



**Spitfire Resources Limited and its
Controlled Entities**

**Half-Year Financial Report
31 December 2007**

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DIRECTORS' REPORT

Your directors submit their report of Spitfire Resources Limited (“Spitfire” or “the Company”) and its controlled entities (“Consolidated Entity” or “Group”) for the half-year ended 31 December 2007.

DIRECTORS

The names of the company’s directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Paul G Mazak (Chairman)
James T Hamilton (Managing Director)
Christopher J Daws (Non Executive Director)
Russell P Hardwick (Non Executive Director)

HIGHLIGHTS

Corporate

- A\$6M IPO (30 million 20c shares) closed heavily oversubscribed.
- Successful listing on the Australian Securities Exchange on December 12, 2007.

South Woodie Woodie Manganese

- Experienced exploration and mine Geologist, Nathan Cull, appointed as Exploration Manager.
- Planning commenced in preparation for maiden RC drilling program in April 2008.
- Planned expansion of Regional Exploration following a review of the South Woodie Woodie geological model and field visit.

Operations Review

The half year ending 31 December 2007 marked an active start to Spitfire Resources Limited’s life as a public company, with the Company successfully listing on the Australian Securities Exchange (ASX) on 12 December 2007 (ASX Code: SPI).

Spitfire’s Initial Public Offering (IPO), comprising 30 million shares at 20c per share, was strongly supported by both retail and institutional investors and closed heavily oversubscribed in early December 2007, raising a total of A\$6 million. The funds raised through the IPO have positioned Spitfire to actively pursue its two key objectives, namely:

- exploration of the 80%-owned South Woodie Woodie manganese project, located in the East Pilbara region of Western Australia; and
- an ongoing review of other project opportunities in Australia and other parts of the world.

The pursuit of the first objective was greatly assisted through the recruitment of experienced Exploration Manager, Mr Nathan (Nat) Cull, in January 2008 with responsibility for overseeing the Company’s exploration activities at South Woodie Woodie.

Mr Cull has held a number of senior positions over the past seven years with Australian manganese producer Consolidated Minerals Limited, and has over 17 years experience in the exploration and mining sectors both in Australia and internationally. Mr Cull has extensive knowledge of the geological setting of the East Pilbara region and the manganese potential of the region.

As the northern “wet season” has restricted drill rig access to the South Woodie Woodie project area in the period since its listing on the ASX, Spitfire has focused its activities on refining its

exploration targeting process to gain a better understanding of the geological controls that exist at the project.

The Company has planned an initial drill program at South Woodie Woodie during the first part of the 2008 field season, amounting to approximately 7,000m of Reverse Circulation (RC) drilling. This initial drilling campaign is expected to commence in April 2008, and the Company is optimistic that additional targets will be generated once the initial areas of interest have been tested.

In addition to this drilling, the Company is also planning an intensive mapping program to coincide with the beginning of the 2008 field season, focusing on geologically prospective areas. An expanded regional review of exploration opportunities was initiated following a site visit to the South Woodie Woodie area during January 2008, and the Company has already identified several additional priority target areas that are planned be progressed to the drilling stage later in the year.

Looking beyond South Woodie Woodie to other potential opportunities, Spitfire initiated dialogue with its strategic alliance partner, PT Ridlatama Nickelindo, about potential resource opportunities in Indonesia. The Company has also engaged in discussions with other non-Indonesian groups, with the priority being to identify projects in commodities which are experiencing a high level of demand in key markets in Asia.

Spitfire will continue to actively seek new exploration opportunities, and only those projects demonstrating the potential to substantially increase the value of the Company will be pursued.

Events Subsequent to Balance Date

Subsequent to the end of the reporting period, Spitfire announced on 28 February that it had lodged applications for four strategic tenements, covering a total area of 899 square kilometres, which are located approximately 13km south-east of the South Woodie Woodie Project. The new acquisition will more than double the Company's existing land holdings in the East Pilbara region of Western Australia.

Part of the new ground package abuts tenements managed by Consolidated Minerals, which was recently acquired by Ukrainian group Palmary Enterprises.

Spitfire selected the ground after completing interpretive geological work suggesting that the area to the south-east could host strike extensions of a potential corridor of manganese host rocks.

Until now the area applied for has been subjected to very little modern exploration, partly due to transported sands obscuring some of the geology. Spitfire is consequently investigating the use of geophysics as a means to identify the extent of these units and their potential to host manganese mineralisation.

Financial Position

The net operating loss for the period is (\$241,597). The net assets of the Entity have increased by \$10,887,762 to \$10,878,115 as at 31 December 2007 (30 June 2007; -\$9,647) following the IPO capital raising and listing on the ASX.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor's, Bentleys Chartered Accountants, which is included on page 6.

Signed in accordance with a resolution of the directors

A handwritten signature in black ink, appearing to read 'James T Hamilton', written in a cursive style.

James T Hamilton
Managing Director
7th March 2008

AUDITORS INDEPENDENCE DECLARATION



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To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

This declaration is made in connection with our review of the financial report of Spitfire Resources Limited and Controlled Entities for the half year ended 31 December 2007 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review;
- no contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to the review.

Yours faithfully

BENTLEYS
BENTLEYS
Chartered Accountants

CHRIS WATTS
Director

DATED at PERTH this 7th day of March 2008.

**CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	Notes	Consolidated 31 December 2007 \$
Continuing Operations		
Revenue		
Other Income	4	33,315
Administrative Costs		(88,615)
Consulting Expenses		(186,210)
Depreciation and amortisation expense		<u>(87)</u>
Profit/(loss) from continuing operations before income tax		(241,597)
Income tax expense		<u>-</u>
Profit/(loss) from continuing operations after tax		(241,597)
Net profit/(loss) for the period		<u>(241,597)</u>
Earnings per share (cents per share)		
- basic; for loss for the half-year		(1.98c)

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007**

	Notes	Consolidated	
		31 December 2007	30 June 2007
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	5	5,926,101	-
Trade and other receivables		35,254	545
Other current assets		28,175	11,000
Total Current Assets		5,989,530	11,545
Non-Current Assets			
Property, plant and equipment		1,050	-
Exploration & Evaluation expenditure		5,000,000	-
Total Non-Current assets		5,001,050	-
TOTAL ASSETS		10,990,580	11,545
LIABILITIES			
Current liabilities			
Trade and other payables		80,718	9,000
Short-term borrowings		31,748	12,192
Total Current Liabilities		112,466	21,192
TOTAL LIABILITIES		112,466	21,192
NET ASSETS		10,878,115	(9,647)
EQUITY			
Issued Capital	7	11,042,660	1
Reserves		86,700	-
Accumulated Losses		(251,245)	(9,648)
TOTAL EQUITY		10,878,115	(9,647)

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	Notes	Consolidated 31 December 2007 \$
Cash flows from operating activities		
Payments to suppliers and employees		(263,632)
Interest Received		5,140
Net cash flows from/(used in) operating activities		<u>(258,492)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment		(1,137)
Net cash flows from/(used in) investing activities		<u>(1,137)</u>
Cash flows from financing activities		
Loan received from related party		-
Proceeds from issue of shares		6,600,000
Proceeds from borrowings		19,555
Expenses of share issue		(433,825)
Net cash flows from/(used in) financing activities		<u>6,185,730</u>
Net increase/(decrease) in cash and cash equivalents		5,926,101
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	5	<u><u>5,926,101</u></u>

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

CONSOLIDATED	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
At 1 July 2007	1	-	(9,648)	(9,647)
Loss for the period	-	-	(241,597)	(241,597)
Total income and expense for the period	1	-	(251,245)	(251,244)
Shares issued	11,600,000	-	-	11,600,000
Transaction costs on share issue	(557,341)	-	-	(557,341)
Share-based payment	-	86,700	-	86,700
At 31 December 2007	11,042,660	86,700	(251,245)	10,878,115

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of Spitfire Resources Limited (the company) for the half-year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors. Spitfire Resources Limited is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all of the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Spitfire Resources Limited as at 30 June 2007.

It is also recommended that the half-year financial report be considered together with any public announcements made by Spitfire Resources Limited and its controlled entities during the half-year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Basis of Preparation

The half-year consolidated financial report is a general purpose financial report, which has been prepared in accordance with the requirement of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 “Interim Financial Reporting” and other mandatory professional reporting requirements. The half-year financial report has been prepared on a historical cost basis, except where stated.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007.

(c) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Spitfire Resources Limited and its controlled subsidiaries (‘the Group’).

(d) Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(e) Property, Plant & Equipment

Each class of property, plant and equipment is carried at cost or fair value, less where applicable, any accumulated depreciation and impairment losses.

Plant & Equipment

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

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

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(f) Cash

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(g) Earnings per share

a) Basic earnings per share

Basic earnings per share is determined by dividing the group operating result after income tax attributable to members by weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

b) Diluted earnings per share

Diluted earnings per share adjusts the figure used in the determination of basic earnings per share by taking into account amounts paid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

(h) Receivables

All trade and other debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition. Collectability of trade and other debtors are reviewed on an ongoing basis; uncollectible debts are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

(i) Revenue

Interest Revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset

(j) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition

(k) Goods and Services Tax (GST)

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 Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the acquisition of the asset or as part of the item 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 balance sheet.

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.

(l) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(m) Financial Instruments

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(n) Comparative Figures

The company was incorporated in May 2007 which results in there being no comparative figures for December 2006

(o) Exploration & Evaluation

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest.

Accumulated costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, or by its sale, or where the activities in the area have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves.

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

Accumulated costs are not carried forward in respect of any area of interest unless rights to tenure of the area are current.

3. SEGMENT INFORMATION

The economic entity operates in the field of mineral exploration in the geographical area of Australia.

4. REVENUE, INCOME AND EXPENSES

(a) Revenue, Income and Expenses from Continuing Operations

	<i>CONSOLIDATED</i>	
	31 Dec 2007	31 Dec 2006
	\$	\$
<i>Revenue</i>		
Bank Interest Receivable	33,315	-
Total revenue	<u>33,315</u>	-
 <i>Other expenses</i>		
Depreciation	87	-
Administrative Costs	88,615	-
Consulting Costs	186,210	-

5. CASH AND CASH EQUIVALENTS

For the purposes of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:

	<i>CONSOLIDATED</i>	
	31 Dec 2007	31 Dec 2006
	\$	\$
Cash at bank and in hand	62,525	-
Short term deposits	5,863,576	-
	<u>5,926,101</u>	-

6. COMMITMENTS AND CONTINGENCIES

Tenement expenditure commitments

At 31 December 2007 annual expenditure commitments in respect of exploration assets amounted to \$140,000. These commitments are subject to the provisions of legislation governing the granting of mineral exploration licenses. Commitments may be varied in accordance with the provision of governing regulations.

7. ISSUED CAPITAL

Ordinary shares (i)	11,600,001	1
	11,600,001	1

(i) Ordinary shares

Full paid ordinary shares carry one vote per share and carry the right to dividends.

<i>Movement in ordinary shares on issue</i>	<i>Number</i>	<i>\$</i>
At 1 July 2007	5	1
Issued on 10 October 2007 for cash	4,250,010	425,001
Issued on 19 October 2007 for cash	1,750,000	175,000
Issued on 29 November 2007 pursuant to the prospectus for cash	30,000,000	6,000,000
Issued on 29 November 2007 pursuant to the tenement purchase agreement	25,000,000	5,000,000
Transaction costs on share issue	-	(557,341)
At 31 December 2007	61,000,015	11,042,661

8. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries

Name of entity	Country of incorporation	Class of shares	Equity Holding	
			2007 %	2006 %
Spitfire Australia (SWW) Pty Ltd	Australia	Ordinary	100	-
Spitfire Indonesia Nickel Pty Ltd	Australia	Ordinary	100	-

Note: During the period Spitfire Australia (SWW) Pty Ltd was incorporated on 19th July 2007 and Spitfire Indonesia Nickel Pty Ltd was incorporated on 12th July 2007

9. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the end of the reporting period, Spitfire announced on 28 February that it had lodged applications for four strategic tenements, covering a total area of 899 square kilometres, which are located approximately 13km south-east of the South Woodie Woodie Project. The new acquisition will more than double the Company's existing land holdings in the East Pilbara region of Western Australia.

Part of the new ground package abuts tenements managed by Consolidated Minerals, which was recently acquired by Ukrainian group Palmary Enterprises.

Spitfire selected the ground after completing interpretive geological work suggesting that the area to the south-east could host strike extensions of a potential corridor of manganese host rocks.

Until now the area applied for has been subjected to very little modern exploration, partly due to transported sands obscuring some of the geology. Spitfire is consequently investigating the use of geophysics as a means to identify the extent of these units and their potential to host manganese mineralisation.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Spitfire Resources Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i. give a true and fair view of the financial position as at the 31 December 2007 and the performance for the half-year ended on that date of the consolidated entity; and
 - ii. comply with Accounting Standard AASB 134 *Interim Financial Reporting* 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.

On behalf of the Board



James T Hamilton
Managing Director

7th March 2008
PERTH, WA



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Independent Auditor's Review Report

To the Members of Spitfire Resources Limited

We have reviewed the accompanying half-year financial report of Spitfire Resources Limited and Controlled Entities (the consolidated entity) which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

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 establishing 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 Engagements 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 2007 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 Spitfire Resources Limited and Controlled Entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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 have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Spitfire Resources Limited and Controlled Entities on 7th March 2008, would be in the same terms if provided to the directors as at the date of this auditor's review report

Independent Auditor's Review Report

To the Members of Spitfire Resources Limited (Continued)



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 Spitfire Resources Limited and Controlled Entities 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 2007 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.

BENTLEYS

BENTLEYS
Chartered Accountants

A handwritten signature in blue ink, appearing to read "C. Watts".

CHRIS WATTS
Director

DATED at PERTH this 7th day of March 2008