RED METAL LIMITED

ACN 103 367 684

Annual Report 2004

Corporate Directory

Directors	Russell Christopher Barwick	(Non-Executive Chairman)
	Robert Alexander Rutherford	(Managing Director)
	Joshua Norman Pitt	(Non-Executive Director)

Company Secretary Patrick John Flint

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Stock Exchange Listing Australian Stock Exchange Limited

Contents

CHAIRMAN'S LETTER

Dear Fellow Shareholder.

It is with great pleasure that I present to you Red Metal's first annual report, which highlights the significant progress made in the Company's short history. Red Metal is now in the very fortunate position of having a portfolio of highly prospective exploration properties, a supportive alliance partner in Phelps Dodge, a strong management team and significant cash funding. These key factors maximize the chances of achieving our stated goal of discovering giant copper and copper-gold deposits in Australia.

The significant and exciting progress made by the Company since its incorporation in January 2003 is demonstrated by the following highlights:

- Secured an interest in a portfolio of highly prospective exploration properties in Australia through a strategic alliance ("the Alliance") with Phelps Dodge Australasia Inc ("PDAI").
- Successful completion of an Initial Public Offering raising $12 million and the commencement of trading of shares on the Australian Stock Exchange on 27th October 2003.
- Acquisition of new projects including the Peake-Denison project located within the northeastern margin of the Gawler Craton, the Frome project located in the north-western portion of the metal rich Curnamona Province (host to the giant Broken Hill deposit), and the Tennant Creek projects.
- Additional funding provided by PDAI under the terms of the Alliance totalling $1,516,914.
- Encouraging broad zones of low grade copper mineralisation intersected in RC and diamond drill holes and soil calcrete sampling defined previously untested high gold and high copper anomalies at the Moonta project.
- Detailed gravity surveys (12,785 stations) completed over large number of projects, resulting in the identification of a number of high priority drill targets.

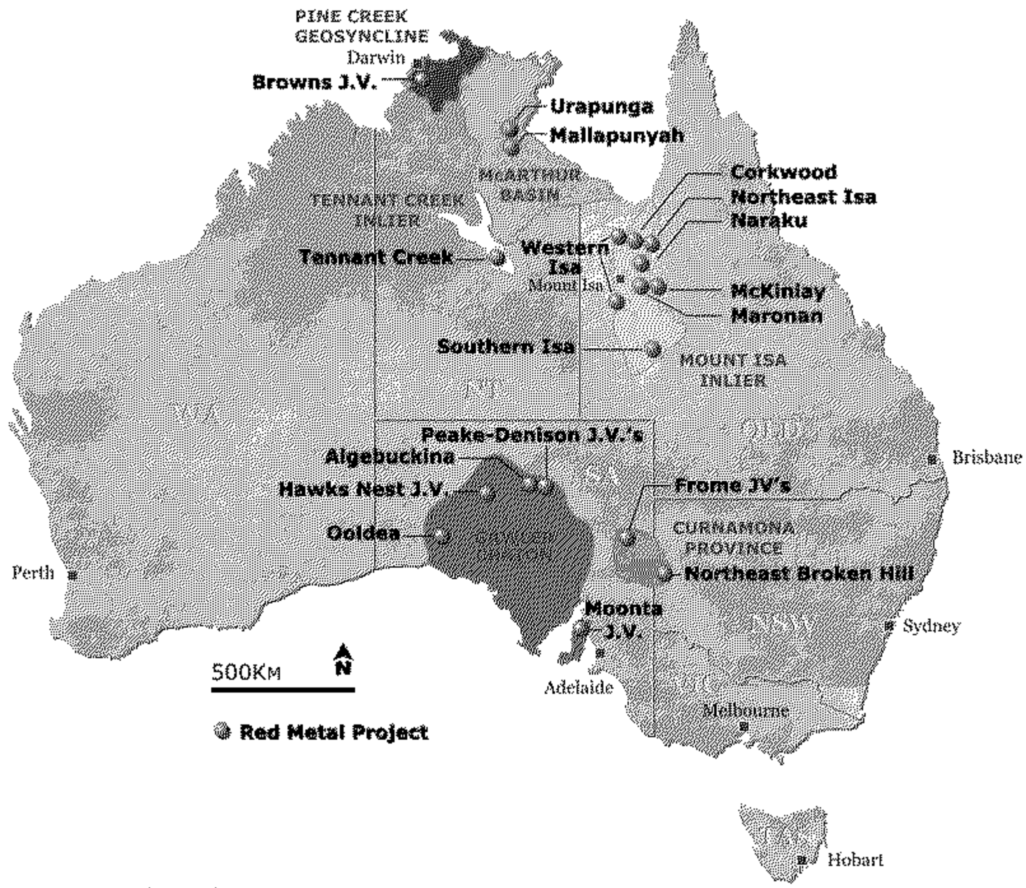
The year ahead promises to be even more active, as Red Metal continues with its extensive exploration programme. Drilling of a number of targets identified in relatively unexplored regions using the most modern techniques is planned for the next twelve months. Success at any one of the targets could result in a major discovery.

Finally, on behalf of the Red Metal board and shareholders I would like to thank Rob Rutherford and his team for the dedication, enthusiasm and professionalism they have shown.

I look forward to your continuing support, and to sharing with you in the future success of this exciting exploration company.

Russell C Barwick

REVIEW OF OPERATIONS



[Figure 1] Location of Red Metal projects.

EXPLORATION

Red Metal's exploration strategy is focused on the discovery of giant copper and copper/gold deposits in Australia.

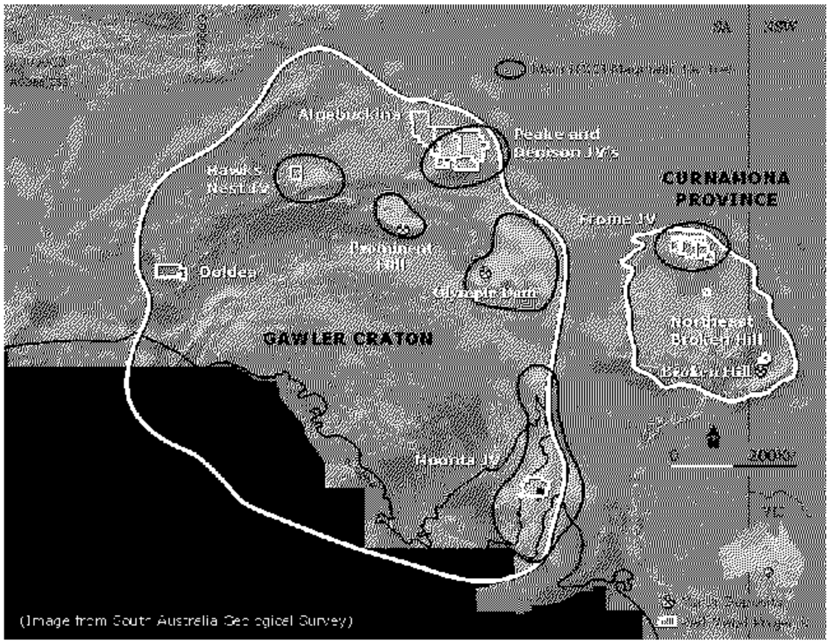
Red Metal secured an interest in a portfolio of highly prospective exploration properties in Australia that cover over 18,000 square kilometres through the Alliance with Phelps Dodge Australasia Inc ("PDAI") and through further project acquisitions. All Red Metal's projects are located in under-explored "fertile" geological terrains.

Since listing, drilling programs have been completed on three PDAI projects under the Alliance, being the Browns project in the Northern Territory, and the Moonta and the Hawks Nest projects in South Australia (Figure 1). Drilling also commenced over the 100% owned Mt Isa projects in late June 2004 with 2,421 metres completed to date.

Red Metal is pleased to report that exploration was completed without any safety or environmental incidents.

A total of 5,780 metres of RC percussion and diamond drilling has been achieved over 15 targets during the reporting period with encouraging signs of copper and gold identified on the Moonta project. Detailed gravity surveys totalling 12,785 stations were also completed over a large number of projects, resulting in the identification of a number of high priority drill targets. Total exploration expenditure by Red Metal was $570,663 while additional funding provided by PDAI under the terms of the Alliance totalled $1,516,914.

Red Metal retained $10.9 million in cash as at year end. With the strong support of PDAI through the Alliance and an exciting portfolio of drill targets throughout Australia's most productive copper and basemetal terrains the Company is well placed to maintain it's position as one of the most active and geographically diverse copper exploration companies in Australia.

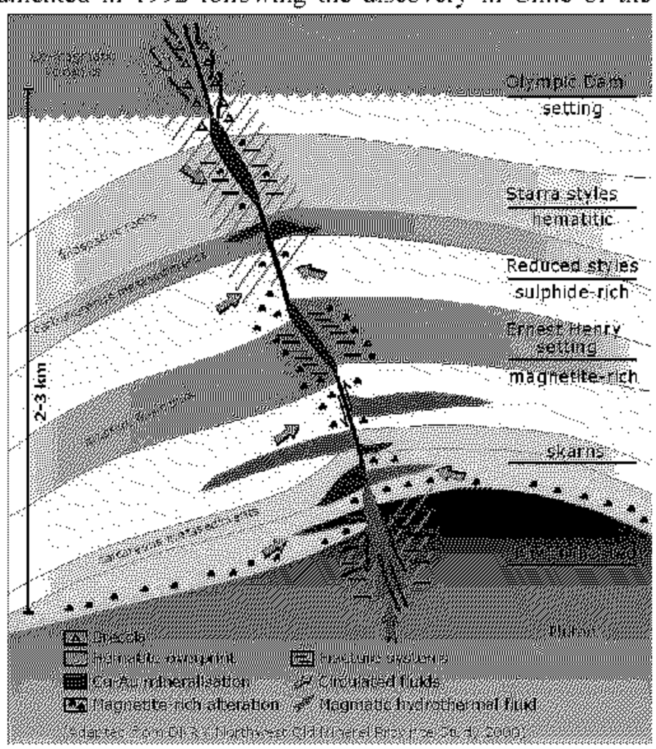


[Figure 2] Gawler Craton and Curnamona Province: project locations on greyscale image of magnetic intensity.

IOCG Strategy

Red Metal's primary exploration targets for the projects in the Gawler Craton, Curnamona Province, Mt Isa Inlier and Tennant Creek Inlier are large tonnage, high-grade Iron Oxide Copper Gold (IOCG) deposits (Figure 2). The IOCG class of deposits was formally documented in 1992 following the discovery in Chile of the Candelaria copper-gold deposit by Phelps Dodge and the Osborne and Ernest Henry copper-gold deposits in Queensland. After many years of research and global exploration a detailed knowledge about the variety and timing of alteration and mineralisation styles and their geophysical diversity is only now becoming better understood (Figure 3).

IOCG deposits are thought to have formed from the localisation into deep crustal faults of high temperature saline fluids above or adjacent to a deep seated magmatic centre. The structural morphology and alteration styles of IOCG deposits vary significantly with host lithology and structural level. Using regional scale magnetic and gravity data sets, Red Metal maps the roof zones to prospective deep-seated magmatic systems and late-stage regional scale structures (Figure 2 and Figure 3). At the project scale, Red Metal uses detailed magnetic and gravity data and sophisticated processing techniques to map the late-stage structures and identify any geophysical targets along the structures for drill testing.

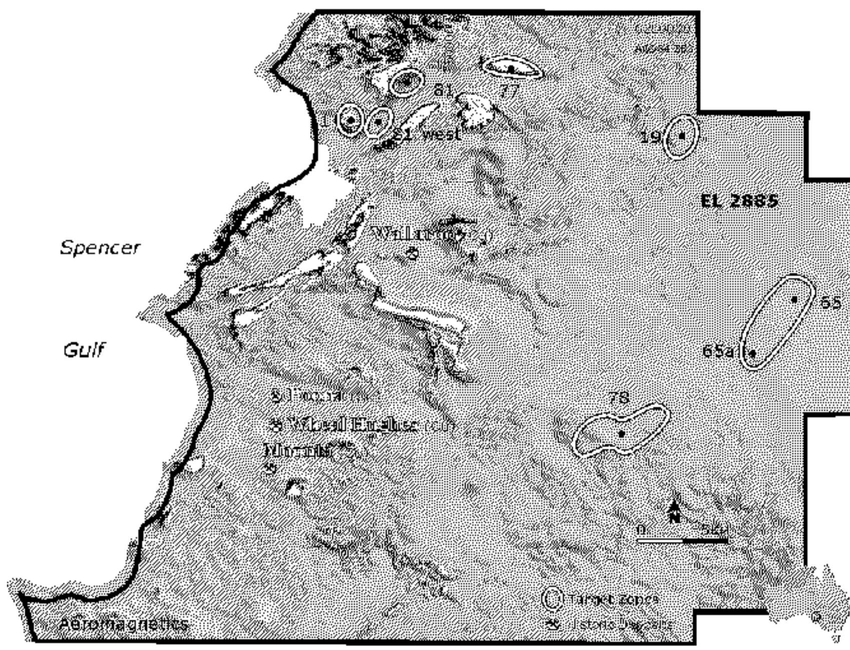


[Figure 3] Iron Oxide Cu-Au: Schematic geological model. Key elements are the coincidence of a deep-seated magmatic centre with deep penetrating crustal scale structures.

Moonta Project *(Red Metal right to earn 21%)*

The Moonta Project is centred around the historic copper mining district of Moonta. The Alliance can earn 70% (Red Metal right to earn 21%) by expending $4 million within 5 years with Adelaide Resources Limited retaining a 30% equity. The target model at Moonta is a large IOCG style deposit buried beneath about 10-150 metres of cover.

Red Metal have successfully utilised detailed gravity and magnetic data in conjunction with soil calcrete geochemistry to identify basement copper mineralisation under shallow cover sequences within in the Moonta region. During the reporting period a total of 1,154 soil calcrete samples have been collected over a range of target areas with 1,491 metres of RC percussion and 790.1 metres of mud drill/diamond core drilling directed towards seven geophysical and geochemical targets (Figure 4). Since the end of June 2004, a 1,170 metre mud drill/diamond core program to follow-up encouraging zones of secondary copper mineralisation and gold and copper soil calcrete anomalies has been completed. Results to date for the main target areas are summarised below.



[Figure 4] Moonta Project: magnetic image showing deep drill targets and historic Cu-Au deposits of the area.

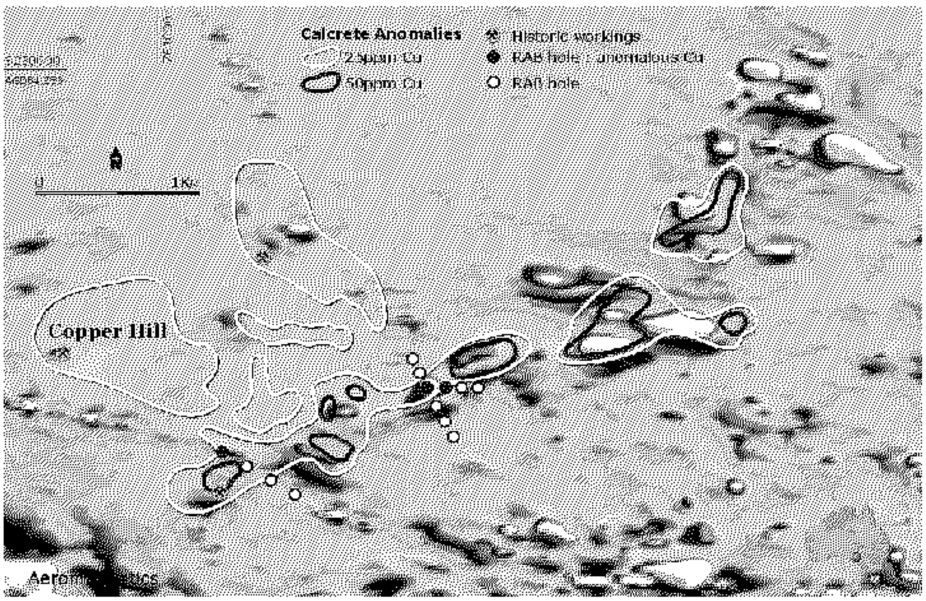
Target 81 is a previously untested zone of anomalous gold and copper in soil calcrete extending for over one kilometre along a major faulted contact with values up to 58 ppb gold and 56 ppm copper which are considered highly anomalous for this region. A single hole recently drilled into the target intersected a 52 metres averaging 0.16% copper, 0.05 ppm gold from 111 metres including 15 metres at 0.18% Cu and 0.11 ppm gold from 131 metres. Mineralisation appears to be related to wide spaced sulphide veins at the boundary between shales and a feldspathic quartzite.

Target 81 West is a 1500 by 500 metre gravity low target with coincident copper and gold anomalism in soil calcrete. Historic drilling near the target has outlined secondary copper mineralisation within transported cover which overlies deep weathered basement rocks. Recent drilling below these historic drill holes intersected broad zones of low grade secondary copper mineralisation averaging 800 ppm over 263.7 metres from 4 metres depth. Copper mineralisation occurs as secondary malachite hosted in transported sands and gravels to 130 metres and as secondary malachite and chalcocite in a deeply weathered stockwork fractured feldspathic quartzite. The association of deep weathering with the mineralised zones has highlighted the potential of the previously untested deep gravity low located immediately south of the mineralised drill hole.

Target 78 is a 4 kilometre long zone of high copper values coincident with weak magnetic anomalies (Figure 5). Limited shallow drilling along the southwestern end of the anomaly has intersected anomalous copper in bedrock above the magnetic anomalies.

Target 19 is a high gold and copper soil calcrete anomaly associated with a deep gravity low where shallow RC and aircore holes have intersected zones of secondary copper mineralisation in weathered metasedimentary rocks. A mud drill/diamond core hole was recently completed into basement rocks. Assaying of core samples is pending.

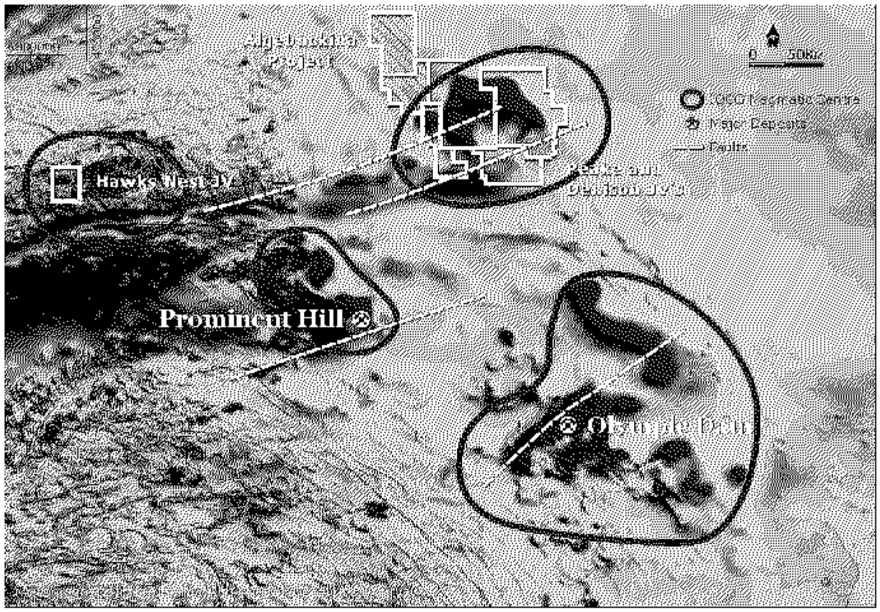
Additional mud drill/diamond coring testing the gravity low at Target 81 West and an aircore program testing the extensive zone copper in soil calcrete at Target 78 (Figure 5) and the lateral extent of the gold geochemistry at Target 81 are planned to begin following crop harvest in December 2004 and will continue into the first quarter of 2005.



[Figure 5] Moonta Project: Target 78 - magnetic image with contours of copper values in soil calcrete and previous drilling with elevated copper values. Extensive zone of high copper values associated with elevated magnetic zones are untested.

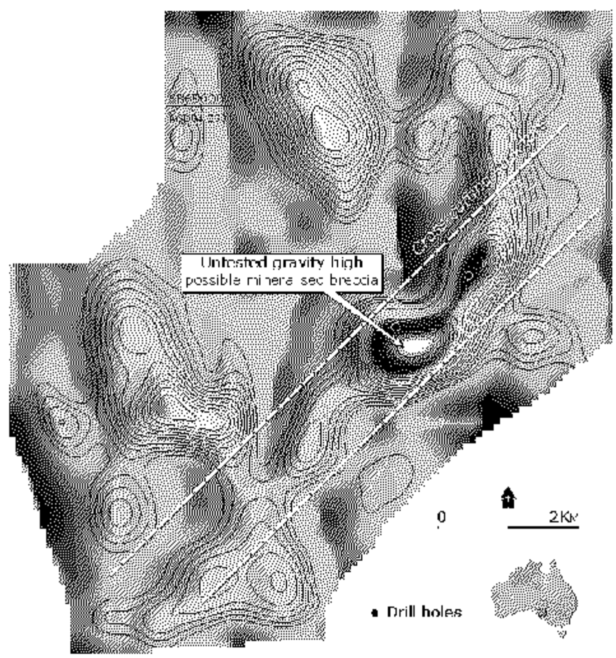
Peake and Denison Project *(Red Metal right to earn between 18% and 21%)*

In October 2003 the Alliance finalised the terms of two joint ventures incorporating 7,113 square kilometres of highly prospective terrain covering the majority of the Peake-Denison magmatic centre located within the northeastern margin of the Gawler Craton (Figure 6). This project comprises the Douglas Creek Joint Venture with Rio Tinto Exploration Pty Limited (Red Metal right to earn 21%) and the Peake and Denison Joint Venture with both BHP Billiton Minerals Pty Ltd and Rio Tinto Exploration Pty Limited (Red Metal right to earn 18%). The joint ventures cover an interpreted magmatic centre associated with a regional scale magnetic and gravity signature similar to the region hosting the Olympic Dam mine (Figure 6). Re-interpretation of the geophysical data has identified a number of gravity and magnetic targets located along large cross cutting structures considered prospective for Olympic Dam style mineralisation. A detailed gravity survey comprising 3,651 stations was completed over the prospective Douglas Creek, Umbum Creek and Spring Hill regions. Interpretation and modelling of the new data has identified several exciting geophysical targets considered highly prospective for both magnetite-associated and/or hematite-associated IOCG style of deposits. Key targets within each of these areas are described below.



[Figure 6] Peake-Denison Project: magnetic image showing main magmatic centres.

The Umbum Creek target is a 800 by 500 metre, 3.5 milligal gravity target within a cross-cutting highly magnetic alteration zone. The gravity anomaly is off-set from the magnetic anomaly which suggests a hematite/magnetite-associated target. Previous drilling near this target intersected encouraging alteration in basement rocks located 295 metres below surface (Figure 7).



[Figure 7] Peake and Denison Project: Umbum Creek gravity image highlighting untested gravity anomaly near old holes with encouraging alteration minerals.

The Spring Hill target is a 5 by 3 kilometre zone of magnetic lows with coincident high gravity up to 2 milligal (which suggests a hematite-associated target). Previous drilling near the zone intersected a prospective hematite-actinolite breccia under less than 50 metres of younger sedimentary cover. Additional structurally controlled, high magnetic and low magnetic targets coincident with high gravity anomalies were also identified in the surrounding region.

The Douglas Creek target is a 5 kilometre long by 1 kilometre wide, 6 milligal gravity anomaly located along a crustal scale fault zone.

Drill testing of the highest priority targets in both joint venture areas is scheduled for October 2004 when specialist water bore drillers required for drilling in this region become available.

Hawks Nest Project *(Red Metal right to earn 21%)*

The Hawks Nest Project is a joint venture with Goldsearch Limited. The joint venture enables the Alliance to drill test regionally significant geophysical targets within the prospective northern Gawler Craton region. The first precollared diamond drill hole which aimed to test a combined high gravity/conductivity anomaly located within a fold closure was disappointing as it intersected highly metamorphosed banded iron formation. The hole was terminated at 361.1 metres.

The second hole aimed to test a combined high gravity/magnetic/conductivity anomaly was also disappointing as it intersected strongly conductive graphite and pyrrhotite-bearing gneissic metasediments before passing into highly metamorphosed banded iron formation. The hole was terminated at 486.4 metres.

PDAI and Red Metal are planning to withdraw from the joint venture by the end of September 2004.

Browns Joint Venture *(Red Metal right to earn 21%)*

This is an Alliance joint venture with Compass Resources N.L. and Guardian Resources Pty Ltd. The joint venture area is 35 square kilometres and covers the highly mineralised Browns trend and the Area 55 copper-cobalt resource. The defined resources of the Browns trend and Area 55 are excluded from the joint venture above a depth of 350 metres.

The target model for the project was a 70 million tonnes stratabound ore body grading 3.5% copper equivalent and this was predicted to occur at depths greater than 400 metres below surface.

The Alliance conducted a deep drill test below the Brown's resource and the ground based TEM anomaly south of Area 55. The Browns drill hole trend passed into the footwall marble sequence without intersecting any copper mineralisation and was terminated at 1214.4m and the drill hole testing the TEM anomaly also produced negative results intersecting conductive graphitic and pyritic shales.

PDAI and Red Metal are planning to withdraw from the joint venture by the end of September 2004.

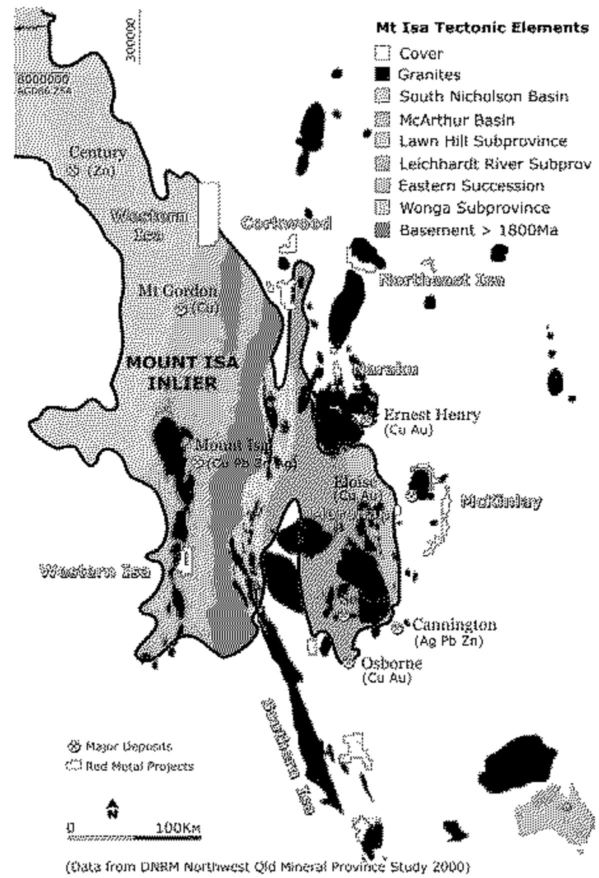
Mt Isa base metal Projects *(Red Metal 100%, subject to PDAI earn-back)*

An extensive exploration program including detailed gravity surveys and drilling over many of the Mt Isa projects was initiated in 2004 (Figure 8). The Company is targeting large IOCG deposits in structures similar to those hosting the Ernest Henry and Osborne copper-gold mines.

Detailed gravity surveys have been completed over the Naraku project (1,076 stations) and McKinlay project (575 stations) with surveys commenced over the Corkwood project and Southern Isa projects. Processing and interpretation of the data are in progress.

Rotary mud/diamond core drilling commenced in mid June over the McKinlay projects and is continuing on the McKinlay, Northeast Isa (Taldora), Southern Isa (Elizabeth Springs) and Maronan projects testing a number of regionally significant, structurally controlled magnetic and gravity anomalies (Figure 8). Since the end of June 2004, 2,421 metres of mud drill/diamond coring has been completed over these projects. Assaying is in progress. A second drill program, pending rig availability and access negotiation, is planned to begin later in 2004 over the Naraku and Corkwood projects.

Figure 8] Mount Isa Inlier : Red Metal projects and regional geology showing extent of the outcropping Proterozoic rocks, main granite intrusions and major deposits of the region.



Frome Projects *(Red Metal earning 70%)*

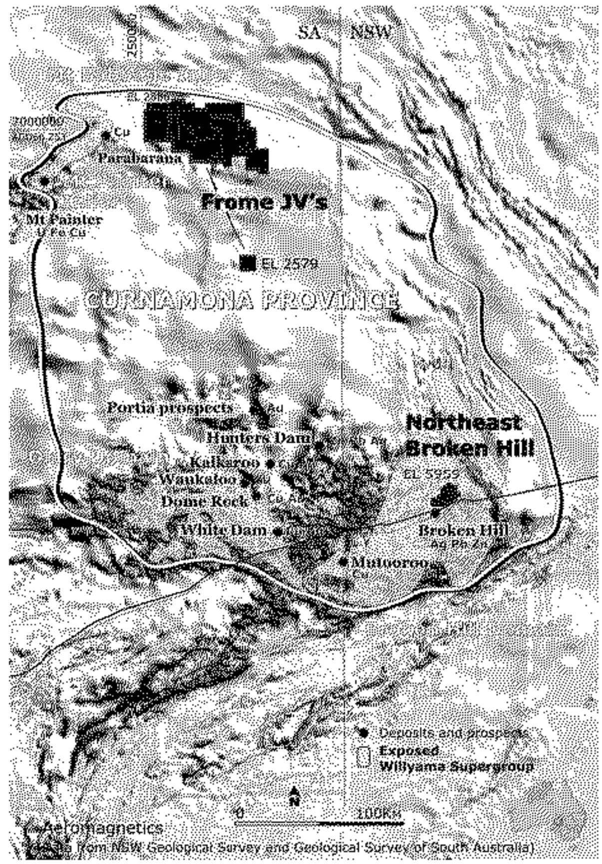
Terms of two new joint ventures were finalised over tenements located in the north-western portion of the metal rich Curnamona Province which target Olympic Dam style IOCG mineralisation in basement rocks buried below 400-600 metres of younger sedimentary cover rocks (Figure 9). The joint venture partners are PlatSearch NL at the Callabonna project and PlatSearch NL together with a prospecting syndicate at the Quinyambie project.

Under the terms of both joint ventures Red Metal can earn 51% by spending $1million on exploration and can elect to spend an additional $2 million to earn a 70% equity.

Historic exploration in the joint venture areas identified a number of large IOCG style breccia systems associated with magnetite and hematite alteration and weak copper mineralisation.

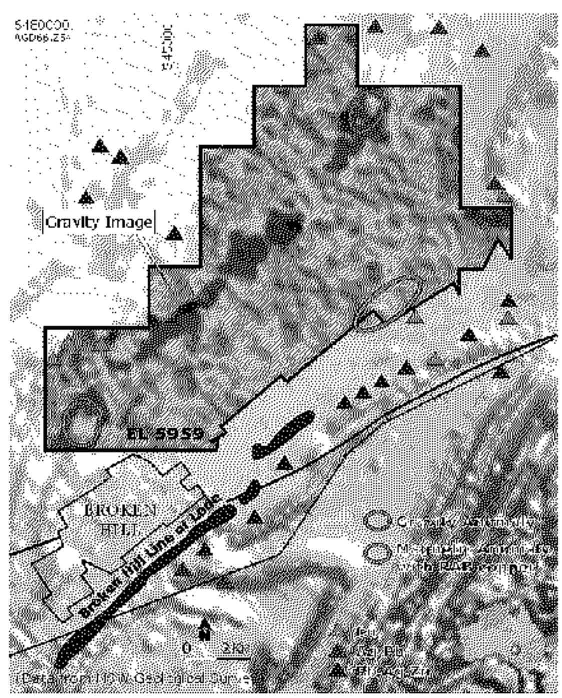
Red Metal completed a detailed gravity survey totalling 2,798 stations over a large portion of the joint venture areas during the period.
Two regional significant gravity targets have been outlined. Drill testing of targets, pending finalisation of access negotiations, is scheduled for late October 2004 when specialist water bore drillers required for drilling in this region become available.

[Figure 9] Curnamona Province: magnetic intensity image showing Red Metal's project locations and the major deposits and prospects of the region.

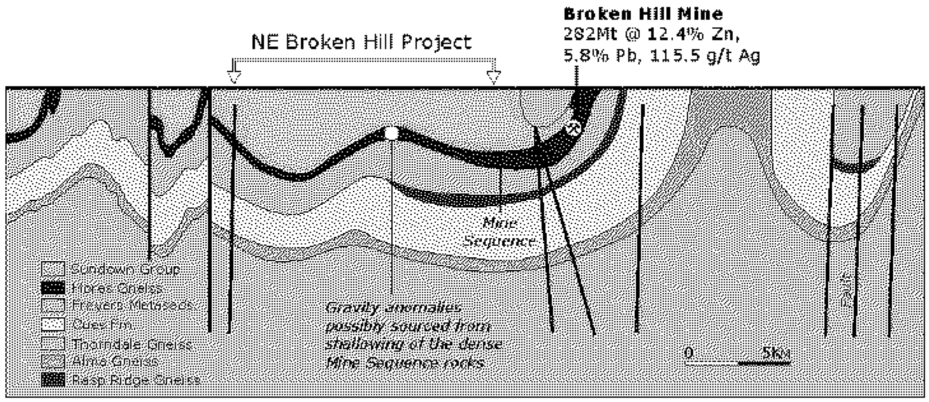


Northeast Broken Hill Project *(Red Metal 100%, subject to PDAI earn-back)*

The Northeast Broken Hill Project covers an area of 102 square kilometres and abuts the northeast boundary of the group of mining leases containing the giant Broken Hill deposits (Figure 10 and Figure 11). The tenement was acquired to explore for Mount Isa style copper deposits focused in retrograde shear zones and the structural repetition or stratigraphically stacked repetitions of the Broken Hill lead-zinc-silver deposit. Ground based geophysical programs over accessible areas were completed during the period. Drilling of Falcon derived gravity anomalies will commence upon completion of access negotiations and is currently scheduled for later in 2004.



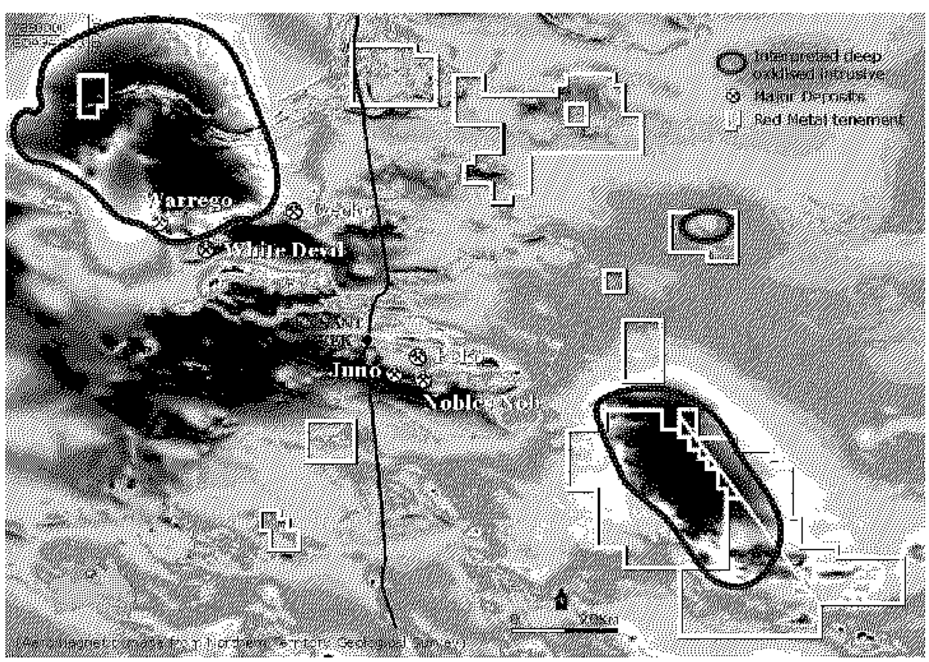
[Figure 10] Northeast Broken Hill Project: colour Falcon gravity image on greyscale magnetic image. The gravity image shows a ridge of high gravity (red) through the centre of the licence which may possibly reflect shallowing of dense Broken Hill mine sequence rocks.



[Figure 11] Interpreted regional cross section through Broken Hill Mine and Red Metal's Northeast Broken Hill project highlighting possible shallowing of dense rocks belonging to the Broken Hill mine sequence.

Tennant Creek Projects *(Red Metal 100%, subject to PDAI option to earn-in)*

Red Metal was granted 5 exploration licences and holds 8 exploration licence applications covering a total of 2,440 square kilometres over a range of combined magnetic and structural targets located under shallow cover within the highly prospective Tennant Creek Inlier (Figure 12). The applications are subject to land access negotiations with traditional aboriginal owners and native title claimants which have commenced. Interpretation of the regional geophysical data sets and a review of historic exploration over the project area has been completed.



[Figure 12] Tennant Creek Inlier: magnetic image highlighting Red Metal tenements, deep seated magnetic granites (red areas) northwest and southeast of the Tennant Creek mineral field and the principle Au±Cu deposits in the region.

CORPORATE ACTIVITY AND THE PDAI ALLIANCE

The Company was incorporated on 13 January 2003 and in July and August 2003 issued 2 million seed shares at an issue price of 10 cents per share to raise $200,000.

In October 2003 the Company entered into the strategic alliance and sale agreements with PDAI whereby the two companies would cooperate in the advancement of PDAI's Australian exploration assets that had been established over approximately 5 years.

The principal terms of these agreements are:

- Red Metal purchased PDAI's 100% interest in 24 mineral licences. PDAI retains an option to earn back between 60% and 70% of these existing tenements and any new tenements prospective for copper.

- Red Metal has been granted the right to receive a 30% free carried share of PDAI's interest in joint ventures involving PDAI. PDAI sole funds joint venture expenditure. Red Metal initially manages and operates the joint ventures and receive a management fee of approximately 5% of joint venture costs incurred.

- Whenever Red Metal makes a discovery on any tenements subject to the Alliance and if PDAI advances the project, then Red Metal's equity will be free carried through to a decision to mine.

- Red Metal obtains access to PDAI's Australian mineral exploration database.

- Red Metal will continue to generate new tenements and new joint ventures for the Alliance for a period of 5 years or until such time as 50% of the funds raised pursuant to the IPO are spent on copper exploration in Australia.

As part of the agreement PDAI was issued 12,476,471 shares and 1,897,059 options.

In October 2003 the Company completed an initial public offering and listed on the Australian Stock Exchange. Pursuant to this offering the Company made a cash issue of 60 million shares at an issue price of 20 cents per share to raise $12,000,000.

CORPORATE POLICIES

Environmental Policy Statement

Red Metal is a responsible company which recognises and respects the environment and the values and rights of others in the environment.

Red Metal holds the opinion that industry can operate in harmony with minimal impact on the environment. Red Metal recognises that environmental performance is an important factor in its business performance and as a measure of professionalism.

Red Metal recognises that its activities can have environmental impact and that it has obligations to mitigate those for the benefit of all. As a minimum, the Company will comply with all applicable environmental obligations.

Red Metal commits to continually improving its environmental performance and responsibility through the education of its employees and contractors and the following initiatives:

- integrating environmental considerations into project planning and operations
- implementing environmental controls and strategies to identify, minimise and avoid wherever possible environmental impact from our activities
- monitoring relevant environmental parameters
- auditing and reporting on environmental performance
- preventing pollution by minimizing emissions and the generation of waste
- providing sufficient training and resources for effective environmental management
- having open communication with communities and other stakeholders about environmental issues
- adopting programs which substantially improve the environment in the areas surrounding high impact areas.

Red Metal intends to be a proactive environmental manager, and through consultation with the stakeholders and government ensure that it remains a good corporate citizen.

Safety Policy Statement

It is the philosophy of Red Metal that industry can operate efficiently and productively without causing injury or damage to people.

Red Metal recognises that the safety and health of its employees is of prime importance and is an essential part of the planning and control of its operations.

It is Company policy to work towards an accident free environment in which hazards are controlled or eliminated and safe working attitudes are promoted through consultation and participation at all levels of the workforce. A collective responsibility binds management and employees to achievement of these goals.

Our ability to prevent injuries and accidents is an important measure of our operations efficiency. Success in our safety endeavours is dependent upon the active involvement of every employee of the Company.

DIRECTORS' REPORT

The directors present their report together with the financial report of Red Metal Limited (the "Company") for the period from incorporation on 13 January 2003 to 30 June 2004 and the auditors' report thereon. Red Metal Limited is a listed public company incorporated in and domiciled in Australia.

DIRECTORS

The directors of the Company at any time during or since the end of the financial period are:

Russell Barwick
Dip Min Eng, FAusIMM, FAICD
Independent Non-Executive Chairman
(Appointed 12/6/03)

Russell Barwick is a mining engineer with 30 years technical, managerial and corporate experience in various commodities. He initially worked for Bougainville Copper Limited, Pancontinental Mining Limited and CSR Ltd. Following this, Russell spent 17 years with Placer Dome Inc occupying a number of key development, operational and corporate roles culminating in being appointed managing director of Placer Nuigini Ltd. He then served as Chief Executive Officer of Newcrest Mining Limited where he achieved strong market support. Russell is currently Managing Director of Wheaton Minerals Asia Pacific Pty Ltd and Chief Operating Officer and Executive Vice President of Wheaton River Minerals Ltd.

Robert Rutherford
BSC (Geol), Masters Econ Geol
Managing Director
(Appointed 13/1/03)

Rob Rutherford is a geologist with over 18 years Australian and international exploration experience and has been involved in generative, feasibility and management roles in the copper, gold and basemetal exploration industry. He was formerly employed by Phelps Dodge Australiasia Inc. for over 9 years where he was promoted to Australian Exploration Manager and internal expert on Iron-Oxide Copper-Gold hydrothermal systems and Sediment-Hosted copper deposits. Rob initiated and negotiated the alliance with Phelps Dodge, founded Red Metal Limited and generated the current ground package.

Joshua Pitt
BSC (Geol), MAusIMM
Independent Non-Executive Director
(Appointed 2/7/03)

Joshua Pitt is a geologist with over 30 years experience in exploration and corporate management. He has had a successful career in providing seed capital and corporate services to new mining and exploration ventures which include Golden Grove Mining NL, Aztec Mining Limited, Helix Resources NL, Forrestania Gold NL and Dalrymple Resources NL. He is currently a director of LionOre Mining International Ltd and Hampton Hill Mining NL.

DIRECTORS' MEETINGS

The number of meetings of the Company's directors and the number of meetings attended by each director during the period ended 30 June 2004 are:

	Number of meetings attended during period of office	Number of meetings held during period of office
Russell Barwick	5	5
Robert Rutherford	5	5
Joshua Pitt	5	5

There were 5 directors' meetings held during the period.

The Company does not have an audit committee. Due to the small size of the board all matters that would be addressed by committees are dealt with by the full board of directors.

DIRECTORS' REPORT (continued)

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial period, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of Directors

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the Company including formulating its strategic direction, approving and monitoring capital, exploration and operating expenditure, setting remuneration, appointing and removing directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for operation and administration of the Company to the Managing Director and senior management.

Board processes

Due to the small size of the board all matters that would be addressed by committees (eg. nomination committee, audit committee) are dealt with by the full board of directors.

The board has established a framework for the management of the Company including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

It is proposed the full Board will hold regular meetings to discuss operational matters, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman and Managing Director. Board reports are circulated in advance.

Director education

Directors have the opportunity to meet with management and project geologists to gain a better understanding of exploration projects and activities. Directors are encouraged to update and enhance their skills and knowledge.

Independent professional advice and access to company information

Each director has the right of access to all relevant company information and to the Company's employees and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified adviser at the Company's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

DIRECTORS' REPORT (continued)

Composition of the board

The names of directors of the Company in office at the date of this report are set out in the Directors' report.

The composition of the Board is determined using the following principles:

- the Board should comprise at least three directors. This number may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified.
- the Board should comprise a majority of independent, non-executive directors.
- the Board should comprise directors with a broad range of expertise, with a majority of directors having extensive knowledge of the Company's industry.
- the Chairperson should be a non-executive independent director.
- directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors (other than the Managing Director) are subject to re-election at least every three years.

The composition of the Board is reviewed on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, a panel of candidates is selected with the appropriate expertise and experience. External advisers may be used to assist in such a process. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

The performance of all directors is reviewed by the Chairman each year. Directors whose performance is considered unsatisfactory are asked to retire.

<u>Remuneration report</u>

Remuneration policies

The Board is responsible for determining remuneration policies and packages applicable to the Board members and senior executives of the Company. Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. Where necessary, independent advice on the appropriateness of remuneration packages is obtained.

Remuneration packages include a mix of fixed remuneration, performance-based remuneration (for executive directors) and equity-based remuneration. Executive directors may receive bonuses of up to 25% of the annual remuneration based on the achievement of performance hurdles. The performance hurdles are based on exploration success. There is no separate profit-share plan.

Options have been issued to directors and employees as an incentive and in recognition of the fact that the fixed cash component of remuneration is comparatively modest. The ability to exercise the options is conditional on the holder remaining in the Company's employment. There are no other non-cash benefits available to directors or employees.

Total remuneration for all non-executive directors, approved at a shareholders meeting held on 6 June 2003, is not to exceed $150,000 per annum. Director's fees cover all main Board activities and membership of one committee (if required). Fees may also be paid to non-executive directors for additional consulting services provided to the Company. Director's base fees are presently $25,000. The Chairman's base fee is $50,000. Non-executive directors are entitled to receive options (subject to shareholder approval) as it is considered an appropriate method of providing sufficient reward whilst maintaining cash reserves.

DIRECTORS' REPORT (continued)

Directors' and senior executives' remuneration

Details of the nature and amount of each major element of the remuneration of each director of the Company and the named officers of the Company receiving the highest remuneration are:

Name	Office	Salary / Fees $	Super-annuation $	Options (A) $	Total $
Directors					
Non-executive					
Russell Barwick	Non-Executive Chairman	25,688	2,312	11,735	39,735
Joshua Pitt	Non-Executive Director	14,000	-	5,867	19,867
Executive					
Robert Rutherford	Managing Director	150,917	13,583	2,934	167,434
Officers					
Greg Kary	Project geologist	83,874	7,549	17,602	109,025
Greg McKay	Administrator	53,458	4,811	11,735	70,004
Patrick Flint	Company secretary	74,500	-	1,467	75,967
Diane Sharman	Administrator	17,777	1,600	2,998	22,375

(A) The fair value of options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period.

The Options were issued in August 2003, exercisable at 20 cents on or before 30 September 2007. The options are exercisable in three equal tranches commencing from 30 September 2004, 30 September 2005 and 30 September 2006. Each option entitles the holder to purchase one ordinary share in the Company. All options expire on the earlier of their expiry date or termination of the individual's employment. The estimated value disclosed above is calculated at the date of grant using the Black-Scholes option pricing model (assumptions – 4.5% interest rate, 35% volatility). Further details of options granted during the period are set out under "Options" below.

The remuneration amounts disclosed in Note 18 differ from those in this table due to differences in definitions of remuneration between the Corporations Act 2001 and AASB 1046 Director and Executive Disclosures by Disclosing Entities.

Options granted to directors' and officers

During or since the end of the financial period, the Company granted options for no consideration over unissued ordinary shares in Red Metal Limited to the following directors and officers as part of their remuneration:

Name	Number of options granted	Exercise price	Expiry date
Directors			
Russell Barwick	2,000,000	20 cents	30/9/07
Robert Rutherford	500,000	20 cents	30/9/07
Joshua Pitt	1,000,000	20 cents	30/9/07
Officers			
Greg Kary	3,000,000	20 cents	30/9/07
Greg McKay	2,000,000	20 cents	30/9/07
Patrick Flint	250,000	20 cents	30/9/07
Diane Sharman	100,000	20 cents	30/9/07

All options were granted during the financial period. No options have been granted since the end of the financial period.

DIRECTORS' REPORT (continued)

Unissued shares under option

As at the date of this report, there were 12,747,059 unissued ordinary shares under option. During the financial period, the Company issued 12,747,059 options to subscribe for ordinary shares. No options have been exercised or granted since the end of the financial period. Further information in respect of these options is set out in Note 13 to the financial statements.

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

Audit Function

Due to the small size of the board all matters that would be addressed by the audit committee are dealt with by the full board of directors. The external auditor meets with the Board once a year.

Risk management

Oversight of the risk management system

The board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing operational, financial reporting and compliance risks for the Company. Financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial period and the period up to the signing of the financial report for all material operations in the Company.

Risk profile

The Managing Director reports to the board monthly on the status of risks, ensuring that they are identified, assessed and appropriately managed.

Major risks arise from such matters as exploration risk, security of tenure including native title risk, environment, government policy changes, commodity prices, occupational health and safety, status of the strategic alliance with Phelps Dodge and financial reporting.

Comprehensive practices have been established to ensure:

- exploration expenditure is incurred in accordance with an approved budget.
- occupational health and safety standards are monitored and reviewed to achieve high standards of performance
- joint ventures and project acquisitions are properly authorised and executed.
- the quality and integrity of personnel.
- financial reporting accuracy and compliance with the financial reporting regulatory framework.
- environmental regulation compliance.

Quality and integrity of personnel

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management.

DIRECTORS' REPORT (continued)

Financial reporting

The Managing Director and the Chief Financial Officer have declared, in writing to the board, that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

Environmental regulation

The Company holds exploration and mining tenements in New South Wales, Northern Territory, Queensland and South Australia. The Company's operations are subject to environmental regulation under both Commonwealth and State legislation in relation to its exploration activities.

The Company is committed to achieving a high standard of environmental performance. The Managing Director and Senior Project Geologist are responsible for the regular monitoring of environmental exposures and compliance with environmental regulations. As part of this process they are responsible for:

- implementing environmental management plans in operating areas which may have a significant environmental impact.
- identifying where remedial actions are required and implementing action plans.

The Board is advised of environmental performance on a monthly basis. Based upon the work completed, the board is not aware of any significant breaches of environmental requirements during the period covered by this report.

Ethical standards

The Board acknowledges the need for continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees of the Company. A fundamental theme of the Company's code of ethics is that all business affairs are conducted legally, ethically and with the strict observance of the highest standards of integrity and propriety. The Directors and management have the responsibility to carry out their functions with a view to maximising financial performance of the Company.

All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Conflict of interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company are set out in note 18.

Trading in general company securities by directors and employees

The policy on trading in Company securities by directors and employees is that directors and employees are prohibited from dealing in company shares or exercising options (i) for 4 weeks before and two days after the release of the Company's quarterly, half-year and annual results to the Australian Stock Exchange ("ASX"); or (ii) whilst in possession of price sensitive information not yet released to the market.

DIRECTORS' REPORT (continued)

Communication with shareholders

The board provides shareholders with information using a comprehensive continuous disclosure policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases. In summary, the continuous disclosure policy operates as follows:

- The Managing Director and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the board. The Company Secretary is responsible for all communications with the ASX.
- The full annual financial report is distributed to all shareholders.
- The half-yearly report contains summarised financial information and a review of the operations of the Company during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder upon request.
- Quarterly reports contain summarised financial information and a review of the operations of the Company during the period. The quarterly reports are lodged with the ASX, and sent to any shareholder who requests it.
- Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders.
- All announcements made to the market are placed on the Company's website after they are released to the ASX.
- The full texts of notices of meetings and associated explanatory material are placed on the Company's website.
- The external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

All of the above information is made available on the Company's website within three days of public release, and is emailed to all shareholders who lodge their email contact details with the Company. Information on lodging email addresses with the Company is available on the Company's website.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions.

A copy of the Constitution is available to any shareholder who requests it.

DIRECTORS' REPORT (continued)

PRINCIPAL ACTIVITIES

The principal activities of the Company during the period ended 30 June 2004 were the acquisition and exploration of mineral prospects in Australia.

RESULTS AND DIVIDENDS

The loss after tax for the period ended 30 June 2004 was $522,001. No dividends were paid during the period and the directors do not recommend payment of a dividend.

REVIEW OF OPERATIONS

A review of operations of the Company during the period ended 30 June 2004 and the results of those operations is set out on page 3 and forms part of this Directors' Report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company, in future financial years.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant changes in the state of affairs of the Company occurred during the period:

- The Company was incorporated on 13 January 2003 with the issue of 1 subscriber share.
- In June 2003 the Company issued 8.7 million promoter shares at an issue price of 0.1 cents per share.
- In July and August 2003 the Company issued 2 million seed shares at an issue price of 10 cents per share to raise $200,000.
- In August and October 2003 the Company issued 8.85 million incentive options to directors and employees of the Company.
- In October 2003 the Company issued 12,476,471 shares and 1,897,059 options pursuant to an agreement with Phelps Dodge Australasia Inc to acquire the rights to mineral properties located in Australia.
- In October 2003 the Company completed an initial public offering and listed on the Australian Stock Exchange. Pursuant to this offering the Company made a cash issue of 60 million shares at an issue price of 20 cents per share to raise $12,000,000.

LIKELY DEVELOPMENTS

The Company will continue its mineral exploration activities with the objective of finding mineralised resources. The Company will also consider the acquisition of further prospective exploration interests and where appropriate secure joint venture partners to assist in financing exploration activities.

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS

The relevant interest of each director in the shares, options or other instruments issued by the Company, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Red Metal Limited	
	Fully Paid ordinary shares	**Options over ordinary shares**
Russell Barwick	100,000	2,000,000
Robert Rutherford	8,400,001	500,000
Joshua Pitt	4,075,000	1,000,000

SHARE OPTIONS

As at the date of this report, there were 12,747,059 unissued ordinary shares under option. During the financial period, the Company issued 12,747,059 options to subscribe for ordinary shares. No options have been exercised or granted since the end of the financial period. Further information in respect of these options is set out in Note 13 to the financial statements.

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company has agreed to indemnify the directors of the Company against all liabilities to another person that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith.

During the financial period the Company agreed to pay an annual insurance premium of $29,909 in respect of directors' and officers' liability and legal expenses' insurance contracts, for directors and officers of the Company. The insurance premium relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever the outcome.
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty.

Signed in accordance with a resolution of directors

Russell C Barwick
Chairman

Sydney, 21 September 2004

Statement of Financial Performance for the period ended 30 June 2004

	Notes	Company 2004 $
Other revenues from ordinary activities		434,914
Total revenue	2	434,914
Expenses from ordinary activities		
Employee and consultant expenses		(230,292)
Exploration expenditure written off		(570,663)
Depreciation	10	(23,720)
Occupancy expenses		(60,434)
Other expenses from ordinary activities		(71,806)
Loss from ordinary activities before related income tax benefit	3	(522,001)
Income tax benefit relating to ordinary activities	5	-
Net loss		(522,001)
		Cents
Basic loss per share	6	(1.2)
Diluted loss per share	6	(1.2)

The statement of financial performance should be read in conjunction with the notes to the financial statements.

Statement of Financial Position as at 30 June 2004

	Notes	Company 2004 $
CURRENT ASSETS		
Cash assets	8	10,903,063
Receivables	9	34,020
TOTAL CURRENT ASSETS		10,937,083
NON-CURRENT ASSETS		
Receivables	9	111,693
Property, plant and equipment	10	70,646
Acquisition, exploration and evaluation expenditure	11	2,494,030
TOTAL NON-CURRENT ASSETS		2,676,369
TOTAL ASSETS		13,613,452
CURRENT LIABILITIES		
Payables	12	232,664
TOTAL CURRENT LIABILITIES		232,664
TOTAL LIABILITIES		232,664
NET ASSETS		13,380,788
EQUITY		
Contributed equity	13	13,902,789
Accumulated losses	14	(522,001)
TOTAL EQUITY		13,380,788

The statement of financial position should be read in conjunction with the notes to the financial statements.

Statement of Cash Flows for the period ended 30 June 2004

	Notes	Company 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts in the course of operations		65,859
Cash payments in the course of operations		(346,354)
Interest received		363,797
NET CASH USED IN OPERATING ACTIVITIES	17a	83,302
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash payments for exploration and evaluation		(1,386,767)
Payments for property, plant and equipment		(8,888)
NET CASH USED IN INVESTING ACTIVITIES		(1,395,655)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares		12,208,701
Proceeds from borrowings		80,000
Repayment of borrowings		(80,000)
Monies received to fund joint venture exploration activities		807,921
Share issue costs		(801,206)
NET CASH PROVIDED BY FINANCING ACTIVITIES		12,215,416
CASH AT THE END OF THE FINANCIAL PERIOD	8	10,903,063

The statement of cashflows should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of Preparation

The financial report is a general-purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

The financial report has been prepared for the period from incorporation on 13 January 2003 to 30 June 2004. This is the period referred to in the Statement of Financial Performance, Statement of Cash Flows and Notes to the Financial Statements.

(b) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(c) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(d) Taxation

The Company adopts the income statement liability method of tax-effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004 (continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Acquisition of Assets

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

(f) Receivables

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

(g) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

(h) Acquisition, Exploration and Evaluation Expenditure

Acquisition costs of mining tenements are accumulated in respect of each separate area of interest. These costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. When an area of interest is abandoned or the directors decide that it is not commercial, any acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed annually and acquisition costs written off to the extent that they will not be recoverable in the future.

Exploration, evaluation and development costs of mining tenements are written off as incurred.

(i) Recoverable Amount of Non-Current Assets Valued on Cost Basis

The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward (refer Note 1(h)), are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

(j) Depreciation and amortisation

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives commencing from the time the asset is held ready for use, with the exception of exploration, evaluation and development costs in the production phase which is amortised on a units of production basis over the life of economically recoverable reserves. Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads. The estimated useful lives used in the calculation of depreciation for plant and equipment are between three and ten years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004
(continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee Entitlements

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on current wage and salary rates including related on-costs.

Other share or options issued to employees are recorded in contributed equity at the fair value of consideration received, if any.

Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

The number of employees at year end was five.

(l) Cash Equivalents

Cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts.

(m) Earnings per Share

(i) *Basic Earnings per Share* - Basic earnings per share is determined by dividing the net profit or loss by the weighted average number of ordinary shares outstanding during the financial year.

(ii) *Diluted Earnings per Share* - Diluted earnings per share adjusts the figures used in the determination of basic earnings for the after tax effect of financing costs and the effect of conversion of ordinary shares associated with dilutive potential ordinary shares.

(n) Australian Equivalents to International Financial Reporting Standards

The Australian Accounting Standards Board ("AASB") is adopting International Financial Reporting Standards ("IFRS") for application to reporting periods beginning on or after 1 January 2005. The AASB has issued AASB equivalents to IFRS, and Urgent Issues Group Abstracts corresponding to International Financial Reporting Interpretations adopted by the International Accounting Standards Board. These Australian pronouncements will be known as Australian equivalents to IFRS. The adoption of Australian equivalents to IFRS will be first reflected in the financial statements of Red Metal Limited for the year ending 30 June 2006.

The Company is managing the transition to the new Standards by analysing the pending standards and Urgent Issues Group Abstracts to identify key differences in accounting policies that are expected to arise on the adoption of Australian equivalents to IFRS.

The Company has commenced a preliminary review of the Australian equivalents to IFRS and at this stage considers that there do not appear to be any significant changes in accounting policies required on adoption of Australian equivalents to IFRS, and that adoption of the standards reviewed will not materially affect the carrying value of assets and liabilities and the recording of the transactions of the Company.

The AASB has not yet issued a new standard dealing with exploration expenditure.

	Company 2004 $
2. REVENUE FROM ORDINARY ACTIVITIES	
Other revenues:	
From operating activities	
Interest – Other parties	363,797
Joint venture management fees	51,177
Other income	19,940
Total revenue from ordinary activities	434,914

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004 (continued)

	Company 2004 $
3. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX BENEFIT	
(a) Individually significant items included in loss from ordinary activities before income tax benefit	
Exploration expenditure written-off	(570,663)
(b) Loss from ordinary activities before income tax benefit has been arrived at after charging/(crediting) the following items:	
Depreciation of plant and equipment	(23,720)
4. AUDITORS' REMUNERATION	
Audit services:	
- Auditors of the company – HLB Mann Judd	13,000
Other services:	
- Auditors of the company - HLB Mann Judd	13,700
5. INCOME TAX EXPENSE	
(a) Income tax expense	
Prima facie income tax benefit calculated at 30% on the loss from ordinary activities:	156,600
(Decrease)/increase in income tax benefit due to:	
Other non-deductible items	(9,000)
Future income benefit not brought to account	(147,600)
Income tax benefit attributable to operating loss	-
(b) Future income tax benefit not taken to account	
Future income tax benefit at 30% arising from income tax losses and timing differences, including potential capital losses, not brought to account at balance date as recovery of tax losses is not regarded as virtually certain and recovery of timing differences is not ensured beyond reasonable doubt	
Income tax losses	147,600

The potential future income tax benefit will only be obtained if:
(i) the company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
(ii) the company continues to comply with the conditions for deductibility imposed by the law; and
(iii) no changes in tax legislation adversely affect the company in realising the benefit.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004
(continued)

6. EARNINGS PER SHARE

Classification of securities as ordinary shares
The Company has only one category of ordinary shares included in basic earnings per share.

Classification of securities as potential ordinary shares – share options outstanding
The Company has granted share options in respect of a total of 12,747,059 ordinary shares. Options are considered to be potential ordinary shares. However, they are not considered to be dilutive in nature, as their exercise will not result in a diluted earnings per share that shows an inferior view of earnings performance of the Company than is shown by basic earnings per share. The options have not been included in the determination of basic earnings per share.

	Company 2004 $
Earnings reconciliation	
Basic loss	522,001
	Number
Weighted average number of shares used as the denominator	
Number for basic loss per share – ordinary shares	41,804,574

7. SEGMENT INFORMATION

During the period the Company operated predominantly in the mining industry in Australia.

	Company 2004 $
8. CASH ASSETS	
Cash	221,451
Bank short term deposits maturing within 90 days and paying interest at a weighted average interest rate of 5.33%	10,681,612
	10,903,063

9. RECEIVABLES

Current	
Other debtors	34,020
Non-Current	
Sundry deposits	111,693

Other debtor amounts relate primarily to GST recoverable and amounts receivable from the Company's joint venture partner. Interest is not charged in respect of these amounts and collateral is not obtained.

10. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment	
At cost	94,366
Less accumulated depreciation	(23,720)
	70,646
Reconciliation	
Plant and equipment	
Additions	94,366
Depreciation	(23,720)
Carrying amount at the end of the period	70,646

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004
(continued)

	Company 2004 $
11. ACQUISITION, EXPLORATION AND EVALUATION EXPENDITURE	
Costs carried forward in respect of areas of interest in exploration and/or evaluation phase:	
Acquisition and exploration costs incurred	3,064,693
Costs written-off	(570,663)
Total acquisition, exploration and evaluation expenditure	2,494,030

The ultimate recoupment of costs carried forward for acquisition, exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

12. PAYABLES

Other creditors and accruals	232,664

13. CONTRIBUTED EQUITY

Issued and paid-up share capital	
83,176,472 ordinary shares, fully paid	13,902,789
(a) Ordinary shares	
Shares issued:	
1 upon registration	1
8,700,000 shares at 0.1 cents each	8,700
2,000,000 shares at 10 cents each to fund exploration expenditure	200,000
12,476,471 shares at 20 cents each for acquisition of mineral interests and plant and equipment	2,495,294
60,000,000 shares at 20 cents each pursuant to a prospectus	12,000,000
Transaction costs arising from capital raisings	(801,206)
Balance at the end of the period	13,902,789

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

(b) Share Options

Exercise Period	Note	Exercise Price	Options Issued	Options Exercised / Expired	Closing Balance 30 June 2004
On or before 30 September 2007	(i)	$0.20	8,850,000	-	8,850,000
On or before 30 September 2007	(ii)	$0.20	1,897,059	-	1,897,059
On or before 31 December 2006	(iii)	$0.35	2,000,000	-	2,000,000
			12,747,059		12,747,059

(i) Options issued to directors, employees and consultants. Exercisable in three equal tranches commencing from 30 September 2004, 30 September 2005 and 30 September 2006.

(ii) Options issued pursuant to acquisition of mineral interests and plant and equipment.

(iii) Options issued pursuant to underwriting agreement.

None of the options have any voting rights, any entitlement to dividends or any entitlement to the proceeds of liquidation in the event of a winding up.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004 (continued)

14. ACCUMULATED LOSSES

	Company 2004 $
Net loss attributable to members of the Company	522,001
Accumulated losses at the end of the period	522,001

15. FINANCIAL INSTRUMENTS DISCLOSURES

(a) Interest rate risk

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Weighted average interest rate %	Floating interest rate $	Fixed interest maturing in: 1 year or less	Fixed interest maturing in: more than 1 year	Non-interest bearing $	Total $
2004						
Financial Assets						
Cash (refer note 8)	5.3	10,903,063	-	-	-	10,903,063
Receivables (refer note 9)	-	-	-	-	145,713	145,713
		10,903,063	-	-	145,713	11,048,776
Financial Liabilities						
Payables (refer note 12)	-	-	-	-	232,664	232,664

(b) Credit risk exposures

The credit risk on financial assets of the Company which have been recognised on the statement of financial position is the carrying amount. The Company is not materially exposed to any individual debtor.

(c) Net fair values of financial assets and liabilities

Net fair values of financial assets and liabilities are determined by the Company on the following basis.

The carrying amounts of bank deposits, other debtors and payables approximate net fair value.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

Cash assets are readily traded on organised markets in a standardised form. All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004 **(continued)**

16. COMMITMENTS

(a) Mineral exploration commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for renewed tenure is made. These obligations are not provided for in the financial report and are payable:

	Company 2004 $
Within one year	2,806,000
One year or later and no later than five years	7,447,000
	10,253,000

(b) Non-cancellable operating lease expense commitments

Future operating lease commitments not provided for in the financial statements and payable:	
Within one year	77,800
Later than one year but not later than five years	25,900
	103,700

17. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of loss from ordinary activities after income tax to net cash provided by operating activities

Loss from ordinary activities after income tax	(522,001)
Add/(less) non-cash items:	
Depreciation	23,720
Exploration expenditure write-off	570,663
Net cash provided by operating activities before change in assets and liabilities	72,382
Change in assets and liabilities:	
(Increase) in debtors	(24,451)
Increase in payables	35,371
Net cash used in operating activities	83,302

(b) Non-cash financing and investing activities

(i) In August and October 2003 the Company issued 8.85 million incentive options to directors and employees of the Company – refer note 13(b).

(ii) In October 2003 the Company issued 12,476,471 shares and 1,897,059 options pursuant to an agreement with Phelps Dodge Australasia Inc to acquire the rights to mineral properties located in Australia - refer note 13.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004 (continued)

18. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES

Remuneration of specified directors and specified executives by the Company

The Board is responsible for determining remuneration policies and packages applicable to the Board members and senior executives of the Company. Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. Where necessary, independent advice on the appropriateness of remuneration packages is obtained.

Remuneration packages include a mix of fixed remuneration, performance-based remuneration (for executive directors) and equity-based remuneration. Executive directors and senior executives may receive bonuses of up to 25% of the annual remuneration based on the achievement of specific performance hurdles. The performance hurdles are based on exploration success. There is no separate profit-share plan.

Options have been issued to directors and executives as an incentive and in recognition of the fact that the fixed cash component of remuneration is comparatively modest. The ability to exercise the options is conditional on the holder remaining in the Company's employment. There are no other non-cash benefits available to directors or senior executives.

Total remuneration for all non-executive directors is not to exceed $150,000 per annum. Directors' base fees are presently up to $25,000 per annum. The Chairperson receives up to twice the base fee. Non-executive directors do not receive bonuses. Directors' fees cover all board activities.

The following table provides details of all directors of the Company ("specified directors") and the executives of the Company with the greatest authority ("specified executives") and the nature and amount of the elements of their remuneration for the period ended 30 June 2004.

Name	Office	Primary / Salary $	Post-Employment / Superannuation $	Equity Compensation / Options (A) $	Other / Insurance Premiums $	Total $
Specified Directors						
Russell Barwick	Non-Executive Chairman	25,688	2,312	11,735	4,273	44,008
Robert Rutherford	Managing Director	150,917	13,583	2,934	4,273	171,707
Joshua Pitt	Non-Executive Director	14,000	-	5,867	4,273	24,140
Total		190,605	15,895	20,536	12,819	239,855

(A) The fair value of options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period.

Mr Rutherford entered into an employment agreement with the Company on 8 September 2003 to be Managing Director of the Company. Employment commenced upon listing of the Company on the ASX. Mr Rutherford is paid an annual salary of $165,000, including statutory superannuation. Mr Rutherford will also receive an annual bonus of up to 25% of the annual remuneration (excluding the statutory superannuation) upon the achievement certain performance criteria (based on exploration success). The duties are those as are customarily expected of a Managing Director and from time to time delegated by the Board. The agreement is terminable by either party on six months written notice.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004 (continued)

18. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (continued)

Equity Instruments

All options refer to options over ordinary shares of Red Metal Limited, which are exercisable on a one-for-one basis.

Options and rights over equity instruments granted as remuneration

During the reporting period, the following options over ordinary shares were granted:

Name	Number of options granted during the period
Specified Directors	
Russell Barwick	2,000,000
Robert Rutherford	500,000
Joshua Pitt	1,000,000

All options granted to directors in the current period were granted on 15 August 2003, have an expiration date of 30 September 2007, an exercise price of 20 cents per share, and a fair value of 1.2 cents per share at grant date. All options expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable in three equal tranches commencing from 30 September 2004, 30 September 2005 and 30 September 2006. No options have been granted since the end of the financial period. The options were provided at no cost to the recipients.

Further details regarding options granted are in note 13(b).

No options previously granted as remuneration were exercised during the reporting period.

Option holdings

The movement during the reporting period in the number of options over ordinary shares in Red Metal Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

Name	Granted during the period	Other movements	Held at 30 June 2004	Vested and exercisable at 30 June 2004
Specified Directors				
Russell Barwick	2,000,000	-	2,000,000	-
Robert Rutherford	500,000	-	500,000	-
Joshua Pitt	1,000,000	-	1,000,000	-

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Red Metal Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

Name	Acquired during the period from the Company	Other purchases	Sales	Held at 30 June 2004
Specified Directors				
Russell Barwick	660,000	-	-	660,000
Robert Rutherford	8,400,001	-	-	8,400,001
Joshua Pitt	3,575,000	500,000	-	4,075,000

Other transactions with the Company

In September 2003 Guardian Resources Pty Limited, of which Mr Pitt is a director and in which he has a financial interest, entered into a sub-underwriting agreement for an amount of $2.5 million with the underwriter of a capital raising by the Company. Guardian Resources did not receive a fee for this sub-underwriting transaction.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the incorporation of the Company and there were no material contracts involving directors' interests subsisting at period end.

DIRECTORS' DECLARATION

In the opinion of the directors of Red Metal Limited ("the Company"):

(a) the financial statements and notes set out on pages 22 to 34 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of the Company as at 30 June 2004 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

Russell C Barwick
Chairman
Dated at Sydney this 21st day of September 2004.

INDEPENDENT AUDIT REPORT

To the members of Red Metal Limited:

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position as at 30 June 2004, and the statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the period from incorporation on 13 January 2003 to 30 June 2004 for Red Metal Limited ("the company") as set out on pages 22 to 35.

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 designed to prevent and detect fraud and error, for the accounting policies and for the accounting estimates within 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 that the financial report is free of material misstatement. The nature of an audit is influenced by several factors including the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of audit evidence which may be persuasive rather than conclusive. Accordingly, 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 financial position, and of its performance as represented by the results of its 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.

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

HLB Mann Judd

INDEPENDENT AUDIT REPORT
(continued)

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 Red Metal Limited is in accordance with:

(a) the Corporations Act 2001, including:

 (i) giving a true and fair view of the company's financial position as at 30 June 2004 and of its performance for the period 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.

HLB Mann Judd

HLB MANN JUDD
(NSW Partnership)
Chartered Accountants

D K Swindells
Partner

Sydney
21 September 2004

Shareholder Information

The shareholder information set out below was applicable as at 9 September 2004.

Substantial shareholders

An extract of the Company's register of substantial shareholders is set out below.

Shareholder	**Number of Shares**	**Percentage**
Robert Rutherford	8,400,001	10.10%

Distribution of equity security holders

Size of Holding	Ordinary Shares	Options
1 to 1,000	3	-
1,001 to 5,000	66	-
5,001 to 10,000	200	-
10,001 to 100,000	534	1
100,001 and over	85	8
	888	9

The number of holdings comprising less than a marketable parcel was 25.

Unquoted equity securities

Class	Number	Holders
Options – exercisable at 20 cents on or before 30 September 2007	8,850,000	G Kary (3,000,000), RC Barwick (2,000,000), G McKay (2,000,000)
Options – exercisable at 20 cents on or before 30 September 2007	1,897,059	Phelps Dodge Australasia Inc
Options - exercisable at 35 cents on or before 31 December 2005	2,000,000	Grange Securities Limited

On-market buy-back

There is no current on-market buy-back.

Use of cash

The Company has, from the date of admission to 30 June 2004, used its cash funds in a way consistent with its business objectives.

Twenty Largest Shareholders as at 9 September 2004	**Number of Shares**	**% Held**
Phelps Dodge Australasia Inc	12,476,471	15.00
Robert Rutherford	8,200,001	9.86
Perpetual Trustee Company Limited <LFG Trading A/C>	3,250,000	3.91
Armada Trading Pty Ltd	2,680,000	3.22
ANZ Nominees Limited	2,490,000	2.99
Warramboo Holdings Pty Ltd	2,075,000	2.50
Guardian Resources Pty Ltd	2,000,000	2.41
Clodene Pty Limited	1,825,000	2.20
Wythenshawe Pty Ltd <Minjar Family A/C>	1,275,000	1.53
Merrill Lynch (Australia) Nominees Ltd	1,010,000	1.21
Davies Nominees Pty Ltd <The Snape A/C>	1,000,000	1.20
Warnford Nominees Pty Limited <No 3 Account>	945,520	1.14
National Nominees Limited	915,000	1.10
Perpetual Trustee Company Limited <44491 Ag 01>	850,000	1.02
Mr Francis George Heppingstone & Mrs Danielle Georgette Heppingstone <FG Heppingstone P/L S/F A/C>	600,000	0.72
Gillian Barwick	560,000	0.67
Nalmor Pty Ltd <The John Chappell S/F A/C>	550,000	0.66
Merrill Lynch (Australia) Nominees Pty Ltd	500,000	0.60
Invia Custodian Pty Limited <Protea A/C>	500,000	0.60
Wythenshawe Pty Limited	500,000	0.60
	44,201,992	53.14

TENEMENT DIRECTORY

Mining tenements held at 9 September 2004 are as follows:-

Project	Tenement Reference	Company Interest %	Comment
North East Broken Hill	EL 5959	100	Refer note 1.
Western Isa	EPM 12653 Mt Annable, EPM 12756 Augustus Downs	100	Refer note 1.
Southern Isa	EPM 13607 Hamilton, EPM 13318 Elizabeth Springs North, EPM 13321 Elizabeth Springs Central, EPM 13454 Chatsworth	100	Refer note 1.
Maronan	EPM 13368	100	Refer note 1.
North Isa	EPM 13313 Canobie, EPM 13315 Taldora	100	Refer note 1.
Corkwood	EPM 13380 Corkwood, EPM 13376 Pelican Dam, EPM 13316 Coolullah	100	Refer note 1.
Naraku	EPM 13456 Cattle Creek, EPM 13498 Frazers Tank, EPM 13648 Jessievale, EPM 13668 Corner Creek, EPM 14292 Clonagh	100	Refer note 1.
McKinlay	EPM 13344 McKinlay, EPM 13345 Ivellen, EPM 13369 Oorindi Park	100	Refer note 1.
Tennant Creek	EL 24007 – 24015, EL 24145, EL 24258 – 24259, EL 24261, EL 24203	100	Refer note 1.
Ooldea	EL 3147, 146/01	100	Refer note 1.
Urupunga	EL 23092, EL 23139	100	Refer note 1.
Mallapunyah	EL 24203	100	
Algebuckina	EL 3226 - 3227	100	
Moonta	EL 2885	-	Refer note 2.
Hawks Nest	EL 2899	-	Refer note 3.
Peake-Denison	EL 3192, 392/04, EL 3077	-	Refer note 4.
Douglas Creek	EL 2751	-	Refer note 5.
Callabonna	EL 2886	-	Refer note 6.
Quinyambie	EL 3197	-	Refer note 7.

Notes:

1. PDAI retains an option to earn back between 60% and 70% of these tenements.
2. Joint venture between PDAI Alliance (earning 70%, Red Metal 21%) and Adelaide Resources Limited (diluting to 30%).
3. Joint venture between PDAI Alliance (earning 70%, Red Metal 21%) and Goldsearch Limited (diluting to 30%).
4. Joint venture between PDAI Alliance (earning 60%, Red Metal 18%) and BHP Billiton Minerals Pty Ltd and Rio Tinto Exploration Pty Limited (diluting to 40%).
5. Joint venture between PDAI Alliance (earning 70%, Red Metal 21%) and Rio Tinto Exploration Pty Limited (diluting to 30%).
6. Joint venture between Red Metal (earning 70%) and PlatSearch NL (diluting to 30%).
7. Joint venture between Red Metal (earning 70%) and PlatSearch NL and a prospecting syndicate (diluting to 30%).