,945)	(151,945)
Total recognised income and expenses for the period	-	-	(151,945)	(151,945)
Shares issued during period	60,000	-	-	60,000
Balance at 31 December 2006	23,651,650	1,315,402	(18,550,094)	6,416,958

The financial statements should be read in conjunction with the accompanying notes

LATROBE MAGNESIUM LIMITED
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CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Consolidated Entity	
	31 December 2006	**31 December 2005**
	$	**$**
Cash Flows from Operating Activities		
Receipts from customers	11,940	-
Payments to suppliers and employees	(164,863)	(136,922)
Interest received	16,594	779
Interest paid	(326)	-
Net Cash used in Operating Activities	(136,655)	(136,143)
Cash Flows from Investing Activities	-	-
Net Cash from Investing Activities	-	-
Cash Flows from Financing Activities	-	-
Net Cash from Financing Activities	-	-
Net Decrease in Cash and Cash Equivalents	(136,655)	(136,143)
Cash and Cash Equivalents at Beginning of Period	855,686	149,202
Cash and Cash Equivalents at end of Period	719,031	13,059

The financial statements should be read in conjunction with the accompanying notes.

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

NOTE 1: BASIS OF PREPARATION

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The accounting policies have been consistently applied by the entities in the consolidated group and are consistent with those applied in the 30 June 2006 annual report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by Latrobe Magnesium Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

NOTE 2: LOSS FROM ORDINARY ACTIVITIES

	Consolidated Entity	
	31 December 2006 $	31 December 2005 $
The following revenue and expense items are relevant in explaining the financial performance of the interim period		
(i) Other revenue		
- Finance Income	16,594	779
(ii) Expenses		
- Depreciation	410	250
- Evaluations costs expenses	29,886	31,185

NOTE 3: ISSUED CAPITAL	31 December 2006 $	30 June 2006 $
Ordinary Shares		
a) **Issued and fully paid**		
Movements in ordinary shares at issue		
Balance at beginning of reporting period	23,591,650	22,569,377
- 5,000,000 ordinary shares issued in August 2006 at $0.012 each in part consideration for acquisition of an exploration licence application	60,000	-
- 30,000,000 fully paid ordinary shares issued at 0.5 cents each pursuant to a private placement	-	150,000
- 80,000,000 fully paid ordinary shares issued at 0.6 cents each pursuant to a private placement	-	480,000
- 2,500,000 fully paid ordinary shares issued at 0.6 cents each to convert debt to equity	-	15,000
- 40,000,000 fully paid ordinary shares issued at 1.1 cents each pursuant to a private placement	-	440,000
Transaction costs relating to share issue	-	(62,727)
Balance at end of reporting period	23,651,650	23,591,650

b) **Shares on Issue**	**No.**	**No.**
Balance at beginning of reporting period	525,112,440	372,612,440
Share Issues		
- 21 August 2006	5,000,000	
- 17 February 2006	-	30,000,000
- 27 February 2006	-	2,500,000
- 28 February 2006	-	80,000,000
- 6 May 2006	-	40,000,000
Balance at end of reporting period	530,112,440	525,112,440

c) **Options**

No options were granted during the period from the beginning of this reporting period and up to the date of report.

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

NOTE 4. SEGMENT INFORMATION

The consolidated entity operated predominately in one industry within Australia during the period under review.

The principal activity of the consolidated entity was the continued development of the Latrobe Magnesium Metals project.

Exploration activity in relation to exploration licence E09/1293 was deferred pending the transfer of the tenement.

NOTE 5. CONTINGENT LIABILITES

There has been no change in contingent liabilities since the last annual reporting date.

NOTE 6. EVENTS SUBSEQUENT TO REPORTING DATE

Exploration licence E09/1293 was granted by the Western Australian Department of Industry and Resources on 31 January 2007. The tenement comprises 154 blocks of the original 200 blocks applied for.

A transfer instrument has been lodged with the Department of Industry and Resources to transfer the tenement to Latrobe Magnesium Limited.

The balance of the consideration, being 5,000,000 ordinary fully paid shares have been issued. Including this issue, the Company now has 535,112,440 ordinary fully paid shares on issue.

NOTE 7. ACCOUNTING ESTIMATES

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

As at 31 December 2006 the Company undertook an impairment test relating to the carrying value of intangible assets.

It was determined that no impairment indicators were present. The key assumptions underlying this impairment test have been based on data provided in the Worley Parsons pre-feasibility study and subsequent reports by both Worley Parsons and Process Essentials.

The key assumptions include a budgeted cash flow period of 20 years, based on market information for metal prices and exchange rates, utilising a discount rate of 13%.

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DIRECTORS' DECLARATION
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 6 to 12:

    a) comply with Accounting Standards AASB 134: Interim Financial Reporting and the Corporation Regulations; and

    b) give a true and fair view of the economic entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date.

2. In the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors

D. Paterson

D O Paterson
Chairman
Dated at Sydney this 15th day of March 2007.

Grant Thornton

Chartered Accountants
Business Advisers and Consultants

Auditor's independence declaration

To the Directors of Latrobe Magnesium Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Latrobe Magnesium Limited for the year ended 31 December 2006, I declare that, to the best of my knowledge and belief, there have been:

i. no contraventions of the auditor's independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton NSW

GRANT THORNTON NSW
Chartered Accountants

G S LAYLAND
Partner

Sydney 15 March 2007

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Grant Thornton

Independent review report

To the members of Latrobe Magnesium Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Latrobe Magnesium Limited (the Company) and the entities it controlled (the consolidated entity), which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration. The consolidated entity comprises both Latrobe Magnesium Limited (the Company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

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

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Grant Thornton NSW

GRANT THORNTON NSW
Chartered Accountants

G S LAYLAND
Partner | Sydney | 15 March 2007