



W E S T E R N A R E A S N L

ABN 68 091 049 357

A N N U A L R E P O R T 2 0 0 7



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Terry Streeter
David Cooper
Robin Dunbar
Julian Hanna
Craig Oliver

Company Secretary

Craig Oliver

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Flying Fox first ore.



Dear Shareholders,

As the recently appointed Chairman of Western Areas, it gives me great pleasure to present this Annual Report to you for the year ending 30 June 2007. I have enjoyed seeing the Company grow from a junior nickel explorer in 2000 into a rapidly expanding nickel producer which now, directly or indirectly, employs over 200 people in a wide range of activities at the Forrestania Nickel Project and in our Perth office.

The Forrestania project is a wonderful asset for Western Areas. Key to the Company's growth is the Flying Fox nickel mine which is heading towards full production from the T1 ore body starting in the December quarter. Flying Fox is one of the highest grade nickel mines in the world with a ten year plus mine life and potential to increase ore reserves well above the current levels. We expect that increasing production at Flying Fox will drive strong cash flows in early 2008.

The Forrestania Nickel Project also hosts what is expected to be the Company's second mine at Digger South where a decision to mine is due by the end of December 2007. As with Flying Fox, we believe the Diggers South mineral resource will increase with further drilling which should have a positive impact on future production and mine life. Work is also in progress on the high grade New Morning/Daybreak deposit which has the potential to be our third mine at Forrestania.

There are excellent opportunities for further exploration success at Forrestania which has a rich endowment of nickel. Our geological consultants Newexco Services Pty Ltd have identified many high quality nickel targets at Forrestania along the central 50km strike length of the project. In addition, we are exploring a number of regional projects in Western Australia which are also delivering encouraging results. Targets include significant nickel occurrences which haven't been effectively tested since they were discovered more than 30 years ago.

The most recent exploration success is the discovery of the T6 and T7 sulphide zones at Flying Fox in August 2007. The early results are very encouraging and already indicate potential for a major expansion at Flying Fox.

To achieve these outcomes has only been possible through the hard work of our staff, the various technical, exploration and mining teams, our exploration consultants Newexco and our mining contractors Barmenco. We are fortunate to have a world class project and an experienced team of highly professional people to operate it.

Your company is active not only in Western Australia, but also in Canada, complementing our TSX listing. Our Canadian interests include 19.2% interest in listed nickel company Mustang Minerals Corp. In addition we have an option for 100% over a very promising nickel project at Lynn Lake and a substantial high grade zinc deposit at McBride Lake, both located in northern Manitoba. Diamond drilling programs and an EM survey are due to get underway at these Canadian projects early in the December quarter.

Following the completion of the \$225 million convertible bond in June, the Company is in a strong financial position to develop the Forrestania Nickel Project to its full potential. We now have sufficient funds to develop the Diggers South mine, build the concentrator at Cosmic Boy and increase our exploration expenditure to an appropriate level to test the many high quality targets. There is also funding available to acquire other advanced projects which is part of the strategy to build Western Areas into a profitable, mid tier nickel mining company.

On a sad note, one of Western Areas founding directors, Timothy King, passed away earlier this year. Timothy made a huge contribution to the early development of the Company and played a key role in building the foundations for Western Areas growth.

I would like to thank David Cooper for his contribution as Chairman during the past 12 months and his ongoing role as a non executive director of the Company. Finally, I hope you will be able to meet the Board of Directors and Senior Management of the Company at the Annual General Meeting planned in late November.

At this meeting, we look forward to presenting an update on your Company and discussing what will be an exciting year ahead for Western Areas.

Terry Streeter
Chairman

The past year has been the most successful period of growth for the Company to date. During this time Western Areas has commenced ore production at Flying Fox, reported record development rates in the mine and built up high grade mineral resources and ore reserves which will underpin future long term cash flows. Another significant milestone during the year was Western Areas' inclusion in the ASX 200 Index.

Since the 2006 annual report, high quality mineral resources in the four main deposits (Flying Fox, Diggers South, New Morning/Daybreak and Cosmic Boy) have increased approximately 85% to over 225,000 tonnes contained nickel, please refer to Graph below.

At Flying Fox alone, Western Areas has been able to announce the largest ore reserve (66,300 tonnes contained nickel) at the highest grade (5.5% nickel) compared with our Australian nickel peers. We expect this trend will continue with the high rate of conversion of mineral resources to ore reserves and the ongoing drilling success at Flying Fox and Diggers South.

Target production from Flying Fox is between 12,000 and 14,000 tpa nickel in 2010. With continued ore reserve upgrades and potential for significant production from Diggers South, Western Areas is in a strong position to reach our longer term target of 20,000 tpa nickel from Forrestania before 2011.

During the past three months the Flying Fox decline has advanced at record rates and is now only 10m above the top of the T1 orebody. Due to the substantial widths of high grade ore in T1, production from the mine is expected to double from the current 7,000 tonnes ore per month to approximately 15,000 tonnes ore per month.

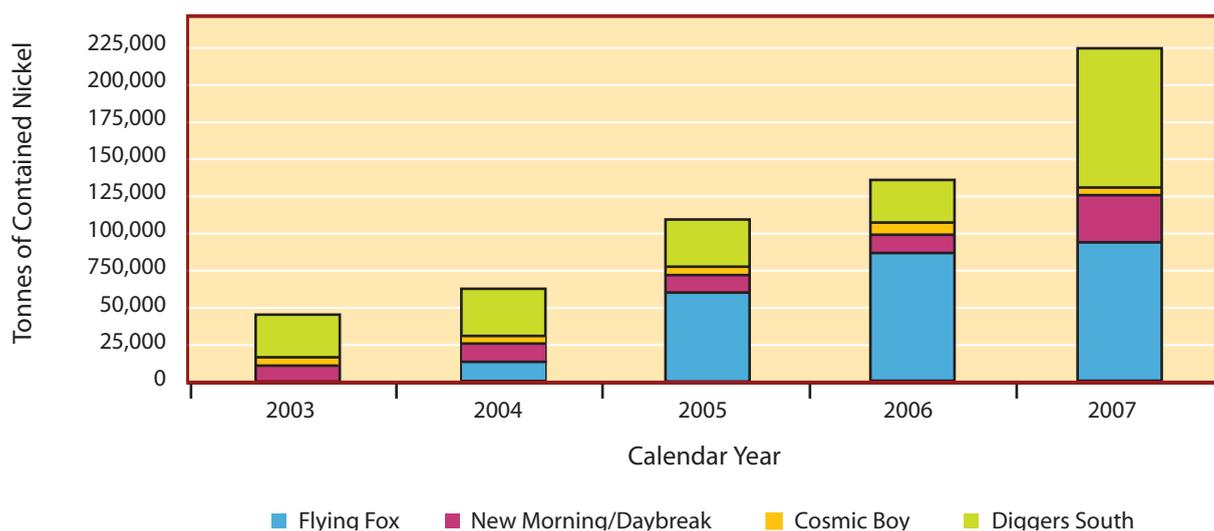
Probably the most important exploration discovery during the past 12 months was the intersection of multiple zones of nickel sulphides and EM conductors in the first drill hole below the Flying Fox T5 ore body. These new zones are named T6 and T7 and drilling is underway to follow up on the early success in this new area of Flying Fox. A positive outcome to the drilling at T6 and T7 should see Flying Fox grow to be a truly world class mine.

There has also been progress on the large Diggers South deposit located 40km south of Flying Fox. A pre-feasibility study for a three stage open pit and underground mining operation is now well advanced with the aim of reaching a decision to mine by the end of the year. A positive decision on Diggers South is expected to lead to a decision to construct the nickel concentrator at Cosmic Boy. The size of the concentrator will be determined by the ore production rate at Diggers South, in addition to Flying Fox.

To accommodate the expected development of Diggers South and construction of the concentrate plant, the Cosmic Boy village is undergoing an expansion from 180 to 280 ensuite rooms. The village is built to a high standard and the catering by Action Industrial Catering is excellent.

Importantly, all the various activities at Forrestania during the past 12 months have been achieved with an outstanding safety record. This is the result of the high standards adopted throughout the organisation which is a credit to all the people involved, particularly in the Occupational Health and Safety and Mines Rescue areas. A fortnightly magazine "FNP Rescue News" has been in circulation for the past 15 months. This

Forrestania Mineral Resources



magazine encourages open discussion on any safety issues and promotes high safety standards on site.

In addition, our environmental officers on site are undertaking a number of environmental initiatives aimed at encouraging endangered flora and fauna species at Forrestania beyond the normal requirements for a mining operation. I look forward to reporting results from these programs to shareholders.

I am also able to report that in the difficult labour market in Western Australia, the Company has been able to attract high calibre, experienced and motivated professional staff and contractors. This team not only runs the day to day operations but also provides a core of talented people who will drive the future growth of the Company. With an exciting, new long term project, flexible rosters and safe working conditions we believe Western Areas will continue to attract suitable experienced people to expand our mining operations.

In June 2007, Western Areas raised A\$225 million by issuing convertible bonds at a premium of 45% to the share price which we believe is a record for any Australian resource company. Western Areas received over A\$2 billion in subscriptions, highlighting the quality of the Company's assets and the strategic position that Western Areas occupies in the nickel industry.

These funds will enable us to fast track development of new mines, build the concentrator and accelerate the various

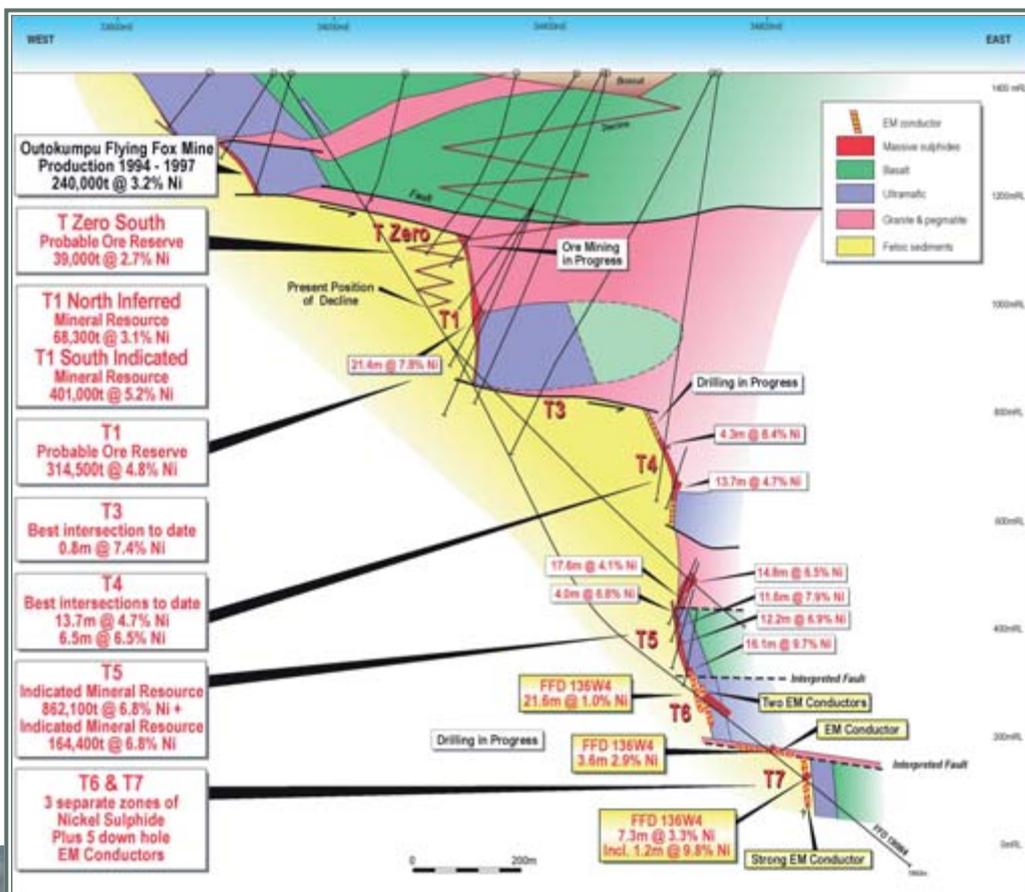
exploration programs. The Board recently approved an increase in exploration drilling expenditure to over \$3 million per month and we look forward to announcing further results from the expanded programs.

The growth in Western Areas activities is reflected not only in the 238% increase in the share price during the past 12 months but also in the increasing level of interest shown by major Australian and offshore investors. We are optimistic that this interest will grow further when we announce the next milestone at the Flying Fox mine which is first production from the T1 orebody during the December quarter.

Finally I would like to take this opportunity to thank the Board members of the Company, our senior management team, our site based and Perth office staff and our highly valued mining and exploration consultants for their enormous energy and long hours of work. I would also like to thank our many shareholders in Australia and offshore for their strong support and ongoing interest in the Company. Everyone involved in Western Areas is looking forward to an exciting year ahead.



Julian Hanna
Managing Director



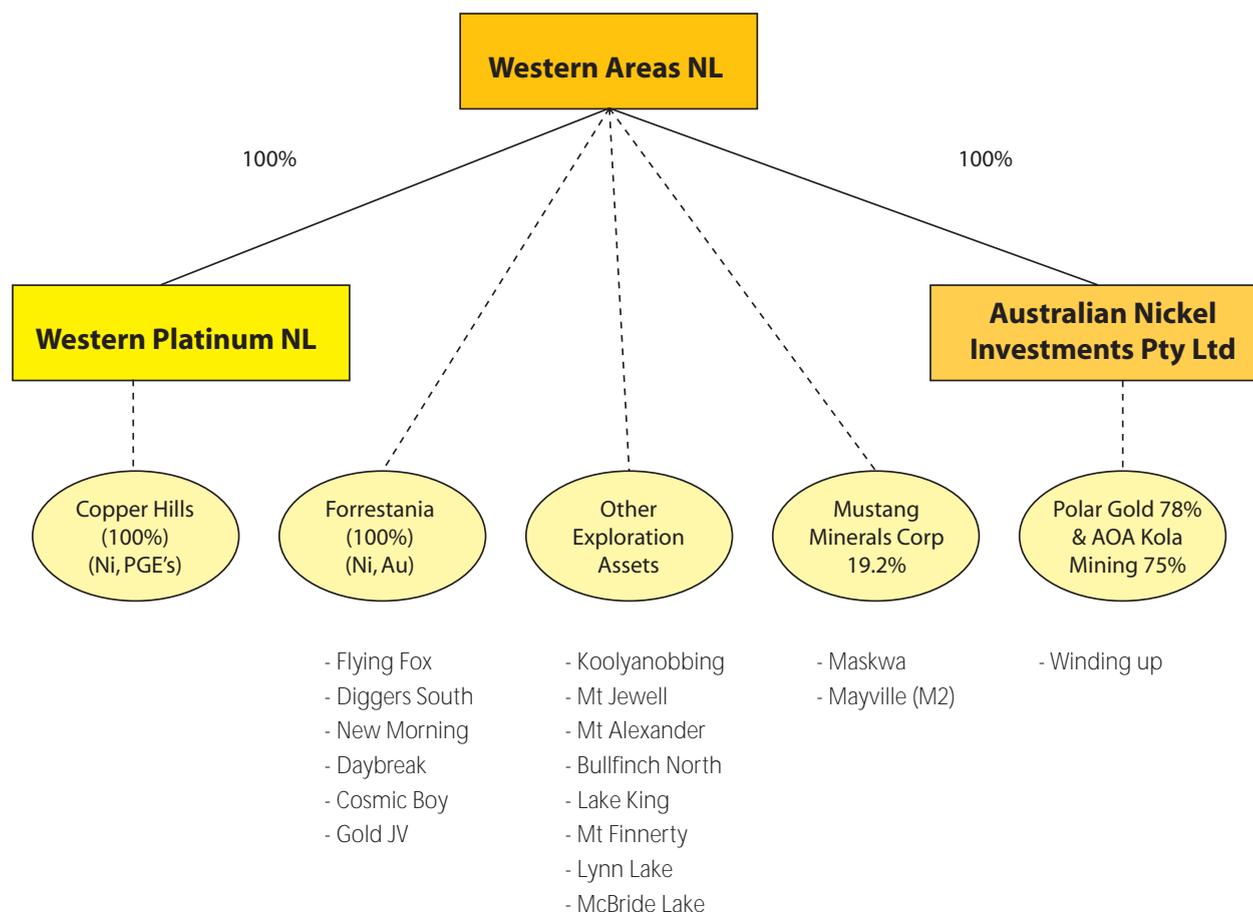
Group Overview

Western Areas (WSA) is an international mid-tier nickel sulphide producer with a proven track record in exploration and mine development. The Company's core asset is the 100% owned Forrestania Nickel Project, located 400km east of Perth, Western Australia. The Company is listed on both the Australian and Toronto stock exchanges. (ASX & TSX: WSA) and is included in the ASX 200 index.

Western Areas primary nickel mine at Forrestania, Flying Fox, is one of the highest grade nickel mines in the world. While Flying Fox continues production, aggressive exploration at other major deposits Diggers South, Digger Rocks and New Morning / Daybreak has identified the potential to deliver multiple mines and significantly extend life of production beyond the current target of 10 years.

Structure

Western Areas NL is a Company limited by shares that is incorporated and domiciled in Australia. Western Areas NL has prepared a consolidated financial report incorporating the material entities that it controlled during the financial year, which are shown below along with the principal assets of each:



Operations Review

Flying Fox Mine Development

The decision in early 2007 to relocate the Flying Fox decline into the footwall sediments has been very successful. Ground conditions have improved and early problems associated with water in the mine are no longer an issue. The decline is currently at over 400m vertical depth and ore is being accessed from the T Zero ore bodies. The decline is on track to reach the larger T1 ore body in the December quarter when both ore production and nickel grades are expected to double.

At the time of this report (mid September) approximately 4.3km of underground capital mine development has been completed at Flying Fox and record development rates have been recorded for the project during the last three months. The decline has been installed with substantial services including ventilation, power and permanent pump station required for a mine designed to extend to at least 1km vertical depth to mine the large T5 ore body.

Our mine development team is conducting a scoping study to consider developing a shaft in addition to the existing decline to access deeper deposits at Flying Fox. If the results of this study are positive, this could result in significantly increased ore production from the mine from 2010.

Flying Fox Production

Mining at the shallowest and lowest grade deposit at Flying Fox, T Zero North is now well advanced. The air-leg section from the 1170 ore drive has been completed with grades up to 4.5% Ni being mined. The remaining pillar between the 1170 and the 1150 levels is currently being extracted using long hole stoping techniques and is expected to be complete by the September quarter. All development in the T Zero South deposit is complete with stoping operations underway in several areas.

Since October 2006 approximately 35,000 tonnes of development ore has been mined from the T Zero North deposit and milled at LionOre's Lake Johnson mill for 700 tonnes of recovered Nickel metal. Metallurgical recoveries have been in line with forecast to between 85-90%. The ore tolling arrangements with LionOre (now Norilsk Nickel Australia Pty Ltd) will continue until the Company constructs a nickel concentrator at Cosmic Boy midway between Flying Fox and Diggers South.

A decision to build the concentrator is expected in the December quarter 2007. All permits for the mill site and the tailings discharge area have been approved. The likely scenario will be to construct a 250,000 tonne per annum modular mill which will be expanded to 650,000 tonne per annum capacity. This will allow the lower grade Diggers South ore to be milled at Cosmic Boy.

Western Areas has already acquired the major plant items including the ball mill, nickel flotation and filtration circuits and conveyor systems. Major infrastructure already exists at Cosmic Boy including grid power, tailing storage and bore fields. Constructing a concentrator at Cosmic Boy will enable Western Areas to optimise metallurgical recoveries and reduce ore transport costs.

Infrastructure

Mine infrastructure has been improved with the completion of the 25km surface pipeline from Flying Fox to Cosmic Boy to remove mine discharge water. This pipeline is connected to dewatering bores, surface storage dams, re-injection bore fields and the old Cosmic Boy mine. The dewatering system is fully automated, is very effective and has resulted in minimal water inflows into the



mine. An additional surface generator has also been installed at the mine to allow full underground activities to proceed during power outages.

The Cosmic Boy village is being expanded to 280 rooms for the potential start up of Diggers South mine and construction of the concentrator at Cosmic Boy. All rooms have en-suite facilities with cable TV and telephones. Additional recreational facilities in the form of a sports arena will be added during the next 12 months.

Flying Fox Ore Reserves / Mineral Resources

During the past 12 months drilling at Flying Fox has been directed towards infilling and extending the T Zero and T1 deposits ahead of mining. A revised ore reserve is being estimated for the T1 deposit assuming higher nickel prices compared with the US\$5.50/lb which was used in the original feasibility study. Results from the revised T1 ore reserve will be announced in the December 2007 quarter.

In July 2007, drilling recommenced at the T4 deposit to test for extensions north and south of the deposit and to infill previously defined mineralised areas to enable a mineral resource to be estimated. The three latest drill holes announced on 11 September 2007 all intersected substantial down hole zones of massive sulphides (up to 8m down hole width) in an area north and above any previous drilling at T4.

Flying Fox Ore Reserves / Mineral Resources (August 2007):

Flying Fox Ore Reserves	Category (JORC)	Tonnes	Nickel grade (Ni%)	Contained Ni (tonnes)
T Zero North	Probable Ore Reserve	12,200	4.1%	500
T Zero South	Probable Ore Reserve	39,000	2.7%	1,050
T1-South-Upper	Probable Ore Reserve	22,800	1.8%	410
T1 South	Probable Ore Reserve	314,500	4.8%	15,000
T5	Probable Ore Reserve	843,000	5.9%	49,700
TOTAL		1,231,500	5.4%	66,660

Flying Fox Mineral Resources	Category (JORC)	Tonnes	Nickel grade (Ni%)	Contained Ni (tonnes)
T Zero North	Indicated Mineral Resource	8,600	7.0%	600
T Zero South	Indicated Mineral Resource	49,900	3.9%	1,970
T1South-Core	Indicated Mineral Resource	314,000	6.1%	19,250
T1South - Halo	Indicated Mineral Resource	86,800	1.9%	1,690
T1 North	Inferred Mineral Resource	68,300	3.1%	2,100
T4				(resource pending)
T5	Indicated Mineral Resource	862,100	6.8%	58,800
T5	Inferred Mineral Resource	164,400	6.8%	11,220
TOTAL		1,554,100	6.2%	95,630

Diggers South Mineral Resources

On 28 March 2007, Western Areas announced a major upgrade in mineral resources at Diggers South. The revised mineral resource is represented as two parts:

Diggers South - Core: An Indicated Mineral Resource of 3.0 million tonnes at an average grade of 1.48% nickel containing 44,700 tonnes of nickel. This is 47% increase in contained nickel compared with the previous estimate announced on 9 May 2005. The revised mineral resource estimate assumes a 1.0% nickel cut-off grade.

plus:

Diggers South - Halo: An Indicated Mineral Resource of 4.8 million tonnes at an average grade of 0.74% nickel containing 35,600 tonnes of nickel. This mineral resource estimate assumes a 0.6% nickel cut-off grade.

The two Indicated Mineral Resources at Diggers South comprise a total 7.8 million tonnes at an average grade of 1.02% nickel, containing approximately 80,300 tonnes of nickel.

The Diggers South deposit remains open along strike and at depth. Drilling during the next 12 months is expected to focus on extending mine life and testing the potential for high grade massive sulphides which have been intersected in two widely spaced deeper drill holes at Diggers South.

Diggers South Mineral Resources (August 2007):

Diggers South Mineral Resources	Category (JORC)	Tonnes	Nickel grade (Ni%)	Contained (tonnes) Ni
Diggers South – Core (Underground)	Indicated Mineral Resource	3,000,000	1.5%	44,700
Diggers South – Halo (Underground)	Indicated Mineral Resource	4,800,000	0.7%	35,600
Digger Rocks – (Underground)	Indicated Mineral Resource	54,900	3.7%	2,030
Digger Rocks – Core (Openpit)	Inferred Mineral Resource	172,300	1.1%	1,850
Digger Rocks – Halo (Openpit)	Inferred Mineral Resource	1,441,000	0.7%	10,350
TOTAL		9,468,200	1.0%	94,530



Diggers South Feasibility Study:

The pre-feasibility for Diggers South is nearing completion. During the last 12 months a technical team of geologists, metallurgists, mining engineers and environmental consultants have been evaluating various options for developing the mine. It is anticipated that a three stage mining approach will be adopted:

- Stage 1 - involves the cut-back of the original Digger Rocks pit which includes approximately 700,000 tonnes of mineralisation at an average grade of 0.7% Ni;
- Stage 2 – involves rehabilitation of the Digger Rocks mine decline to access the remaining ore at the bottom of the mine;
- Stage 3 – involves extending the Digger Rocks mine decline 400m to the south to access the Diggers South deposit for a five to six year mine life.

A decision to proceed with mining at Diggers South is expected in December 2007 after the completion of a full feasibility study. Mining at Diggers South has the potential to add 5,000 tonnes of nickel in concentrate per annum to overlap Flying Fox mine production for a 5 year period. It is anticipated that this ore will be treated in the expanded concentrate plant at Cosmic Boy. The required permits for the three stage development of the Diggers South mine are well advanced with the regulators.

Previous mining by Outokumpu at the Digger Rocks mine, 400m North of Diggers South produced approximately 28,000 tonnes of nickel in concentrate.

Forrestania Environmental Activities

Environmental Management at Forrestania encompasses three main aspects:

- Obtaining environmental approvals and permits for the various project requirements and activities undertaken at the FNP;
- Compliance with relevant state and federal environmental legislation, license and tenement conditions and environmental commitments, and;
- Environmental initiatives aimed at exceeding the 'status quo'.

The 2006 - 2007 period has been very productive for all environmental management aspects mentioned above.

The principle approvals activities undertaken during the last financial year have included the Cosmic Boy to Flying Fox dewatering pipeline inclusive of the re-injection borefields and the associated clearing permits. Collection of information required for the compilation of the Diggers South pre-feasibility study. Preliminary work into the establishment of regional mine water disposal options for the project.

Environmental Inspectors from both the Department of Environment and Conservation (DEC) and Department of Industry and Resources (DoIR) have visited the Forrestania site during the last financial year. No major non-compliance issues were raised during these inspections. The environmental staff at FNP undertakes regular inspections and monitoring within the Forrestania project area to ensure compliance across all aspects of the operation.

In addition there have been two visits from Government officials over the period. In September 2006, 40 personnel from various DEC regional offices visited the site. In July 2007 a contingent of various government officers from DEC and DoIR and representatives from the Wildflower Society, Wilderness Society and Conservation Council visited the site to inspect the Diggers South project and areas being considered for regional mine water disposal. Both groups were impressed with the layout and management of the site.

A number of environmental initiatives that go beyond the regulatory compliance standards required of Western Areas are being considered for implementation in the near future. Principally these will involve the establishment of programs to monitor and improve the status of one or a number of endangered fauna and/or flora species that occur within the Forrestania area.

Forrestania Exploration

The exploration program is focussing on the central 50km strike length of the Forrestania nickel belt extending from the Beautiful Sunday deposit in the north to the Purple Haze deposit in the south. Three main nickel systems have been identified within this strongly mineralised 50km long zone, being Flying Fox, Cosmic Boy and Diggers South. Each of these nickel systems is between 5km to 7km long, contains a number of significant sulphide deposits and has its own distinctive geological setting.

In the deeply weathered terrain of Western Australia, massive nickel sulphide commonly leaches to 150-200m depth from surface. Considering that most previous drilling at Forrestania stopped before 200m depth or when granite was intersected, excellent potential remains for discovering new massive sulphide ore shoots at depth and below the granite, particularly in the Flying Fox nickel system. These ore shoots are likely to be associated with 'lava channels' in the host ultramafic sequence. Knowledge gained from Flying Fox will enable the Company to explore along strike from existing mineralisation to discover new deposits.

The recent discovery of the Flying Fox T6 and T7 nickel sulphide zones from 1200m-1400m depth below the large T5 ore body provide an indication of the potential at Forrestania. Targeting was based on a detailed understanding of the existing deposits (T Zero, T1, T4 and T5) and an estimate

of fault movements or setting each of these deposits to the east. The discovery drill hole for T6 and T7 (FFD136W4) was completed at 1,843 metres down hole depth, the deepest hole ever drilled at Forrestania. The T6 and T7 discoveries are being followed up by drill holes targeting the conductors interpreted from down hole EM surveys carried out in hole FFD136W4.

Drilling priorities and targeting are constantly reviewed by Western Areas and geological consultants Newexco. This process has identified several key prospects where activities will be concentrated over the coming year. The strategy is two pronged; one seeks to augment the resources and reserves already identified at the Flying Fox deposits, Diggers South and New Morning/Daybreak. The second targets known nickel prospects where there is potential to outline resources that could be converted into reserves and new mines.

The Company has four surface and one underground diamond drill rigs on site at Forrestania drilling 24 hours per day. During the past 12 months 150 drill holes for 33,117m of diamond drilling were completed at Forrestania. A sixth drill rig will commence on site in the December quarter. In addition to the ongoing exploration program, Western Areas is sponsoring a PhD student from The University of Western Australia. Jane Collins is in the second year of a three year study deciphering the unique geological setting of the Flying Fox mineralisation.

Regional Exploration

Active exploration programs are being conducted on several of Western Areas other nickel and PGE exploration projects in Western Australia with encouraging results reported during the

past 12 months. Western Areas has consolidated the nickel potential of the Forrestania region and has interests covering not only the Forrestania greenstone belt but also the Bullfinch, Koolyanobbing, Mt Finnerty and Lake King greenstone belts. Promising early nickel results from the Koolyanobbing, Lake King and Mt Finnerty projects are summarised below.

Koolyanobbing Joint Ventures

In July 2006, four reverse circulation drill holes were drilled within a 1.5 km strike zone enclosing the Jock's Dream prospect in the Koolyanobbing North Nickel project (WSA 100%) to test IP geophysical targets along strike from known nickel sulphide mineralisation. Early explorers at Jock's Dream (BHP and Delta Gold) intersected nickel sulphide mineralisation with the best previous result being 6.7m at 2.6% nickel.

Western Areas intersected nickel sulphides including 1m @ 4.0% Ni in shallow drilling 250m northwest of Jocks Dream. The mineralisation occurs as massive and stringer sulphides and provides encouragement that significant massive nickel sulphides will be intersected at depth. Diamond drilling is expected to commence to test the potential of this exciting prospect in October 2007.

Lake King Nickel Joint Venture

Western Areas is earning 70% interest in the Lake King project located 80km south west of Forrestania. The main interest is at the "Nickel Hill" prospect where soil sampling has returned anomalous nickel, copper, PGE and base metal values over a 300m area. An IP geophysical survey in July 2006 defined a strong conductor in the area of the soil anomaly.



Six shallow reverse circulation drill holes were drilled with the following results:

Drill hole LKRC006: 15m at 0.36% Nickel from 180 - 195m.

Drill hole LKRC004: 1m at 0.49% Ni from 174m-175m.

These initial drilling results are considered very positive, being the first ever intersections of nickel sulphides in the Lake King Greenstone belt located between Forrestania and Ravernsthorpe. Follow up work is planned to test for the possible economic mineralisation at depth and along strike to the southeast.

Mt Finnerty Joint Venture

Western Areas has an agreement with Reed Resources Ltd to earn 65% in the nickel rights to the Mt Finnerty belt, 200km NE of Forrestania. The area was last explored for nickel by WMC in the 1970's.

Western Areas is conducting an extensive soil sampling program at Mt Finnerty. Samples are analysed on site using a portable XRF analyser (Niton). Four geochemical anomalies have been defined and infill sampling and RAB drilling is planned to better define these targets. Ground geophysical surveys are planned in the December quarter to define drilling targets expected to commence early in 2008.

Canadian Projects

Lynn Lake, Manitoba

On 15 March 2007, Western Areas announced an Option Agreement to acquire a 100% interest in a strategic holding of 24 Mining Claims covering 2,617 hectares of one of Canada's premier nickel, copper and cobalt mining camps at Lynn Lake. The agreement also includes 7 Mining Claims (1,651 hectares) which covers a significant Volcanogenic Massive Sulphide ("VMS") high grade zinc rich deposit (previously estimated to contain approximately 2Mt @ 8.8% Zn) at McBride Lake, 70km east of Lynn Lake.

Between 1954 and 1976, Sherritt Gordon Mines Limited, ("Sherritt") mined 22.2 million tons at an average grade of 1.02% Ni and 0.54% Cu from several mines at Lynn Lake. Past production includes material from the high grade 'EL' mine located 3km south of Lynn Lake. Sherritt's mining operations ceased in 1976. Substantial nickel and copper resources remain in several deposits held by Canadian nickel company, Independent Nickel Corp. whose tenements are adjacent to Western Areas' holdings.

The 'EL' mine now held by Western Areas produced approximately 1.0 million tons ore grading 3.3% nickel and 1.1% copper plus high grade cobalt to a depth of approximately 170m. The original discovery drill hole at the EL Mine, DDH 160, reportedly intersected 183m @ 4.8% nickel

and 1.7% copper, one of the best nickel intersections recorded in Canada. Western Areas' highest priority drilling targets include a previously untested VTEM anomaly adjacent to the EL mine and the potential for extensions to the high grade massive sulphide immediately below the EL mine.

Western Areas VTEM survey also identified a number of other conductors in favorable geological settings and in June 2007, five diamond drill holes completed to test four of these anomalies. Further drilling is scheduled to take place at Lynn Lake at the end of September. A VTEM survey is also planned to be flown over the McBride Lake zinc deposit in the December quarter with diamond drilling planned to start in January 2008.

Maskwa Project, Manitoba (Western Areas 19.2%)

Western Areas owns 19.2% of Canadian listed nickel company, Mustang Minerals Corp. TSX:MUM. Mustang has substantial exploration holdings for nickel/copper and PGE's in Manitoba and Ontario and is undertaking a pre-feasibility study for an open pit mine at the Maskwa nickel deposit in southern Manitoba.

The Maskwa pre-feasibility study is evaluating a six year, ~5,000 tpa nickel mine with a concentrator to be constructed on site. The pre feasibility study is well advanced with results due to be released in the December quarter.

Project Finance

In June 2007 the Company completed an 8% yield, \$225m convertible bond. The bonds were issued at a strike price of \$8.16 per share, this being a 45% premium to the closing share price on that day, and one of the highest premiums ever achieved by an Australian resource company. The bonds are listed on the Singapore stock exchange and mature in July 2012. The funds raised from the bond issue sets the company for growth by providing the flexibility to advance feasibility studies, accelerate exploration activities and fund project development, while also maintaining the Company's ability to act quickly on corporate opportunities both in Australia and Canada.

In December 2006, Western Areas refinanced the existing \$80M senior debt facility with Australian and New Zealand Banking Group Ltd ("ANZ"). The new corporate style facility incorporates a \$70m Cash Advance Facility and \$10m Cost Overrun Facility. The refinancing with ANZ provides the company with greater flexibility as the new banking agreements have no mandatory hedging requirements and the ability for the Company to pay dividends in earlier years than the previous project style banking arrangements. In June 2007 the Company also announced it had secured a further \$10m Resource Drilling and Feasibility Study Facility with the ANZ.

Selected Financial Information

Consolidated Income Statement

	Three Months Ended 30 June		Full Year Ended 30 June	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Sales	11,870	-	17,530	-
Cost of Sales	(4,950)	-	(8,357)	-
Gross Profit	6,920	-	9,173	-
Other income	464	230	2,876	790
Employee benefit expenses	(254)	(757)	(2,986)	(1,637)
Finance costs	(124)	(15)	(268)	(90)
Administration expenses	(2,128)	(493)	(4,049)	(2,825)
Impairment loss on non-current assets	(2,747)	(1,468)	(4,272)	(2,964)
Derivative Gain/(loss)	578	-	(9,026)	-
Unrealised movement in the market value of derivatives	4,333	-	(6,833)	-
Operating earnings/(loss) before income tax	(7,042)	(2,503)	(15,385)	(6,726)
Income tax benefit	(4,234)	587	3,272	1,890
Earnings/(loss) for the period	2,808	(1,916)	(12,113)	(4,836)
Earnings/(loss) per Share	1.95	(1.41)	(7.68)	(3.66)
Diluted earnings/(loss) per share	1.95	(1.41)	(7.68)	(3.66)

Results for the full year ended 30 June 2007

Gross profit of \$9.2m for the full year ended resulted from commencement of nickel ore production from the Flying Fox mine with the majority of production for the year processed and revenue recognised.

Other Income has increased \$2.1m for the period due to increased royalty payments from LionOre Mining International that relate to the Black Swan Nickel Project. The royalty payments have now been fully received under the royalty agreement and no further payments are expected.

The retirement of a portion of the Company's hedge book in December 2006 and further settlements on contract maturity resulted in a \$9.0m realised derivative loss for the period, a liability which had previously been recognised on the balance sheet.

Employee benefit expenses have increased from the same period in the prior year due to an increase in staff at Western Areas and the requirement to expense employee options \$0.9m in line with IFRS.

Administration expenses for the full year have increased to \$4.0m. The major activities for the year including a \$225 million convertible bond issue, a \$45 million rights issue and CAD\$24 million private placement. Corporate support costs were also greater due to the transition of the Company from an explorer to nickel producer.

The net loss position of \$12.1m for the year includes a total hedge loss of \$15.9m that resulted from a net \$9.0m expense for the retirement and settlement of hedge contracts compounded by the need to account for \$6.8m of unrealised movements in the

marked to market position for part of the hedge book through the income statement in line with IFRS. This was partially offset by the \$9.2m gross profit from the Flying Fox mining operations.

Results for the three months ended 30 June 2007

Gross profit of \$6.9m for the June 2007 quarter was achieved with the continued ramp up of nickel ore mining and ore sales from the Flying Fox mine.

The impairment loss for the period of \$2.7m mostly relates to the write down of selected regional projects that remain prospective, however as yet have not realised significant mineral discoveries.

The lower spot nickel price drove the \$4.3m favourable movement in the unrealised marked to market value of derivatives.

Administration expenses for the period were \$1.6m higher than the same period last year as a result of the timing of significant corporate activities, such as Western Areas \$225m convertible bond issue and other corporate support and marketing activities.

Consolidated Balance Sheet

	30 June 2007 \$'000	30 June 2006 \$'000
<u>Assets</u>		
Current Assets	244,532	3,585
Non Current Assets	175,091	104,127
Total Assets	419,623	107,712
<u>Liabilities</u>		
Current Liabilities	67,285	16,313
Non Current Liabilities	244,974	38,301
Total Liabilities	312,259	54,614
Net Assets	107,364	53,098
<u>Equity</u>		
Total Equity	107,364	53,098

Current assets have increased to \$244.5m primarily due to increased cash balances that resulted from the \$225 million convertible bond that was issued during June 2007. The funds from this will be utilised to fund development of other mines at Forresteria, accelerate exploration activities, fund feasibility studies on advanced projects, while leaving the Company in a position to act quickly on corporate opportunities as they present.

Non current assets for the year ended 30 June 2007 have increased by \$71.0m which predominantly resulted from capitalised expenditure for mine development and deferred mining costs for the Flying Fox mine and ongoing investment in exploration, feasibility studies and plant and equipment. A favourable increment in the market value of Western Areas investment in Mustang Minerals as well as the increased deferred tax asset also attributed to the increase in non-current assets.

Current liabilities have risen to \$67.3m. This is mainly attributable to the balance of unrealised liabilities relating to Base Metal hedging contracts moving from non-current into current liabilities. The current liability for the marked to market value of these contracts is \$58.5m.

Non current liabilities increased to \$245.0m. Long term borrowings increased due to the ongoing development of the Flying Fox Mine being funded by corporate bank debt and the recognition of the Net Debt component of the \$225 million convertible bond during June 2007. The Bond was allocated 89% debt and 11% equity.

Consolidated Statement of Changes in Equity

	Full Year Ended	
	30 June 2007 \$'000	30 June 2006 \$'000
Total equity 1 July	53,098	43,507
Movement in issued capital	70,228	29,186
Movement in reserves	(3,849)	(14,759)
Loss for the year ended 30 June	(12,113)	(4,836)
Total equity 30 June	107,364	53,098

Issued capital has increased due to the company completing a \$45m rights issue in September 2007 and a CAD\$24m private placement on the TSX during December 2006. In addition, 502,833 options were converted at various prices during the fiscal year.

The movement in reserves was primarily due to a net fair value adjustment that related to the unrealised loss on the marked to market value of the company's hedge book (see O Balance Sheet/Financial Instruments for a description of hedge commitments). All hedges that comply with the accounting standard for hedge accounting are treated as cashflow hedges in line with IFRS. The movement in reserves also related to the recognition of the equity component of the convertible bond that was issued in June. The 11% equity component was valued at \$23.6m (net of expenses). There was also an increment in the value of Companies investment in Mustang Minerals of \$5.3m taking the value of the Company's investment from \$3.4m to \$8.6m.

The loss for the year ended 30 June 2007 increased to \$12.1m due to the realised loss on some hedge contracts that were retired during the December quarter and unrealised hedge losses recognised for the marked to market position of part of the Company's remaining hedge book \$6.8m. This was partly offset by the \$9.5m gross profit from the Flying Fox mining operations.

Consolidated Cashflow Statement

	Three Months Ended 30 June		Full Year Ended 30 June	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Net Cashflow from Operating Activities	6,847	(1,309)	(6,295)	(4,631)
Net Cashflow from Investing Activities	(15,845)	(9,701)	(61,879)	(45,076)
Net Cashflow from Financing Activities	232,265	4,768	302,681	49,200
Net Cashflow	223,267	(6,242)	234,507	(507)
Cash at Bank	237,003	2,496	237,003	2,496

Results for the year ended 30 June 2007

Operating cash expenditure of \$6.3m was higher than the same period in the previous year primarily due to increased payment to suppliers in the course of operations due to commencement of mining operations and the settlement of some hedge contracts during the period with a value of \$9.7m. In addition, finance costs increased due to a higher average balance of finance facilities resulting in larger interest payments. These were partly offset by operating revenues of \$15.6m from nickel ore sales and royalty payments received.

Investing cashflows have increased to \$61.9m due to increased capital expenditure related to the Flying Fox mine in conjunction with expenditure for investment in other entities, primarily Mustang Minerals.

Financing activities have increased by \$253.5m mainly as a result of the \$225 million convertible bond issue that occurred in June 2007 combined with a \$45 million rights issue and CAD\$24 million Canadian private placement that were completed in the first half of the fiscal year. Borrowing costs were higher than the same period in the prior year due to additional costs associated with the convertible bond and corporate debt restructuring.

Results for the three months ended 30 June 2007

Positive operating cashflow of \$6.8m for the quarter was achieved due to the increasing sales of nickel ore from the Flying Fox mine. This was partially offset by cash payments made to suppliers in the course of operations. Administration and employee costs have also increased in line with Western Areas growth as a company.

Investing cashflows have increased by \$6.1m from the same period last year. This is primarily due to increased capital expenditure at the Flying Fox mine with exceptional advance rates for the mine decline, and accelerated increased exploration expenditure on both the Forrestania and other regional programs.

Cashflows from financing increased to \$232.3m for the quarter as a result of the \$225 million convertible note issue that was completed at the end of the June quarter and proceeds of borrowing that fund the development and mining of the Flying Fox mine. These were offset by increased borrowing costs for the period mostly related to the bond issue.

Statement of Operations by Segments

The Consolidated Entity operated predominantly in the mineral mining and exploration industry in Australia.

Share Capital	As at 14 September 2007
Outstanding Shares	166,482,066
Options issued but unexercised	9,627,167
Total	<u>176,109,233</u>

All the unexercised options are unlisted.

Finance Activities, Liquidity and Capital Resources

During December 2006, Western Areas refinanced the existing \$80 million project finance facility with a new corporate style facility provided by the ANZ Banking Group Limited ("ANZ"). The new facility provides Western Areas with greater flexibility and the potential to pay dividends earlier than the original Facility structure allowed. During June 2007 the Company secured a further \$10 million feasibility and resource drilling facility.

The Company has the following financing facilities available to it:

	Amount available under the Facility (\$ millions)	Undrawn Portion of Facility (\$ millions)
Primary ANZ Bank Finance Facilities:-		
Cash Advance Facility	70.0	17.4
- Cost Over Run Facility	10.0	10.0
- Feasibility & Resource Drilling Facility	10.0	9.2
Total Primary Debt Facility	<u>90.0</u>	<u>36.6</u>
-Performance Bond Facility	2.0	0.9
Total Corporate Finance Facilities	<u>92.0</u>	<u>37.5</u>

As set forth in the table above, approximately \$53.4m has been drawn from the total primary corporate finance facility of \$90.0m provided by ANZ. Access to the remaining portion of the facility is conditional upon the Company operating the Flying Fox mine in accordance with development plans approved by the aforementioned banking institution and the Company being in compliance with the operational and financial covenants and warranties specified under the facility.

At 30 June 2007 the Company had \$241.3m in cash and receivables with \$7.6m in creditors and accruals.

As at 30 June 2007 Western Areas long term debt obligations are as follows:

Contractual Obligations (in \$'000)	Payments due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long Term Debt ⁽¹⁾	90,000	10,000	24,835	55,165	-
Convertible Bond	225,000	-	-	225,000	-
Finance Leases ⁽²⁾	171	121	50	-	-
Operating Leases ⁽³⁾	446	183	263	-	-
TOTAL	315,617	10,304	25,148	280,165	-

Notes:

(1) The above table is based on the contracted amortisation dates for the ANZ facilities assuming they are full drawn before repayments are scheduled to commence. The table does not include the Performance Bond facility as this has no fixed repayment date.

(2) Represents finance leases for light vehicles at the Forrestania Project and other miscellaneous office equipment.

(3) Represents rental payments for miscellaneous office equipment and rent of the Perth Corporate office and Canadian Branch office.

Financial Instruments

In 2005 the Company entered into forward sales agreements for 2,275 tonnes of nickel from the Flying Fox mine. At present 1,603 tonnes remain hedged at an average price of US\$9,563 per tonne for delivery in fiscal year 2008. The Company has also entered into US\$/A\$ forward exchange contracts to convert the US\$ payments which are to be received in fiscal year 2008 under these nickel forward sales agreements. This effectively creates an A\$ nickel hedge of anticipated revenues from this 1,603 tonnes of nickel production in this year. Details of these hedges are as follows:



	Fiscal Year 2008	TOTAL
Nickel Tonnes Sold	1,603	1,603
US Price (US\$/tonne)	9,563	9,563
US\$ Value (US\$'000)	15,329	15,329
US\$ Currency Hedges (US\$'000)	15,329	15,329
Exchange Rates	\$0.7353	\$0.7353
Effective Nickel Price (A\$/tonne)	13,005	13,005

Based on the current Mineral Reserve for the Flying Fox mine, the above nickel hedging represents less than 5% of the contained nickel. The Company's policy is to monitor the state of the global nickel market and the forward prices that are obtainable. The Company aims to achieve an appropriate balance between price and currency risk management strategies whilst maintaining exposure to the spot nickel market.

As at 30 June 2007 the marked to market value of the forward contracts (including pending settlements for fiscal 2007 deliveries) was a negative \$55.8m (this valuation being based on a spot nickel price of US\$16.47 per pound, or US\$36,315 per tonne, and a US\$/A\$ exchange rate of 0.8497 which were the then current spot price and exchange rate).

None of the hedging contracts shown above are subject to margin calls. If the Company fails to deliver the required product - being nickel or US Currency - on the maturity date of each contract then it will need to renegotiate or close out and settle the relevant contract. This will result in either a cash gain or loss to the Company depending upon the market price of nickel or the US\$/A\$ exchange rate at that point in time.

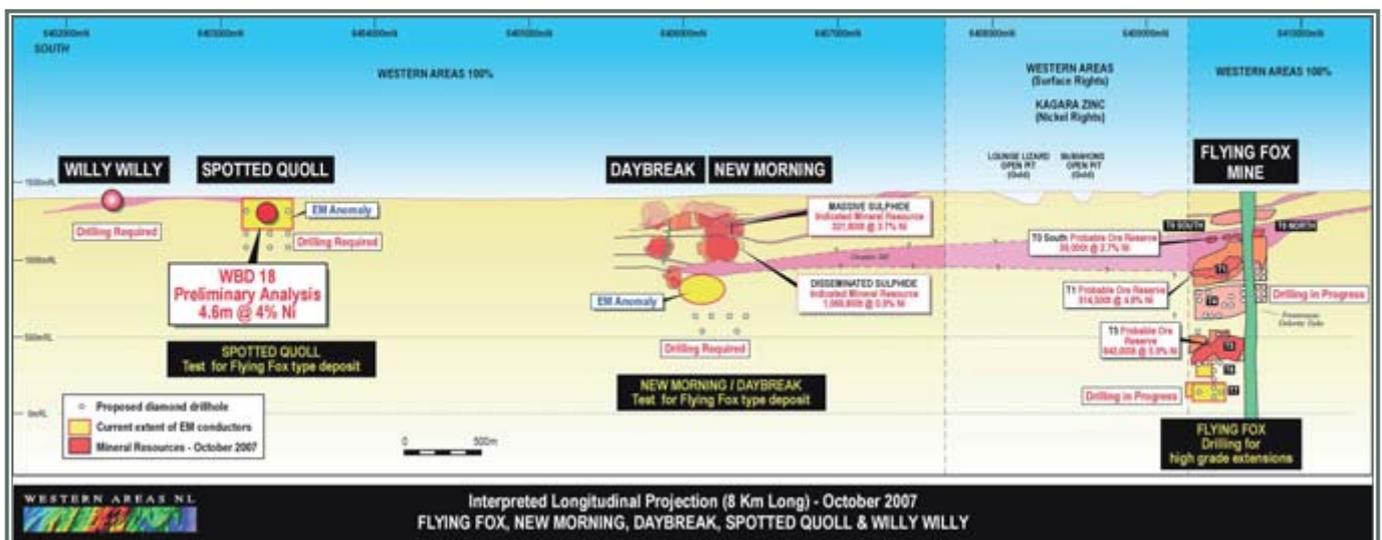
The Company has not entered into any other financial contracts or instruments such as derivatives transactions or forward sales, or other instruments and has no other long-term commitments outstanding.

Critical Accounting Estimates

Management is required to make various estimates and judgements in determining the reported amounts of assets and liabilities, revenues and expenses for each period presented and in the disclosure of commitments and contingencies. The significant areas where management uses estimates and judgments in preparing the consolidated financial statements are in the determination of the carrying values and impaired values of exploration assets, amortisation rates based on life of mine calculations and rehabilitation provision estimates.

Internal Controls

The Company has made no change to its internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



The Directors submit the financial report of the Consolidated Entity for the year ended 30 June 2007. Unless noted, all amounts in this report refer to Australian dollars.

Principal Activities

The principal activities of the Consolidated Entity during the year consisted of the development and mining of the Flying Fox Nickel mine and the exploration for nickel sulphides, platinum group metals and gold.

Operations and Financial Review

A detailed Operations and Financial review can be found in the preceding Management Discussion and Analysis section of the Annual Report starting on page 6.

Directors

The Directors of Western Areas NL during the financial year and up to the date of this report are:

Names, qualifications, experience and special responsibilities.

Terence Streeter

(Non-Executive Director)

Mr Streeter is a Perth based businessman with extensive experience in exploration and mining companies and has held various interests in the nickel sulphide industry for over 30 years. Mr Streeter is the Chairman of the Remuneration and Nomination Committees and serves on the Treasury and Audit & Risk Management Committees.

Mr Streeter was appointed as the Chairman of the Board on the 17 August 2007.

During the past three years Mr Streeter has also served as a director of the following other listed companies:

- Midas Resources Limited (*) (since February 2003)
- Fox Resources Limited (*) (since June 2005)
- Minera IRL (*) (since April 2007)

Julian Hanna B.Sc

(Managing Director & Chief Executive Officer)

Mr Hanna is a geologist with 30 years experience in gold and base metal exploration and mine development. He has a BSc in geology, is a member of AusIMM and has previously held senior exploration management positions with Forrest Gold Pty Ltd (CRA Gold division) and North Ltd. He has been involved in the discovery and development of several gold and base metal deposits. Mr Hanna is a member of the Nomination and Treasury Committees.

During the past three years Mr Hanna has also served as a director of the following other listed companies:

- Mustang Minerals Corp (*) (Since December 2006)
- Fox Resources Limited (April to December 2006)

David Cooper CPA

(Independent, Non-Executive Chairman)

Mr Cooper is a Certified Practising Accountant with over 20 years experience in the area of taxation and business administration, including as Practice Manager for TA Mairs and Co Pty Ltd. Mr Cooper also holds directorships in several active private companies. Mr Cooper is the Chairman of the Audit &

Board of Directors, left to right: Craig Oliver, Julian Hanna, David Cooper, Terence Streeter and Robin Dunbar



Risk Management Committee and is a member of the Nomination, Remuneration and Treasury Committees.

On the 28 August 2006 Mr Cooper was appointed as the Chairman of the Company's Board. On the 17 August 2007 Mr Cooper retired as Chairman, Mr Cooper remains an Independent Non-Executive Director of the Company.

Robin Dunbar MBA
(Non-Executive Director)

Mr Dunbar joined the Board on 12 December 2005. Mr Dunbar is based in Toronto, Canada and has held a number of senior positions in both commercial and corporate banking sectors and is currently the President of Mustang Minerals Corporation. Mr Dunbar is a member of the Audit and Risk and Remuneration Committees.

During the past three years Mr Dunbar has also served as a director of the following other listed companies:

- Mustang Minerals Corp (*) (since May 1996)
- Veldron Gold Inc (*) (since September 2005)
- Aquila Resources Ltd (*) (Since May 1996)

Craig Oliver MBA, ACA
(Finance Director & Company Secretary)

Mr Oliver has been the Company Secretary and the Chief Financial Officer since 21 March 2006 and was appointed as the Finance Director on the 8 December 2006. Mr Oliver has significant mining experience gained in operational senior financial and corporate roles. Mr Oliver is a member of the Treasury Committee.

During the past three years Mr Oliver has also served as a director of the following other listed companies:

- Mining Ltd (*) (since April 2006)
- DeGrey Nkwe Platinum Ltd (June 2004 – January 2006)

David Donald Boyer BSc(Hon), CPGeo
(Independent, Non-Executive Chairman)

Mr Boyer retired from the board on the 28 August 2006.

(*) denotes current directorship

SENIOR EXECUTIVES

Dan Lougher B.Sc. Msc. Eng
(GM – Operations)

Mr Lougher is a qualified Mining Engineer with over 20 years experience in all facets of resource and mining project exploration, feasibility, development and operational activities in Australia and overseas. Mr Lougher is a member of the Australasian Institute of Mining & Metallurgy.

Interests in Shares and Options of the Company

As at the date of this report, the interest of the Directors or associates of the Directors in the shares and options of the Company are:

	Ordinary Shares	Options \$7.50	Options \$3.20	Options \$2.75
J Hanna	1,580,759	400,000	400,000	
D Cooper	1,100,000	400,000	350,000	
T Streeter	31,438,283	400,000	450,000	
R Dunbar	2,500	400,000	400,000	
C Oliver (*)	110,000	400,000		400,000

(*) Mr Oliver was appointed to the board on 8 December 2006. The \$2.75 options were issued to Mr Oliver prior to his board appointment as part of the employee option scheme.