FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2006

ACN 060 857 614

The Directors present their report together with the financial report of Gindalbie Metals Ltd ('the Company') and of the consolidated entity, being the Company and its controlled entities for the financial year ended 30 June 2006 and the auditor's report thereon.

1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year were:

Name & Qualifications	Age	Experience and Special Responsibilities
Mr George F Jones B.Bus, FCIS, FAICD Executive Chairman	61	Former Non-Executive Chairman of Portman Limited Extensive experience in the mining, banking and finance industries Member of the Remuneration Committee Appointed Director on 12 September 2005 Appointed Executive Chairman on 10 July 2006
Mr David L McSweeney LL.B MAusIMM Managing Director	43	Extensive experience in the resource sector ranging from exploration to project management, project finance, commercial and legal structuring and corporate development Founding member of the Geraldton Iron Ore Alliance Former Vice President of AMEC Past Director of the Australian Gold Council Director since July 1993
Mr Didier M Murcia B Juris LL.B Independent Non-Executive Director	43	Principal of Murcia Pestell Hillard Executive Director of Aminex plc Non Executive Director of Gryphon Minerals Ltd Honorary Consul of United Republic of Tanzania Chair of Audit and Remuneration Committees Director since February 1998
Mr Tunku Ya'acob Bin Tunku Abdullah DPTJ, FCA, CA(M), BSc (Hons), CFP Non-Executive Director	46	Group Managing Director of Melewar Industrial Group Berhad Deputy Chairman MAA Holdings Berhad Chairman of National Insurance Association of Malaysia Vice President of the Federation of Public Listed Companies Member of the Audit Committee Director since 1 October 2004
Mr Michael J O'Neill Dip Bus(Admin), FFin, FAICD Independent Non-Executive Director	60	Former Western Australian General Manager of ANZ Bank Board member of the Western Australian Institute of Sport Non Executive Director of IWD Pty Ltd Extensive banking and finance experience Member of the Audit and Remuneration Committees Appointed Director on 12 April 2006
Mr Keith G McKay B Sc(Hons)(Geol) FAusIMM Independent Non-Executive Director	60	Chairman of Glengarry Resources Limited Former Managing Director of Battle Mountain (Aust) Inc and Gallery Gold Ltd Resigned 16 May 2006
Mr William J Ryan B.E, M.E, FAusIMM, FAICD Independent Non-Executive Director	63	Managing Director of Vital Metals Limited Former Managing Director of Titan Resources Ltd Resigned 24 November 2005

2. COMPANY SECRETARY

Mr Darren P Gordon CA, FFin, ACIS is a Chartered Accountant and Chartered Secretary and joined Gindalbie Metals Ltd in January 1999. Mr Gordon previously spent nine years working within the audit division of Grant Thornton Chartered Accountants. In addition to his role as Company Secretary, Mr Gordon is also the Chief Financial Officer of the Company.

3. PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were exploration for iron ore and joint venturing with other mining companies to explore for minerals. There has been no significant change in the nature of these activities during the year. In June 2006 the Company finalised the sale of its Minjar Gold Project to Monarch Gold Mining Company Limited.

4. RESULTS
The operating loss after tax of the consolidated entity for the financial year was $2,505,308 (2005: $3,284,965) and $2,111,056 (2005: $3,315,666) for the Company.

5. REVIEW OF OPERATIONS
The consolidated entity predominantly explored and evaluated iron ore projects throughout the year. The consolidated entity sold its gold project during the year. A full review of operations is set out in the 2006 Annual Report.

6. DIRECTORS' MEETINGS
The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year were:

Director	Directors Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Mr GF Jones (appointed 12 September 2005)	11	11	-	-	2	2
Mr DL McSweeney	13	13	-	-	-	-
Mr DM Murcia	13	13	2	2	4	4
Mr TYBT Abdullah	13	13	-	2	-	-
Mr MJ O'Neill (appointed 12 April 2006)	4	4	-	-	1	1
Mr KG McKay (resigned 16 May 2006)	11	11	1	1	3	3
Mr WJ Ryan (resigned 24 Nov 2005)	4	4	1	1	2	2

A - Number of meetings attended
B - Number of meetings (including Circular Resolutions) held while the director held office

7. STATE OF AFFAIRS
Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- In August 2005, the Company issued 13,142,755 shares at 9 cents each to clients of Bell Potter Securities Limited being the shortfall of the 1 for 2 entitlement issue that closed on 5 June 2005, raising $1,182,948.
- In December 2005, the Company issued 22,222,222 shares at 9 cents each by way of a share placement to Connemara Investments Pty Ltd (a director related entity of Mr GF Jones) and Osson Pty Ltd raising $2,000,000.
- In March and April 2006, the Company issued 90,000,000 shares at 37 cents each by way of a share placement to Australian and International institutional clients of Southern Cross Equities Ltd raising $33,300,000.
- In June 2006 the Company finalised the sale of its Minjar Gold Project to Monarch Gold Mining Company Limited for total consideration of $10,000,000.

8. LIKELY DEVELOPMENTS
The consolidated entity will continue iron ore exploration and development activities through acquisition, sole funded exploration and joint venture. The consolidated entity assesses commercial opportunities for corporate growth, including the acquisition of interests in projects, as they arise. Because of the unpredictable nature of these opportunities, developments could occur at short notice.

9. ENVIRONMENTAL REGULATION
The consolidated entity's operations are subject to environmental regulations under State legislation. The Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any material breach of those environmental requirements as they apply to the consolidated entity.

10. EVENTS SUBSEQUENT TO REPORTING DATE
Appointment of Executive Chairman
On 10 July 2006, the Company announced the appointment of Mr George Jones as Executive Chairman of the Company. In his executive capacity Mr Jones will be responsible for overseeing, promoting and facilitating the Group's strategic plans at a corporate level and fostering the strong relationship the Company has with its joint venture partner on the Karara Iron Ore Project, Anshan Iron and Steel Group Corporation.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year 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 affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

11. NON-AUDIT SERVICES
During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties. The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the independence and objectivity of the auditor.
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional Independence,* as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is included in the directors' report and set out on page 14.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

	Consolidated	
	2006	2005
	$	$
Statutory audit:		
Auditors of the Company		
KPMG Australia:		
- audit and review of financial reports	30,116	37,570
	30,116	37,570
Services other than statutory audit:		
Other services		
KPMG Australia:		
- taxation services	110,750	22,890
	110,750	22,890

12. REMUNERATION REPORT

12.1 Key management personnel disclosures - audited
The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Executive directors
Mr GF Jones (appointed 12 September 2005, appointed Executive Chairman 10 July 2006)
Mr DL McSweeney (Managing Director & CEO)
Non-executive directors
Mr DM Murcia
Mr TYBT Abdullah
Mr MJ O'Neill (appointed 12 April 2006)
Mr WJ Ryan (resigned 24 November 2005)
Mr KG McKay (resigned 16 May 2006)
Executives
Mr DP Gordon (Company Secretary & CFO)
Mr AT Munckton (General Manager Operations)
Mr PE Freund (General Manager Magnetite) (appointed 16 January 2006)

12.2 Principles of compensation - audited
Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity. Key management personnel includes the five most highly remunerated S300A directors and executives for the Company and the consolidated entity.

Compensation levels for key management personnel of the Company and consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Remuneration Committee obtains independent advice on the appropriateness of compensation packages given trends in comparative companies and the objectives of the Company's compensation strategy.

12. REMUNERATION REPORT (Continued)

12.2 Principles of compensation – audited

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control segment performance
- the consolidated entity's performance

Key management personnel can receive a portion of base remuneration as non-cash benefits. Non-cash benefits typically include payment of motor vehicle expenses. Any fringe benefit tax on these benefits is generally borne by the executive.

Compensation packages include a mix of fixed and variable compensation and long-term performance-based incentives.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration Committee through a process that considers individual performance and overall performance of the consolidated entity. In addition external consultants provide analysis and advice to ensure that key management personnel compensation is competitive in the market place. Key management personnel compensation is also reviewed on promotion.

Performance-linked compensation

Performance linked compensation consists of long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The long-term incentive (LTI) is provided as options over ordinary shares of Gindalbie Metals Ltd under the rules of the Employee Share Option Plan or as otherwise approved by shareholders.

Options are issued under the Employee Share Option Plan (made in accordance with the criteria as set out in the plan approved by shareholders at the 2001 AGM), at the discretion of the directors or are issued under specific shareholder approval. All options are issued for no consideration. Historically, specific performance hurdles have not been established in order for the options to be exercised.

Service agreements

It is the consolidated entity's policy that service contracts be in place for the CEO, CFO and Chairman when acting in an executive capacity.

The following key terms apply in respect of each of these service contracts:

Position	**Term**	**Notice Period**	**Redundancy Terms**
CEO	Unlimited	3 months	24 months salary
CFO	Unlimited	2 months	12 months salary
Chairman	Unlimited	3 months	Nil

The consolidated entity retains the right to terminate the contract immediately by the payment of the redundancy term.

The CEO, CFO and Chairman are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service contracts outline the components of compensation paid to the CEO, CFO and Chairman but do not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performed and any changes required to meet the principles of the compensation policy.

There is no entitlement to termination payment in the event of removal for misconduct.

Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 2005 AGM, is not to exceed $400,000 per annum and is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies.

12. REMUNERATION REPORT (Continued)

12.2 Principles of compensation – audited
For the year ended 30 June 2006 the non executive directors and Chairman when acting in a non-executive capacity were remunerated $39,000 and $120,000 per annum respectively. Effective 1 July 2006 the fees for non executive directors increased to $48,000. In July 2006 the Chairman became the Executive Chairman of the Company on a salary of $360,000 per annum. A bonus of $100,000 was paid in the year ended 30 June 2006 to Mr Jones representing 50% of a total bonus approved by the Board in respect to Mr Jones' appointment as Executive Chairman.

Director's fees cover all board activities and committee memberships. Non-executive directors do not generally receive bonuses but may be issued with employee options under the Employee Share Option Plan or via the express approval of shareholders.

Non-executive directors in office at November 2005 received performance related remuneration consisting of an option package approved by shareholders at the Company's 2005 AGM.

12.3 Analysis of options and rights over equity instruments granted as compensation – unaudited
Details of the vesting profile of the options granted as compensation to each key management person is detailed below:

	Number of options granted	Grant Date	% vested in year	Forfeited in year*	Financial years in which grant vests	Value yet to vest $
Directors						
Mr DL McSweeney	1,000,000	30 Nov 2005	100%	-	1 July 2005	-
	1,000,000	30 Nov 2005	-	-	1 July 2006	224,013
	2,000,000	30 Nov 2005	-	-	1 July 2007	404,164
Mr GF Jones	1,000,000	30 Nov 2005	100%	-	1 July 2005	-
	1,000,000	30 Nov 2005	-	-	1 July 2006	224,013
	2,000,000	30 Nov 2005	-	-	1 July 2007	404,164
Mr DM Murcia	150,000	30 Nov 2005	100%	-	1 July 2005	-
	150,000	30 Nov 2005	-	-	1 July 2006	33,602
	300,000	30 Nov 2005	-	-	1 July 2007	60,625
Mr TYBT Abdullah	150,000	30 Nov 2005	100%	-	1 July 2005	-
	150,000	30 Nov 2005	-	-	1 July 2006	33,602
	300,000	30 Nov 2005	-	-	1 July 2007	60,625
Mr KG McKay	150,000	30 Nov 2005	100%	-	1 July 2005	-
	150,000	30 Nov 2005	-	100%	1 July 2006	-
	300,000	30 Nov 2005	-	100%	1 July 2007	-
Executives						
Mr DP Gordon	500,000	30 Nov 2005	100%	-	1 July 2005	-
	500,000	30 Nov 2005	-	-	1 July 2006	112,006
	1,000,000	30 Nov 2005	-	-	1 July 2007	202,082
Mr AT Munckton	250,000	30 Nov 2005	100%	-	1 July 2005	-
	250,000	30 Nov 2005	-	-	1 July 2006	56,003
	500,000	30 Nov 2005	-	-	1 July 2007	101,041
Mr PE Freund	500,000	29 Nov 2005	100%	-	1 July 2005	-
	500,000	29 Nov 2005	-	-	1 July 2006	90,720
	1,000,000	29 Nov 2005	-	-	1 July 2008	181,440

* These options were forfeited as they were unvested upon director resignation on 16 May 2006.

12. REMUNERATION REPORT (Continued)

12.4 Directors' and executive officers' remuneration (Company and Consolidated) - audited

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the executives of the Company and the consolidated entity receiving the highest remuneration are listed below. The officers of the Company are the same as those of the consolidated entity.

		Short term		Post-employment	Share based payments	Other compensation		
		Salary & fees $	Cash Bonus $ (c)	Superannuation benefits $	Value of options (a) $	Termination benefits $	Insurance premiums (b) $	Total $
Directors								
Non-executive directors								
Mr DM Murcia	2006	39,000	-	-	65,301	-	2,805	107,106
	2005	36,000	-	-	-	-	3,192	39,192
Mr TYBT Abdullah	2006	39,000	-	-	65,301	-	2,805	107,106
	2005	27,000	-	-	-	-	2,881	29,881
Mr MJ O'Neill (appointed 12 April 2006)	2006	8,558	-	-	-	-	701	9,259
Mr WJ Ryan (resigned 24 November 2005)	2006	-	-	16,250	-	-	1,403	17,653
	2005	4,434	-	31,566	-	-	3,192	39,192
Mr KG McKay (resigned 16 May 2006)	2006	39,384	-	3,544	35,444	90,000	2,805	171,177
	2005	51,376	-	4,624	-	-	3,192	59,192
Executive directors								
Mr DL McSweeney (Managing Director & CEO)	2006	279,538	-	40,462	435,341	-	2,805	758,146
	2005	271,547	-	33,000	22,583	-	3,192	330,322
Mr GF Jones (Chairman) (appointed 12 September 2005)	2006	142,697	100,000	6,303	435,341	-	2,805	687,146
Total, all directors	2006	548,177	100,000	66,559	1,036,728	90,000	16,129	1,857,593
	2005	390,357	-	69,190	22,583	-	15,649	497,779
Executives								
Mr DP Gordon (Company Secretary & CFO)	2006	188,073	-	16,927	217,670	-	2,805	425,475
	2005	165,000	-	14,850	16,937	-	3,192	199,979
Mr AT Munckton (General Manager Operations)	2006	200,835	-	29,165	108,835	-	2,805	341,640
	2005	190,000	-	15,675	16,937	-	3,192	225,804
Mr PE Freund (General Manager Magnetite) (appointed 16 January 2006)	2006	138,847	-	12,496	160,326	-	701	312,370
Total, all executives	2006	527,755	-	58,588	486,831	-	6,311	1,079,485
	2005	355,000	-	30,525	33,874	-	6,384	425,783
Total, all key management personnel	2006	1,075,932	100,000	125,147	1,523,559	90,000	22,440	2,937,078
	2005	745,357	-	99,715	56,457	-	22,033	923,562

12. REMUNERATION REPORT (Continued)

Notes to the table of directors and executive officers remuneration - audited

(a) Each option entitles the holder to purchase one ordinary share in the Company. The options are unlisted and cannot be transferred. The fair value of the 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. In valuing the options market conditions have been taken into account.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate
29 Nov 2005	30 Sep 2010	$0.1814	$0.35	$0.295	78%	5.315%
30 Nov 2005	30 Sep 2010	$0.2363	$0.12	$0.295	78%	5.315%
30 Nov 2005	30 Sep 2010	$0.2240	$0.16	$0.295	78%	5.315%
30 Nov 2005	30 Sep 2010	$0.2021	$0.25	$0.295	78%	5.315%

(b) The Company pays insurance premiums that cover key management personnel. The premium is split between the Company key management personnel only. The average premium per person has been included in remuneration.

(c) A bonus of $100,000 was paid in the year ended 30 June 2006 to Mr Jones representing 50% of the total bonus approved by the Board in respect to Mr Jones' appointment as Executive Chairman.

12.5 Equity instruments - unaudited

All options refer to options over ordinary shares of Gindalbie Metals Ltd, which are exercisable on a one-for-one basis under the Employee Share Option Plan.

12.6 Options and rights over equity instruments granted as compensation - audited

Details of options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that were vested during the reporting period are as follows:

	Number of options granted during 2006	Grant Date	Number of options vested during 2006	Fair value per option at grant date ($)	Exercise Price per option ($)	Expiry Date
Directors						
Mr DL McSweeney	1,000,000	30 Nov 2005	1,000,000	0.2363	0.12	30 Sept 2010
	1,000,000	30 Nov 2005	-	0.2240	0.16	30 Sept 2010
	2,000,000	30 Nov 2005	-	0.2021	0.25	30 Sept 2010
Mr GF Jones	1,000,000	30 Nov 2005	1,000,000	0.2363	0.12	30 Sept 2010
	1,000,000	30 Nov 2005	-	0.2240	0.16	30 Sept 2010
	2,000,000	30 Nov 2005	-	0.2021	0.25	30 Sept 2010
Mr DM Murcia	150,000	30 Nov 2005	150,000	0.2363	0.12	30 Sept 2010
	150,000	30 Nov 2005	-	0.2240	0.16	30 Sept 2010
	300,000	30 Nov 2005	-	0.2021	0.25	30 Sept 2010
Mr TYBT Abdullah	150,000	30 Nov 2005	150,000	0.2363	0.12	30 Sept 2010
	150,000	30 Nov 2005	-	0.2240	0.16	30 Sept 2010
	300,000	30 Nov 2005	-	0.2021	0.25	30 Sept 2010
Mr KG McKay	150,000	30 Nov 2005	150,000	0.2363	0.12	30 Sept 2010
	150,000*	30 Nov 2005	-	0.2240	0.16	30 Sept 2010
	300,000*	30 Nov 2005	-	0.2021	0.25	30 Sept 2010
Executives						
Mr DP Gordon	500,000	30 Nov 2005	500,000	0.2363	0.12	30 Sept 2010
	500,000	30 Nov 2005	-	0.2240	0.16	30 Sept 2010
	1,000,000	30 Nov 2005	-	0.2021	0.25	30 Sept 2010
Mr AT Munckton	250,000	30 Nov 2005	250,000	0.2363	0.12	30 Sept 2010
	250,000	30 Nov 2005	-	0.2240	0.16	30 Sept 2010
	500,000	30 Nov 2005	-	0.2021	0.25	30 Sept 2010
Mr PE Freund	500,000	29 Nov 2005	500,000	0.1814	0.35	30 Sept 2010
	500,000	29 Nov 2005	-	0.1814	0.35	30 Sept 2010
	1,000,000	29 Nov 2005	-	0.1814	0.35	30 Sept 2010

* These options lapsed as they were unvested upon director resignation on 16 May 2006.

12. REMUNERATION REPORT (Continued)

12.6 Options and rights over equity instruments granted as compensation – audited

	Number of options granted during 2005	Grant Date	Number of options vested during 2005	Fair value per option at grant date ($)	Exercise Price per option ($)	Expiry Date
Directors						
Mr DL McSweeney	1,000,000	17 Dec 2004	1,000,000	0.087	0.15	31 Dec 2006
Executives						
Mr DP Gordon	750,000	17 Dec 2004	750,000	0.087	0.15	31 Dec 2006
Mr AT Munckton	750,000	17 Dec 2004	750,000	0.087	0.15	31 Dec 2006

No options have been granted since the end of the financial year. The options were provided at no cost to the key management personnel.

All options granted during the year expire on the earlier of their expiry date or within 3 or 6 months of termination of the individual's employment. The options are exercisable at any time from their vesting date.

Further details, including grant dates and exercise dates regarding options granted to executives are in Note 24 to the financial statements.

12.7 Modification of terms of equity-settled share-based payment transactions - audited

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

12.8 Exercise of options granted as compensation - audited

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

Director	Number of Shares	Amount paid on each share
Mr DL McSweeney	1,000,000	$0.12
Mr DL McSweeney	1,000,000	$0.15

There are no amounts unpaid on the shares issued as a result of the exercise of the options in 2006.

During the comparative reporting period, there were no shares issued on the exercise of options previously granted as compensation.

12.9 Analysis of movements in options - unaudited

The movement during the reporting period, by value, of options over ordinary shares in Gindalbie Metals Ltd held by each key management person is detailed below:

	Granted in year $ (a)	Value of Options Exercised in year $ (b)	Lapsed in year $ (c)	Total option value in year $
Mr DL McSweeney	864,471	1,110,000	-	1,974,471
Mr GF Jones	864,471	-	-	864,471
Mr DM Murcia	129,671	-	-	129,671
Mr TYBT Abdullah	129,671	-	-	129,671
Mr KG McKay	129,671	-	94,227	35,444
Mr DP Gordon	432,236	-	-	432,236
Mr AT Munckton	216,118	-	-	216,118
Mr PE Freund	362,879	-	-	362,879

(a) The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (ie in years 1 July 2005 to 30 June 2008).

(b) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Stock Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(c) The value of the options that lapsed during the year represents the benefit foregone and is calculated at the date the option lapsed using a Black-Scholes model.

13. SHARE OPTIONS

Unissued shares under option
At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise Price	Number of Options
30 November 2006	$0.12	50,000
30 November 2006	$0.18	150,000
30 November 2006	$0.20	50,000
30 November 2006	$0.25	300,000
30 November 2006	$0.32	200,000
30 November 2006	$0.35	890,000
30 November 2006	$0.40	200,000
30 November 2006	$0.45	890,000
30 November 2006	$0.55	890,000
31 December 2006	$0.15	2,150,000
30 April 2008	$0.15	250,000
30 September 2008	$0.14	400,000
30 September 2008	$0.20	400,000
30 September 2008	$0.22	100,000
30 September 2008	$0.45	300,000
30 September 2010	$0.12	2,200,000
30 September 2010	$0.16	3,200,000
30 September 2010	$0.25	6,400,000
30 September 2010	$0.35	2,000,000
30 September 2010	$0.50	2,000,000
		23,040,000

All options, except for 2 million, 30 September 2010 options with an exercise price of $0.50, are employee options and expire on the earlier of their expiry date or three or six months after the termination of the employee's employment unless extended by the directors of the Company. The 2 million, 30 September 2010 $0.50 options were issued to Southern Cross Equities as part consideration for their role in managing the placement of 90,000,000 shares to raise $33,300,000 and expire on their expiry date, unless exercised earlier.

Whilst not yet issued, the Company has also agreed to issue up to 3,584,444 options to Thiess Pty Ltd with an exercise price of 45 cents and an expiry date 2 years from the date of issue. This issue was ratified by shareholders on 13 April 2006.

These options do not entitle the holder to participate in any share issue of the Company.

Shares issued on exercise of options
During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

Number of Shares	Amount paid on each share
1,000,000	$0.12
2,250,000	$0.15
20,000	$0.20

14. DIRECTORS' INTERESTS
The relevant interest of each director in the share capital of the companies within the consolidated entity, 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:

Gindalbie Metals Ltd Director	Ordinary shares	Options over ordinary shares
Mr D L McSweeney	7,222,494	4,500,000
Mr G F Jones (appointed 12 September 2005)	11,500,000	4,000,000
Mr T Y B T Abdullah*	-	600,000
Mr D M Murcia	228,000	810,000
Mr M J O'Neill (appointed 12 April 2006)	1,000,000	-

* Mr Tunku Ya'acob Bin Tunku Abdullah is the Managing Director of Melewar Steel Ventures Limited a company which is 100% owned by Melewar Industrial Group Berhad of which Mr Abdullah is also a director. Melewar Steel Ventures Limited and its associated entities are the largest shareholder in Gindalbie Metals Limited holding 74,087,009 shares equating to 23.49% of the Company's issued capital as at the date of this report. The Company has no evidence to indicate that Mr Abdullah has a relevant interest in Melewar's shareholding in Gindalbie Metals Limited.

15. LEAD AUDITOR'S INDEPENDENCE DECLARATION
The lead auditor's independence declaration is set out on page 14 and forms part of the Directors Report for the year ended 30 June 2006.

16. ROUNDING OFF
To Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

17. INDEMNIFYING OFFICER OR AUDITOR
The Company, during the financial year, in respect of any person who is or has been an officer or auditor of the Company:

- has not indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer or auditor.
- paid a premium of $22,443 for a policy of insurance to cover legal liability and expenses for the directors and executive officers in the event of any legal action against them arising from their actions as officers of the Company.

The insurance policy does not contain details of the premiums paid in respect of individual officers of the Company.

Signed in accordance with a resolution of directors at Perth, WA on 26 September 2006.

DL McSweeney
Director

GF Jones
Director

Independent audit report to members of Gindalbie Metals Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statements, statements of changes in equity, balance sheets, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Gindalbie Metals Limited (the "Company") and Gindalbie Metals Limited and its Controlled Entities (the "Consolidated Entity") for the year ended 30 June 2006. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" in sections 12.1, 12.2, 12.4, 12.6, 12.7 and 12.8 of the directors' report and not in the financial report.

The Remuneration report also contains information in 12.3 and 12.5 not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the Remuneration report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

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.

KPMG

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

Audit opinion

In our opinion:

(1) the financial report of Gindalbie Metals Limited is in accordance with:

a) the *Corporations Act 2001*, including:

i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and;

ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia; and

(2) the remuneration disclosures that are contained in sections 12.1, 12.2, 12.4, 12.6, 12.7 and 12.8 of the Remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

KPMG

B C Fullarton

B C FULLARTON
Partner

Perth
26 September 2006

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

To: the directors of Gindalbie Metals Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial period ended 30 June 2006 there have been:

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

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

KPMG

KPMG

B C Fullarton

B C FULLARTON
Partner

Perth
26 September 2006

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION
For the year ended 30 June 2006

1. In the opinion of the directors of Gindalbie Metals Ltd ("the Company"):

   (a) the financial statements and notes (and the remuneration disclosures that are contained in sections 12.1, 12.2, 12.4, 12.6, 12.7 and 12.8 of the Remuneration report in the Directors' report) set out on pages 16 to 44 are in accordance with the Corporations Act 2001, including;

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

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

   (b) the remuneration disclosures that are contained in sections 12.1, 12.2, 12.4, 12.6, 12.7 and 12.8 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and

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

2. The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2006.

Dated at Perth this 26 day of September 2006.

Signed in accordance with a resolution of the directors.

DL McSweeney	GF Jones
Director	Director

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
INCOME STATEMENTS
For the year ended 30 June 2006

		Consolidated		Company	
		2006	2005	2006	2005
		$'000	$'000	$'000	$'000
	Notes				
Revenue	2(a)	-	40	-	40
Cost of sales	2(b)	-	(237)	-	(237)
Gross loss		-	(197)	-	(197)
Other income	2(c)	784	386	1,694	824
Administration expenses		(3,288)	(1,559)	(3,207)	(1,530)
Other expenses	2(d)	(1,900)	(2,141)	(3,029)	(2,715)
Loss from operating activities		(4,404)	(3,314)	(4,542)	(3,421)
Financial income	2(e)	843	231	1,376	307
Financial expenses	2(e)	(2)	(5)	(2)	(5)
Net financing income		841	226	1,374	302
Loss before tax		(3,563)	(3,285)	(3,168)	(3,316)
Income tax benefit/(expense)	3	-	-	-	-
Loss after tax but before gain from discontinued operations		(3,563)	(3,285)	(3,168)	(3,316)
Gain from discontinued operations, net of tax	2(f)	1,057	-	1,057	-
Loss for the year	15	(2,506)	(3,285)	(2,111)	(3,316)
Basic earnings per share from continuing operations – cents	21	(1.02)	(1.56)		
Diluted earnings per share from continuing operations - cents	21	(1.02)	(1.56)		
Basic earnings per share (total) - cents	21	(0.72)	(1.56)		
Diluted earnings per share (total) - cents	21	(0.72)	(1.56)		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 20 to 44.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2006

	Consolidated				Company			
	Issued capital $'000	Accumulated losses $'000	Reserves $'000	Total $'000	Issued capital $'000	Accumulated losses $'000	Reserves $'000	Total $'000
Year ended 30 June 2006								
Opening balance at 1 July 2005	37,790	(20,362)	32	17,460	37,790	(20,430)	32	17,392
Equity settled share based payment transactions			2,060	2,060			2,060	2,060
Shares issued								
- Rights issue	1,183			1,183	1,183			1,183
- Share placements	35,300			35,300	35,300			35,300
- Exercise of employee options	462			462	462			462
Transaction costs of share issues	(1,958)			(1,958)	(1,958)			(1,958)
Net loss for the period (recognised income and expenses)	-	(2,506)	-	(2,506)	-	(2,111)	-	(2,111)
Closing balance at 30 June 2006	72,777	(22,868)	2,092	52,001	72,777	(22,541)	2,092	52,328
Year ended 30 June 2005								
Opening balance at 1 July 2004	26,699	(17,077)	-	9,622	26,699	(17,114)	-	9,585
Equity settled share based payment transactions			32	32			32	32
Shares issued								
- Rights issue	8,279			8,279	8,279			8,279
- Share placements	3,375			3,375	3,375			3,375
Transaction costs of share issues	(563)			(563)	(563)			(563)
Net loss for the period (recognised income and expenses)	-	(3,285)	-	(3,285)	-	(3,316)	-	(3,316)
Closing balance at 30 June 2005	37,790	(20,362)	32	17,460	37,790	(20,430)	32	17,392

Amounts are stated net of tax, where applicable. Further details of issued capital and reserves are disclosed in Note 16.

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 20 to 44.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
BALANCE SHEETS
As at 30 June 2006

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	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
CURRENT ASSETS					
Cash and cash equivalents	5	36,165	10,134	31,910	10,134
Trade and other receivables	6	10,986	247	9,824	247
Inventories	7	8	49	-	49
Investments	8	450	37	450	-
TOTAL CURRENT ASSETS		47,609	10,467	42,184	10,430
NON CURRENT ASSETS					
Trade and other receivables	6	-	-	13,498	1,343
Property, plant and equipment	9	1,198	1,873	798	1,838
Exploration and evaluation assets	10	9,673	6,891	-	5,552
TOTAL NON CURRENT ASSETS		10,871	8,764	14,296	8,733
TOTAL ASSETS		58,480	19,231	56,480	19,163
CURRENT LIABILITIES					
Trade and other payables	11	6,100	730	3,773	730
Interest bearing loans and borrowings	12	-	77	-	77
Employee benefits	24	362	261	362	261
Provisions	13	-	254	-	254
TOTAL CURRENT LIABILITIES		6,462	1,322	4,135	1,322
NON CURRENT LIABILITIES					
Employee benefits	24	17	7	17	7
Provisions	13	-	442	-	442
TOTAL NON CURRENT LIABILITIES		17	449	17	449
TOTAL LIABILITIES		6,479	1,771	4,152	1,771
NET ASSETS		52,001	17,460	52,328	17,392
EQUITY					
Issued Capital	16(a)	72,777	37,790	72,777	37,790
Reserves	16(b)	2,092	32	2,092	32
Accumulated losses	15	(22,868)	(20,362)	(22,541)	(20,430)
TOTAL EQUITY		52,001	17,460	52,328	17,392

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 20 to 44.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
STATEMENTS OF CASH FLOWS
For the year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Cash flows from operating activities					
Cash receipts from customers		349	275	1,282	813
Cash payments to suppliers and employees		(3,230)	(3,571)	(3,158)	(3,543)
Interest received		592	231	1,125	308
Borrowing costs paid		(1)	(6)	(1)	(5)
Net cash from operating activities	23	(2,290)	(3,071)	(752)	(2,428)
Cash flows from investing activities					
Proceeds on sale of non-current assets		31	279	31	279
Exploration and evaluation expenditure		(10,741)	(2,598)	(1,265)	(1,360)
Reimbursement of JV expenditure		4,256	-	-	-
Acquisition of property, plant and equipment		(502)	(213)	(502)	(177)
Net cash from investing activities		(6,956)	(2,532)	(1,736)	(1,258)
Cash flows from financing activities					
Loans advanced to controlled entities		-	-	(11,013)	(1,917)
Proceeds from the issue of shares		36,944	11,653	36,944	11,653
Payment of capital raising costs		(1,544)	(508)	(1,544)	(508)
Hire purchase repayments		(80)	(78)	(80)	(78)
Proceeds from borrowings		-	129	-	129
Repayment of borrowings		(43)	(86)	(43)	(86)
Net cash from financing activities		35,277	11,110	24,264	9,193
Net increase in cash and cash equivalents		26,031	5,507	21,776	5,507
Cash and cash equivalents at 1 July		10,134	4,627	10,134	4,627
Cash and cash equivalents at 30 June	5	36,165	10,134	31,910	10,134

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 20 to 44.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Gindalbie Metals Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the "consolidated entity").

The financial report was authorised for issue by the directors on 26 September 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act* 2001.

International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The consolidated financial statements and notes of the consolidated entity comply with IFRSs and interpretations adopted by the International Accounting Standards Board. The parent financial statements and notes do not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132 Financial Instruments: Presentation and Disclosure in respect of certain disclosure requirements.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in Note 29. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP (previous GAAP) to those reported for those periods under AIFRS.

(b) Basis of preparation

The financial report is presented in Australian dollars.

Accounting Standards available for adoption but not yet effective
Australian Accounting Standards recently issued or amended but not yet effective have not been adopted for the annual reporting period ended 30 June 2006.

No changes to current accounting policies are anticipated on adoption of these standards or amendments, with the exception of AASB 2005 – 9 *Amendments to Australian Accounting Standards* (September 2005) which requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet.

AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

Exemptions on First-time Adoption of IFRS
The accounting policies have been consistently applied by the group to all periods presented in these financials statements, except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation*, and AASB 139 *Financial instruments: Recognition and Measurement*. The Group has continued to apply its previous GAAP in the preparation and presentation of the comparative information.

The financial report is prepared on the historical cost basis except for financial instruments that have been measured at their fair value.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

(c) Principles of consolidation

Subsidiaries
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements less impairment losses.

Joint ventures
Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement.

Jointly controlled operations and assets
The interest of the Company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation
Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(d) Property, plant and equipment

Owned assets
Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (i)). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to Australian Accounting Standards – AIFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Mining property and development assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable and subsequent costs to develop the mine to the production phase.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

Leased assets
Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy (i)). Lease payments are accounted for as described in accounting policy (n).

Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives in the current and comparative periods are as follows:

- buildings 14 years
- plant and equipment 3 - 14 years
- mine infrastructure 4 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(e) Investments

Investments in equity securities
Current accounting policy
Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement. The consolidated entity has not designated any other financial assets or liabilities as measured at fair value through profit or loss.

Other financial instruments held by the consolidated entity are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss recognised directly in equity, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

The fair value of financial instruments classified as held for trading is their quoted bid price at the balance sheet date.

Financial instruments classified as held for trading or available-for-sale investments are recognised/derecognised by the consolidated entity on the date it commits to purchase/sell the investments. Securities held to maturity are recognised/derecognised on the day they are transferred to / by the consolidated entity.

Comparative period policy
Investments in other listed and unlisted entities are measured at the lower of cost and recoverable amount. Investments in marketable securities held for the purpose of trading are measured at fair value.

In measuring fair value, revaluation increments on a class of assets basis are recognised in the revaluation reserve except that amounts reversing a decrement previously recognised as an expense are recognised as revenues. Revaluation decrements are only offset against revaluation increments relating to the same class of asset and any excess is recognised as an expense.

(f) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (i)).

(g) Inventories

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of four months or less.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment

The carrying amounts of the consolidated entity's assets, other than exploration expenditure (see accounting policy (r)) and inventories (see accounting policy (g)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount
The recoverable amount of the consolidated entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment
Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits

Defined contribution plans
Obligations for contributions to defined contribution superannuation plans are recognised as an expense in the income statement as incurred.

Long-term service benefits
The consolidated entity's net obligation in respect of long-term service benefits, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Employee benefits (Continued)

discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

Share-based payment transactions
The share option programme allows consolidated entity employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Wages, salaries, annual leave and non-monetary benefits
Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

(k) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Site restoration
In accordance with the consolidated entity's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

(l) Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are not interest bearing and are normally settled on 30-day terms.

(m) Revenue

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, or there is a risk of return of the goods.

(n) Expenses

Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing income
Net financing costs comprise interest payable on borrowings calculated using the effective interest method and interest receivable on funds invested. Borrowing costs are expensed as incurred and included in net financing costs.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation
The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Gindalbie Metals Ltd.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the ‘separate taxpayer within group’ approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts . Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(p) Goods and Services Tax

Revenue, 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 consolidated 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.

(q) Share capital

Transaction costs
Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(r) Intangible assets

Exploration and evaluation assets
Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Intangible assets (Continued)

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if :

(i) sufficient data exists to determine technical feasibility and commercial viability, and
(ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy (i)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
2. REVENUE AND EXPENSES				
(a) Revenue				
Sales revenue				
Gold	-	40	-	40
Total revenue	-	40	-	40
(b) Cost of sales				
Cost of production				
Milling expenses	-	(50)	-	(50)
Mine administration expenses	-	(188)	-	(188)
Royalty expenses	-	1	-	1
Total cost of sales	-	(237)	-	(237)
(c) Other income				
Net gain on disposal of property, plant and equipment	13	149	13	149
Joint venture transaction fee received in shares	400	100	400	-
Joint venture management fees	325	-	651	-
Intercompany management fees	-	-	607	570
Other income	46	137	23	105
Total other income	784	386	1,694	824
(d) Other expenses				
Operating lease rental expense	(69)	(69)	(69)	(69)
Depreciation				
Plant & equipment	(158)	(142)	(132)	(141)
Less capitalised to E&E	57	29	31	28
Employee option expense	(1,592)	(32)	(1,592)	(32)
Exploration & evaluation expenditure written off	(128)	(1,214)	(14)	(1,213)
Impairment of inventory	-	(304)	-	(304)
Impairment in value of investments	(10)	(62)	(10)	-
Care and maintenance expenses	-	(347)	-	(347)
Impairment of loan to controlled entities	-	-	(1,243)	(637)
Total other expenses	(1,900)	(2,141)	(3,029)	(2,715)

2. REVENUE AND EXPENSES (Continued)

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(e) Net financing income					
Interest income					
Related parties		-	-	534	76
Other parties		843	231	842	231
Financial Income		843	231	1,376	307
Interest expense					
Other parties		(1)	(3)	(1)	(3)
Finance charges on hire purchase agreements		(3)	(7)	(3)	(7)
less capitalised to E&E		2	5	2	5
Financial expenses		(2)	(5)	(2)	(5)
Net financing income		841	226	1,374	302
(f) Discontinued operation					
Care and maintenance expenses		(237)	-	(237)	-
Gain on sale of discontinued operation	26	1,294		1,294	-
		1,057	-	1,057	-
(g) Personnel expenses					
Wages and salaries		(697)	(717)	(697)	(717)
Associated personnel expenses		(71)	(128)	(71)	(128)
Contributions to defined contribution superannuation funds		(115)	(116)	(115)	(116)
Increase in liability for annual leave		(89)	(64)	(89)	(64)
Increase in liability for long service leave		(25)	(32)	(25)	(32)
Equity-settled transactions		(1,592)	(32)	(1,592)	(32)
		(2,589)	(1,089)	(2,589)	(1,089)

3. INCOME TAX EXPENSE

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Recognised in the income statement					
Current tax expense					
Current year		-	-	-	-
Adjustments for prior years		-	-	-	-
		-	-	-	-
Deferred tax expense					
Origination and reversal of temporary differences		-	-	-	-
Benefit of tax losses recognised		-	-	-	-
		-	-	-	-
Total income tax expense in income statement		-	-	-	-
Numerical reconciliation between tax expense and pre-tax net loss					
Loss before tax- continuing operations		(3,563)	(3,285)	(3,168)	(3,316)
Profit before tax- discontinued operations	2(f)	1,057	-	1,057	-
Loss before tax		(2,506)	(3,285)	(2,111)	(3,316)
Income tax using the domestic corporation tax rate of 30% (2005: 30%)		(752)	(985)	(633)	(995)
Increase in income tax expense due to:					
Non-deductible expenses		2	21	2	3
Effect of tax losses not recognised		750	964	631	993
Income tax expense on pre-tax net loss		-	-	-	-

3. INCOME TAX EXPENSE (Continued)

Unrecognised deferred tax assets

The net deferred tax asset for the tax consolidated Gindalbie Group is $6,387,229 (2005: $5,513,926) which relates to tax losses carried forward and unrecognised.

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from.

4. AUDITORS REMUNERATION

	Consolidated		Company	
	2006 $	2005 $	2006 $	2005 $
Audit services:				
Auditors of the Company				
KPMG Australia:				
- audit and review of financial reports	30,116	37,570	30,116	36,570
Other services:				
Auditors of the Company				
KPMG Australia:				
- taxation services	110,750	22,890	110,750	14,250

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
5. CASH AND CASH EQUIVALENTS				
Bank balances	4,336	130	81	130
Call deposits	31,829	10,004	31,829	10,004
Cash and cash equivalents in the statement of cash flows	36,165	10,134	31,910	10,134

At 30 June 2006, $933,500 (2005: $1,193,500) of the call deposit balance above was being used to secure performance bonds in favour of various parties as per Note 27.

6. TRADE AND OTHER RECEIVABLES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Current				
Interest receivable	259	8	259	8
Receivable due from sale of discontinued operation	9,138	-	9,138	-
Joint venture receivable due	1,024	-	-	-
Other receivables and prepayments	565	239	427	239
	10,986	247	9,824	247
Non-current				
Loans to controlled entities	-	-	13,498	1,343

In June 2006 the Company finalised the sale of its Minjar Gold Project to Monarch Gold Mining Company Limited for total consideration of $10 million including the assumption of the site rehabilitation obligations. A deposit of $0.5m was received in July 2006, $2 million is due by 30 September 2006, $2.5 million (less the rehabilitation performance bond of $0.86 million) is due 12 January 2007 and the balance of $5 million is due 12 July 2007 and payable in cash or shares at the election of Monarch.

Loans to controlled entities
The ultimate recoverability of intercompany receivables is dependent upon the future exploration success of the controlled entities. Intercompany receivables are repayable on demand.

Loans to controlled entities are shown net of impairment losses of $4,168,153 (2005: $2,925,394).

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
7. INVENTORIES					
Current					
Raw materials and stores		8	49	-	49

Inventories are shown net of impairment losses of $304,575 in the comparative year.

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
8. INVESTMENTS					
Current					
Investments in other listed entities:					
Listed equity securities held for trading - at fair value		450	-	450	-
Investment in other listed securities at cost		-	100	-	-
Provision for impairment		-	(63)	-	-
		450	37	450	-
Non-current					
Investments in controlled entities:					
Unlisted shares at cost		-	-	50	50
Provision for impairment		-	-	(50)	(50)
		-	-	-	-

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
9. PROPERTY, PLANT AND EQUIPMENT				
Buildings				
At cost	83	90	-	87
Accumulated depreciation	(4)	-	-	-
	79	90	-	87
At deemed cost – June 2004	-	218	-	218
	79	308	-	305
Plant and equipment				
At cost	1,434	969	1,268	936
Accumulated depreciation	(485)	(554)	(470)	(553)
	949	415	798	383
At deemed cost – June 2004	-	1,150	-	1,150
	949	1,565	798	1,533
Mine infrastructure				
At cost	177	-	-	-
Accumulated depreciation	(7)	-	-	-
	170	-	-	-
Total property, plant and equipment	1,198	1,873	798	1,838

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Buildings				
Carrying amount at beginning of year	308	218	305	218
Additions	80	135	-	132
Depreciation	(4)	-	-	-
Disposals	(305)	(45)	(305)	(45)
Carrying amount at end of year	79	308	-	305
Plant and equipment				
Carrying amount at beginning of year	1,565	1,714	1,533	1,714
Additions	774	78	641	46
Depreciation	(147)	(142)	(133)	(142)
Disposals	(1,243)	(85)	(1,243)	(85)
Carrying amount at end of year	949	1,565	798	1,533
Mine Infrastructure				
Carrying amount at beginning of year	-	-	-	-
Additions	177	-	-	-
Depreciation	(7)	-	-	-
Carrying amount at end of year	170	-	-	-

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000

10. EXPLORATION AND EVALUATION ASSETS

Costs carried forward in respect of areas of interest in:

		Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Exploration and evaluation assets					
Carrying amount at beginning of year		6,891	5,485	5,552	5,384
Additions		9,237	2,620	789	1,381
Expenditure written off		(128)	(1,214)	(14)	(1,213)
Disposals		(6,327)	-	(6,327)	-
		9,673	6,891	-	5,552

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

11. TRADE AND OTHER PAYABLES

		Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Current					
Trade creditors		3,546	645	1,217	645
Other creditors and accruals		2,554	85	2,556	85
		6,100	730	3,773	730

12. INTEREST BEARING LOANS AND BORROWINGS

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Current					
Current portion of hire purchase liabilities	17	-	77	-	77
		-	77	-	77

13. PROVISIONS

		Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Mine Rehabilitation					
Balance at 1 July		696	755	696	755
Provision used during the year		(193)	(59)	(193)	(59)
Disposal of discontinued operation		(503)	-	(503)	-
Balance as at 30 June		-	696	-	696
Current		-	254	-	254
Non-current		-	442	-	442
		-	696	-	696

In accordance with State government legislative requirements, a provision for mine rehabilitation was recognised in the prior year in relation to the consolidated entity's gold mining operations which were disposed of on 30 June 2006.

14. CONSOLIDATED ENTITIES

	Ownership Interest 2006 %	Ownership Interest 2005 %
Parent entity		
Gindalbie Metals Ltd		
Subsidiaries		
Karara Management Services Pty Ltd	100	-
Lotus Minerals Ltd	100	100
DSO Ventures Pty Ltd (formerly Gindalbie Lime Pty Ltd)	100	100
Gindalbie (Anketell) Ltd	100	100

In the financial statements of the Company, investments in controlled entities are measured at cost. The Company has no jointly controlled entities.

15. ACCUMULATED LOSSES

		Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Accumulated losses at beginning of year		(20,362)	(17,077)	(20,430)	(17,114)
Net loss attributable to members of the parent entity		(2,506)	(3,285)	(2,111)	(3,316)
Accumulated losses at end of year		(22,868)	(20,362)	(22,541)	(20,430)

	Consolidated		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
16. CONTRIBUTED EQUITY				
(a) Share Capital				
430,884,406 (2005: 302,249,429) Ordinary shares, fully paid	72,777	37,790	72,777	37,790
Ordinary shares				
Movements during the year				
Balance at beginning of year	37,790	26,699	37,790	26,699
Shares issued				
- Rights issue	1,183	8,279	1,183	8,279
- Share placements	35,300	3,375	35,300	3,375
- Exercise of employee options	462	-	462	-
Transaction costs of share issues	(1,958)	(563)	(1,958)	(563)
Balance at end of year	72,777	37,790	72,777	37,790

During the year the Company

- issued 13,142,755 shares at 9 cents each to clients of Bell Potter Securities Limited being the shortfall of the 1 for 2 entitlement issue that closed on 5 June 2005, raising $1,182,948
- issued 22,222,222 shares at 9 cents each by way of a share placement to Connemara Investments Pty Ltd (a related party of Mr GF Jones) and Osson Pty Ltd raising $2,000,000
- issued 90,000,000 shares at 37 cents each by way of a share placement to Australian and International institutional clients of Southern Cross Equities Ltd raising $33,300,000
- issued 1,000,000 shares at 12 cents, 2,250,000 shares at 15 cents and 20,000 shares at 20 cents upon exercise of employee options raising $461,500.

During the comparative year the Company

- issued 27,000,000 shares at 12.5 cents each by way of a share placement to Melewar Steel Ventures Limited raising $3,375,000
- issued 91,987,973 shares at 9 cents each by way of a 1 for 2 entitlement issue raising $8,278,918.

Terms and conditions

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 all other shareholders and creditors and are fully entitled to any proceeds of liquidation. Note 24 provides details of shares issued on exercise of options.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

(b) Equity Settled Share Based Payments Reserve

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Balance at beginning of year	32	-	32	-
Equity settled share based payments	2,060	32	2,060	32
Balance at end of year	2,092	32	2,092	32

The equity settled share based payments reserve comprises the value of options granted in the year calculated at grant date using a Black-Scholes model. For options with a future vesting period the option value is bought to account progressively over the term of the vesting period, being 1 July 2005 to 30 June 2008.

17. CAPITAL AND OTHER COMMITMENTS

Capital expenditure commitments

Plant and equipment

Contracted but not provided for and payable:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Within one year	366	-	16	-

17. CAPITAL AND OTHER COMMITMENTS (Continued)

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the consolidated entity 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 a mining lease is made and at other times. These obligations are not provided for in the financial report and are payable:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
No later than one year				
Commitment on tenements held by the Company or consolidated entity	888	2,547	327	1,918
Commitment to be met by JV partners	(281)	(1,111)	-	(550)
Commitment to be met by the Company or consolidated entity	607	1,436	327	1,368

Expenditure commitments for exploration programs beyond the next 12 months have not been determined by the Company.

Hire Purchase commitments

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Hire purchase rentals are payable as follows:					
Within one year		-	80	-	80
		-	80	-	80
Less: Unexpired hire purchase charges		-	3	-	3
		-	77	-	77
Hire purchase liabilities provided for in the financial statements:					
Current	12	-	77	-	77
Total hire purchase liability		-	77	-	77

The consolidated entity acquires plant and equipment under hire purchase agreement with a duration of between three to four years.

18. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Less than one year	312	109	312	109
Between one and five years	1,304	217	1,304	217
More than five years	1,145	-	1,145	-
	2,761	326	2,761	326

The consolidated entity leases equipment under operating leases expiring from two to five years. The consolidated entity also leases office space under a non-cancellable operating lease expiring in eight years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

19. INTERESTS IN JOINT VENTURE OPERATIONS

The consolidated entity has interests in the following joint ventures:

Tenement Area	**Note**	**Equity Interest 2006 %**	**Equity Interest 2005 %**	**Activities**
Karara Iron Ore Project - Pellet Project	(a)	100	-	Iron Ore-Magnetite
Karara Iron Ore Project - DSO Project	(a)	100	-	Iron Ore-Hematite
Windanning Hill	(b)	-	73	Gold
Anketell	(b)	-	100	Gold/Copper
Messengers Patch	(b)	-	80	Gold
Mt Mulgine	(c)	100	100	Tungsten
Warriedar Iron Ore Rights	(d)	60	60	Iron Ore

19. INTERESTS IN JOINT VENTURE OPERATIONS (Continued)

Notes:

(a) The consolidated entity retains a 100% (2005:nil) interest in the tenements that comprise the Karara Hematite Joint Venture and the Karara Concentrate/Pellet Joint Venture. Anshan Iron and Steel Group Corporation (Ansteel), China's second largest steel producer, are contributing to a 50/50 joint venture on both the Hematite and Concentrate/Pellet Projects. Ansteel will not perfect its 50% interest in either project until operating agreements and all financing has been arranged in respect to the Concentrate/Pellet Project. Included in the assets and liabilities of the consolidated entity's interest are the following assets and liabilities employed in the joint ventures:

	Consolidated		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
CURRENT ASSETS				
Cash and cash equivalents	4,256	-	-	-
Trade and other receivables	1,159	-	-	-
Inventories	8	-	-	-
TOTAL CURRENT ASSETS	5,423	-	-	-
NON CURRENT ASSETS				
Exploration and evaluation assets	5,416	-	-	-
TOTAL NON CURRENT ASSETS	5,416	-	-	-
TOTAL ASSETS	10,839	-	-	-
CURRENT LIABILITIES				
Trade and other payables	2,327	-	-	-
TOTAL CURRENT LIABILITIES	2,327	-	-	-
TOTAL LIABILITIES	2,327	-	-	-

(b) Project disposed of during the year.

(c) Vital Metals Ltd is earning a 70% interest in this project.

(d) During the year the terms of the Warriedar JV with Royal Resources were revised whereby the project tenure was split between gold/base metals and iron ore. The tenure and gold/base metal rights were assigned to Monarch as part of the sale of the Company's gold assets. The rights to the iron ore on the JV have been retained by Gindalbie with the Company's 60% being retained if $1,000,000 is spent over 3 years. Gindalbie must spend $300,000 and complete 1,500 metres of drilling before it can withdraw from the JV.

20. SEGMENT INFORMATION

The Company operates in one business segment and one geographical segment, namely iron ore exploration in Australia. The revenues and results of this segment are those of the company as a whole and are set out in the statement of financial performance.

21. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of $2,505,308 (2005: $3,284,965) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 347,636,845 (2005: 211,438,978), calculated as follows:

Loss attributable to ordinary shareholders

	Consolidated	
	2006	2005
	$'000	$'000
Loss attributable to ordinary shareholders	(2,506)	(3,285)

Weighted average number of ordinary shares	2006	2005
	No of shares	No of shares
Issued ordinary shares at 1 July	302,249,429	183,261,456
Effect of share placements	33,732,115	4,284,371
Effect of 1 for 2 Entitlement Issue shares	10,910,287	23,893,151
Effect of shares issued on exercise of employee share options	745,014	-
Weighted average number of ordinary shares at 30 June	347,636,845	211,438,978

21. EARNINGS PER SHARE (Continued)

	Consolidated	
Earnings per share for continuing and discontinued operations	2006	2005
Basic earnings per share - cents		
From continuing operations	(1.02)	(1.56)
From discontinuing operations	0.30	-

For the financial year ended 30 June 2006, earnings per share for continuing and discontinued operations has been calculated using the same figures as earnings per share, except that the profit or loss for the period used in the calculation is the loss relating to continuing operations of $2,505,308 (2005: $3,284,965) and the profit relating to the sale of the discontinued operations of $1,056,857 (2005: nil).

22. FINANCIAL INSTRUMENTS

Exposure to interest rate, credit and commodity price risks arises in the normal course of the consolidated entity's business. The consolidated entity currently does not use derivative financial instruments for hedging, trading or investment purposes.

(a) Interest rate risk exposures
The consolidated entity's exposure to interest rate risk and the effective interest rate for classes of income-earning financial assets and interest-bearing financial liabilities is set out below:

Effective interest rates and repricing analysis

	Note	Effective interest rate	Floating interest rate $'000	1 year or less $'000	1 to 5 years $'000
2006					
Financial assets					
Cash assets	5	5.88%	7,326	28,839	-
Receivables	6	7.78%	-	9,138	-
			7,326	37,977	-

	Note	Effective interest rate	Floating Interest rate $'000	1 year or less $'000	1 to5 years $'000
2005					
Financial assets					
Cash assets	5	5.26%	9,099	1,035	-
			9,099	1,035	-
Financial Liabilities					
Hire purchase liabilities	12	6.55%	-	77	-
			-	77	-

(b) Credit risk exposures
Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on financial assets, excluding investments, of the consolidated entity, which have been recognised on the balance sheet, is the carrying amount, net of any provision for impairment. The Company and consolidated entity are not materially exposed to any individual overseas country.

(c) Commodity price risk
The consolidated entity is not currently producing iron ore for sale and as such is not exposed to any commodity price risk.

The Company and consolidated entities had no outstanding forward and derivative contracts as at 30 June 2006. The consolidated entity has no hedging contracts in place at 30 June 2006.

(d) Foreign exchange risk
The consolidated entity may enter into foreign exchange contracts in appropriate currencies to manage exposure to foreign exchange risk.

22. FINANCIAL INSTRUMENTS (Continued)

Fair values
The carrying amounts of financial assets and liabilities approximate fair value.

Estimation of fair values
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Securities
Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows.

Trade and other receivables/payables
For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

	Consolidated		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
23. NOTES TO THE STATEMENTS OF CASH FLOWS				
Reconciliation of cash flows from operating activities				
Loss for the period after income tax	(2,506)	(3,285)	(2,111)	(3,316)
Adjustments for:				
Gain on sale of property, plant and equipment	(13)	(149)	(13)	(149)
Finance charges on hire purchase	1	2	1	2
Depreciation	101	113	101	113
Write off of carried forward exploration expenditure	128	1,214	14	1,213
Joint Venture transaction fee received in shares	(400)	(100)	(400)	-
Profit on transfer of shares in listed company	(22)	-	-	-
Impairment of inventory	-	305	-	305
Impairment of intercompany loans	-	-	1,243	637
Impairment loss on investments	10	62	10	-
Employee option expense	1,592	32	1,592	32
Operating (loss)/profit before changes in working capital and provisions	(1,109)	(1,806)	437	(1,163)
Decrease/(increase) in receivables	1	126	-	126
Decrease/(increase) in other assets	(297)	(60)	(297)	(60)
Decrease/(increase) in inventory	22	(105)	22	(105)
Increase/(decrease) in provisions	(81)	(62)	(81)	(62)
Increase/(decrease) in other creditors	468	(1,164)	461	(1,164)
	(996)	(3,071)	542	(2,428)
Gain on sale of discontinued operations	(1,294)	-	(1,294)	-
Net cash from operating activities	(2,290)	(3,071)	(752)	(2,428)
24. EMPLOYEE BENEFITS				
Current				
Liability for long service leave	134	127	134	127
Liability for annual leave	228	134	228	134
	362	261	362	261
Non Current				
Liability for long service leave	17	7	17	7
	17	7	17	7
	379	267	379	267

24. EMPLOYEE BENEFITS (Continued)

(a) Defined contribution superannuation funds

The Company makes contributes to several defined contribution superannuation funds. The Company has a legally enforceable obligation to contribute to these plans and contributes at the statutory rate of 9% of gross earnings. The amount recognised as expense was $226,116 for the financial year ended 30 June 2006 (2005: $154,450).

(b) Share based payments

The Company has an employee share option plan which was approved at the 2001 Annual General Meeting held on 29 November 2001.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the rules of the plan, is based on the weighted average price of the Company's shares traded during the five business days preceding the date of granting the option.

All employee options expire on the earlier of their expiry date or three months after the termination of the employee's employment. Options generally vest upon issue and exercise is solely at the discretion of the holder. All options are unlisted and cannot be sold or transferred.

There are no voting rights attached to the options or to the unissued ordinary shares. Voting rights will be attached to the issued ordinary shares when the options have been exercised.

In May 2006 the Company issued 2,000,000 options to Southern Cross Equities for partial consideration for their management of the share placement completed in April 2006. The option issue was approved by shareholders at the General Meeting held on 13 April 2006.

Summary of options over unissued ordinary shares
Details of options over unissued ordinary shares as at the beginning and end of the reporting period and movements during the year are set out below.

The fair value of shares issued as a result of exercising options during the reporting period is the market price of the shares of the Company on the Australian Stock Exchange as at close of trading on the date of issue.

The amounts recognised in the financial statements of the Company and consolidated entity in relation to share options exercised during the year were:

		Consolidated		Company	
		2006	2005	2006	2005
	Note	$'000	$'000	$'000	$'000
Issued ordinary share capital	16	462	-	462	-

24. EMPLOYEE BENEFITS (Continued)

(b) Share based payments

Expiry Date	Exercise Price $	Number of options at beginning of year	Options granted	Options lapsed	Options exercised	Number of options on issue at end of year		Proceeds received $	Number of shares issued	Weighted average share price at date of exercise
						Vested	Unvested			
Consolidated and Company 2006										
30 Nov 2006	$0.12	50,000	-	-	-	50,000	-	-	-	-
20 Nov 2006	$0.18	150,000	-	-	-	150,000	-	-	-	-
30 Nov 2006	$0.20	70,000	-	-	20,000	50,000	-	4,000	20,000	0.40
30 Nov 2006	$0.25	300,000	-	-	-	300,000	-	-	-	-
30 Nov 2006	$0.32	200,000	-	-	-	200,000	-	-	-	-
30 Nov 2006	$0.35	890,000	-	-	-	890,000	-	-	-	-
30 Nov 2006	$0.40	200,000	-	-	-	200,000	-	-	-	-
30 Nov 2006	$0.45	890,000	-	-	-	890,000	-	-	-	-
30 Nov 2006	$0.55	890,000	-	-	-	890,000	-	-	-	-
31 Dec 2006	$0.15	4,400,000	-	-	2,250,000	2,150,000	-	337,500	2,250,000	0.54
30 Apr 2008	$0.15	-	250,000	-	-	250,000	-	-	-	-
30 Sept 2008	$0.14	-	400,000	-	-	400,000	-	-	-	-
30 Sept 2008	$0.20	-	400,000	-	-	-	400,000	-	-	-
30 Sept 2008	$0.22	-	100,000	-	-	-	100,000	-	-	-
30 Sept 2008	$0.45	-	300,000	-	-	300,000	-	-	-	-
30 Sept 2010	$0.12	-	3,200,000	-	1,000,000	2,200,000	-	120,000	1,000,000	0.69
30 Sept 2010	$0.16	-	3,200,000	(150,000)	-	-	3,050,000	-	-	-
30 Sept 2010	$0.25	-	6,400,000	(300,000)	-	-	6,100,000	-	-	-
30 Sept 2010	$0.35	-	2,000,000	-	-	500,000	1,500,000	-	-	-
		8,040,000	16,250,000	(450,000)	3,270,000	9,420,000	11,150,000	461,500	3,270,000	
Consolidated and Company 2005										
29 Nov 2004	$0.18	1,420,000	-	(1,420,000)	-	-	-	-	-	-
29 Nov 2004	$0.32	370,000	-	(370,000)	-	-	-	-	-	-
30 Nov 2006	$0.12	50,000	-	-	-	50,000	-	-	-	-
30 Nov 2006	$0.18	150,000	-	-	-	150,000	-	-	-	-
30 Nov 2006	$0.20	290,000	-	(220,000)	-	70,000	-	-	-	-
30 Nov 2006	$0.25	520,000	-	(220,000)	-	300,000	-	-	-	-
30 Nov 2006	$0.32	200,000	-	-	-	200,000	-	-	-	-
30 Nov 2006	$0.35	1,030,000	-	(140,000)	-	890,000	-	-	-	-
30 Nov 2006	$0.40	200,000	-	-	-	200,000	-	-	-	-
30 Nov 2006	$0.45	1,030,000	-	(140,000)	-	890,000	-	-	-	-
30 Nov 2006	$0.55	1,030,000	-	(140,000)	-	890,000	-	-	-	-
31 Dec 2006	$0.15	-	4,400,000	-	-	4,400,000	-	-	-	-
		6,290,000	4,400,000	(2,650,000)	-	8,040,000	-	-	-	-

The market value of shares under these options at 30 June 2006 was 49 cents (30 June 2005: 7.7 cents).

Fair value of share options and assumptions

	2006									2005
Fair value at measurement date (cents)	4.95	3.93	8.12	23.63	22.40	20.21	18.14	19.10	23.42	2.26
Share price at grant date (cents)	11	11	17	29.5	29.5	29.5	29.5	40.2	39.3	8.7
Exercise price (cents)	14	20	22	12	16	25	35	45	50	15
Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes formula) (%)	72	73	78	78	78	78	78	78	78	72
Option life (expressed as weighted average life used in the modelling under the Black Scholes formula) (years)	3	3	3	4.8	4.8	4.8	4.8	2.6	4.6	2
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on national government bonds) (%)	5.315	5.315	5.315	5.315	5.315	5.315	5.315	5.315	5.315	5.130

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

25. RELATED PARTIES DISCLOSURES

Key management personnel disclosures
The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Executive directors
Mr GF Jones (appointed 12 September 2005, appointed Executive Chairman 10 July 2006)
Mr DL McSweeney (Managing Director & CEO)

Non-executive directors
Mr DM Murcia
Mr TYBT Abdullah
Mr MJ O'Neill (appointed 12 April 2006)
Mr WJ Ryan (resigned 24 November 2005)
Mr KG McKay (resigned 16 May 2006)

Executives
Mr DP Gordon (Company Secretary & CFO)
Mr AT Munckton (General Manager Operations)
Mr PE Freund (General Manager Magnetite) (appointed 16 January 2006)

Key management personnel compensation
The key management personnel compensation included in 'personnel expenses' (see Note 2(g)) or capitalised under exploration and evaluation assets per accounting policy Note 1(r) are as follows:

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
Short-term employee benefits	1,175,932	745,357	1,175,932	745,357
Post-employment benefits	125,147	99,715	125,147	99,715
Termination benefits	90,000	-	90,000	-
Equity compensation benefits	1,523,559	56,457	1,523,559	56,457
	2,914,638	901,529	2,914,638	901,529

Equity holdings and transactions
The movement during the reporting period in the number of ordinary shares of Gindalbie Metals Ltd held, directly, indirectly, or beneficially by each key management person, including their related parties is as follows:

	Held at 1 July 2005	**Purchases or held at date of employment**	**Received on exercise of options**	**Sales**	**Less balance held upon resignation**	**Held at 30 June 2006**
Directors						
Mr DL McSweeney	7,222,494	-	2,000,000	2,000,000	-	7,222,494
Mr GF Jones	-	11,500,000	-	-	-	11,500,000
Mr DM Murcia	228,000	-	-	-	-	228,000
Mr TYBT Abdullah*	-	-	-	-	-	-
Mr MJ O'Neill	-	1,000,000	-	-	-	1,000,000
Mr KG McKay	563,708	-	-	-	563,708	-
Mr WJ Ryan	900,000	-	-	-	900,000	-
Executives						
Mr DP Gordon	3,092,500	107,500	-	450,000	-	2,750,000
Mr AT Munckton	-	-	-	-	-	-
Mr PE Freund	-	100,000	-	10,000	-	90,000

	Held at 1 July 2004	**Purchases**	**Received on exercise of options**	**Sales**	**Less balance held upon resignation**	**Held at 30 June 2005**
Directors						
Mr DL McSweeney	6,958,586	969,666	-	705,758	-	7,222,494
Mr DM Murcia	152,000	76,000	-	-	-	228,000
Mr TYBT Abdullah*	-	-	-	-	-	-
Mr KG McKay	375,805	187,903	-	-	-	563,708
Mr WJ Ryan	-	900,000	-	-	-	900,000
Executives						
Mr DP Gordon	1,800,000	1,392,500	-	100,000	-	3,092,500
Mr AT Munckton	-	-	-	-	-	-

25. RELATED PARTIES DISCLOSURES (Continued)

* Mr Tunku Ya'acob Bin Tunku Abdullah is the Managing Director of Melewar Steel Ventures Limited a company which is 100% owned by Melewar Industrial Group Berhad of which Mr Abdullah is also a director. Melewar Steel Ventures Limited and its associated entities are the largest shareholder in Gindalbie Metals Limited holding 74,087,009 shares of the Company's issued capital at 30 June 2006.

Options and rights over equity instruments
The movement during the reporting period in the number of options over ordinary shares in Gindalbie Metals Ltd held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2005	Granted as remuneration	Exercised	Other Changes*	Held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Directors							
Mr DL McSweeney	2,500,000	4,000,000	2,000,000	-	4,500,000	1,000,000	1,500,000
Mr GF Jones	-	4,000,000	-	-	4,000,000	1,000,000	1,000,000
Mr DM Murcia	210,000	600,000	-	-	810,000	150,000	360,000
Mr TYBT Abdullah	-	600,000	-	-	600,000	150,000	150,000
Mr KG McKay (resigned 16 May 2006)	210,000	600,000	-	(450,000)	360,000	150,000	360,000
Executives							
Mr DP Gordon	1,500,000	2,000,000	-	-	3,500,000	500,000	2,000,000
Mr AT Munckton	1,500,000	1,000,000	-	-	2,500,000	250,000	1,750,000
Mr PE Freund	-	2,000,000	-	-	2,000,000	500,000	500,000

	Held at 1 July 2004	Granted as remuneration	Exercised	Other Changes*	Held at 30 June 2005	Vested during the year	Vested and exercisable at 30 June 2005
Directors							
Mr DL McSweeney	2,000,000	1,000,000	-	(500,000)	2,500,000	1,000,000	2,500,000
Mr DM Murcia	210,000	-	-	-	210,000	-	210,000
Mr KG McKay	360,000	-	-	(150,000)	210,000	-	210,000
Executives							
Mr DP Gordon	950,000	750,000	-	(200,000)	1,500,000	750,000	1,500,000
Mr AT Munckton	750,000	750,000	-	-	1,500,000	750,000	1,500,000

* Other changes represent options that lapsed upon resignation during the year (2006) and expired during the year (2005).

No options held by key management personnel are vested but not exercisable.

Individual directors and executives compensation disclosures
Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' Report on pages 4 to 9.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Other transactions with key management personnel
A number of key management persons, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised as expenses during the year relating to key management personnel and their personally-related entities were $105,521 (2005: $57,178). Details of the transactions are as follows:

25. RELATED PARTIES DISCLOSURES (Continued)

Other transactions with key management personnel

			Consolidated		Company	
			2006	2005	2006	2005
		Note	$	$	$	$
Directors	**Transaction**					
Mr DM Murcia	Legal fees	(a)	43,540	30,012	39,789	30,012
Mr KG McKay	Mining Consulting Services	(b)	55,885	16,265	55,885	16,265
Mr DL McSweeney	Mining Consulting Services	(c)	6,096	10,901	6,096	10,901

(a) The Company used the legal services of Murcia Pestell Hillard, a legal firm of which Mr DM Murcia is a principal, in relation to general legal advice of the Company. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(b) Mr KG McKay provided mining consulting services to the Company. Amounts were billed based upon agreed nominal market rates for such services and were due and payable under normal payment terms.

(c) The Company has also transacted during the year with McSweeney Partners Pty Ltd. The principal of this entity, Mr Peter McSweeney is the brother of Mr D McSweeney. The entity is a specialist in engineering and resource development consulting. All transactions with McSweeney Partners Pty Ltd are based on the requisite skill of the consultancy for the work required by the Company and are undertaken on an arms length basis. Work undertaken by McSweeney Partners Pty Ltd was billed based on normal market rates for such services and was due and payable under normal payment terms. Mr D McSweeney has no interest in McSweeney Partners Pty Ltd.

Amounts payable to key management personnel at reporting date arising from these transactions were as follows:

Liabilities arising from the above transactions

Current payables				
Trade creditors	7,209	1,631	5,183	1,631

There were no loans made to key management personnel.

All additional required key management personnel disclosures are contained in the Remuneration Report section of the Directors' Report on pages 4 to 9.

Other related party transactions

Subsidiaries

Loans are made by the Company to its wholly owned subsidiaries. With the exception of the specific transactions noted below, loans outstanding between the Company and its controlled entities are repayable on demand and are non-interest bearing. During the financial year ended 30 June 2006, such loans to subsidiaries totalled $13,498,140 (2005: $1,342,675). These loans have been recognised as non current receivables.

Loans made by the Company to its subsidiary (Lotus Minerals Ltd) are charged interest at 8% pa. At 30 June 2006, the amount owed to the Company was $10,726,345 (2005: $1,292,992). The total interest income received by the Company was $533,729 (2005: $76,618).

A management fee was also charged by the Company to Lotus Minerals Ltd totalling $606,900 to 31 December 2005 (2005: $570,000) representing recharge of administrative costs to the exploration project. From 1 January 2006 a management fee of $651,000 was charged to the Karara Iron Ore Project Joint Venture of which 50% ($325,500) relates to the Company's wholly owned subsidiaries.

26. DISCONTINUED OPERATIONS

In June 2006 the Company finalised the sale of its Minjar Gold Project to Monarch Gold Mining Company Limited for total consideration of $10 million including the assumption of the site rehabilitation obligations. A deposit of $0.5m was received in July 2006 with $2 million due by 30 September 2006, $2.5 million (less the rehabilitation performance bond of $0.86 million) due 12 January 2007 and the balance of $5 million due July 2007 and payable in cash or shares at the election of Monarch.

During the financial year ended 30 June 2006 the gold operations had cash outflows from operating activities of $229,332 (2005: $1,811,277).The consolidated entity was committed to a plan to divest its gold and base metal assets due to a strategic decision to change the direction of the consolidated entity in September 2005.

26. DISCONTINUED OPERATIONS (Continued)

Effect of the disposal on individual assets and liabilities of the consolidated entity

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000
Property, plant & equipment		1,469	-
Inventories		41	-
Exploration and evaluation assets		6,327	-
Rehabilitation provision		(503)	-
Net identifiable assets and liabilities		7,334	-
Consideration receivable		10,000	-
Performance bond transfer		(862)	-
Unearned interest		(510)	-
Net consideration		8,628	-
Gain on sale of discontinued operation	2(f)	1,294	-

27. CONTINGENT LIABILITIES

Details of contingent liabilities are set out below.

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liabilities considered remote

Performance guarantees

The Company has performance guarantees in place with the Department of Industry and Resources totalling $862,500 under a performance bond facility with Macquarie Bank Limited. The guarantee is secured by a $862,500 term deposit.

The Company also has an additional performance guarantee in place with the Department of Industry and Resources for $31,000 representing security bonds over ground disturbance applications. The guarantee is secured by a $31,000 term deposit with National Australia Bank.

Other guarantees

The Company also has a $40,000 performance guarantee in place with National Australia Bank to secure payment of rent under the Company's lease of premises at its previous office premises at 10 Kings Park Road, West Perth. This guarantee is secured by a $40,000 term deposit. This performance guarantee is expected to be released in September 2006 as the lease on these premises is no longer held.

28. EVENTS SUBSEQUENT TO REPORTING DATE

Appointment of Executive Chairman

On 10 July 2006 the Company announced the appointment of Mr George Jones as Executive Chairman of the Company. In his executive capacity Mr Jones will be responsible for overseeing, promoting and facilitating the Group's strategic plans at a corporate level and fostering the strong relationship the Company has with its joint venture partner on the Karara Iron Ore Project, Anshan Iron and Steel Group Corporation.

29. EXPLANATION OF TRANSITION TO AIFRSs

As stated in significant accounting policies Note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the Company and the consolidated entity have adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP. An explanation of how the transition from previous GAAP to AIFRSs has affected the Company's and the consolidated entity's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

29. EXPLANATION OF TRANSITION TO AIFRSs (Continued)

Reconciliation of equity

			Consolidated 1 July 2004				Consolidated 30 June 2005			Company 1 July 2004			Company 30 June 2005	
	Note	**AGAAP**	**Transition Impact**	**AIFRS**	**Note**	**AGAAP**	**Transition Impact**	**AIFRS**	**AGAAP**	**Transition Impact**	**AIFRS**	**AGAAP**	**Transition Impact**	**AIFRS**
		$'000	**$'000**	**$'000**		**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
CURRENT ASSETS														
Cash and cash equivalents		4,627		4,627		10,134		10,134	4,627		4,627	10,134		10,134
Trade and other receivables		243		243		247		247	243		243	247		247
Inventories		258		258		49		49	258		258	49		49
Investments		-		-		37		37	-		-	-		-
Total current assets		**5,128**	**-**	**5,128**		**10,467**	**-**	**10,467**	**5,128**		**5,128**	**10,430**		**10,430**
NON CURRENT ASSETS														
Trade and other receivables		-		-		-		-	64		64	1,343		1,343
Property, plant and equipment		1,932		1,932		1,873		1,873	1,932		1,932	1,838		1,838
Exploration and evaluation assets		5,485		5,485		6,891		6,891	5,384		5,384	5,552		5,552
Total non-current assets		**7,417**	**-**	**7,417**		**8,764**	**-**	**8,764**	**7,380**		**7,380**	**8,733**		**8,733**
Total assets		**12,545**	**-**	**12,545**		**19,231**	**-**	**19,231**	**12,508**		**12,508**	**19,163**		**19,163**

29. EXPLANATION OF TRANSITION TO AIFRSs (Continued)

Reconciliation of equity

		Consolidated 1 July 2004			Consolidated 30 June 2005			Company 1 July 2004			Company 30 June 2005		
	Note	AGAAP	Transition Impact	AIFRS	AGAAP	Transition Impact	AIFRS	AGAAP	Transition Impact	AIFRS	AGAAP	Transition Impact	AIFRS
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
CURRENT LIABILITIES													
Trade and other payables		1,747		1,747	730		730	1,747		1,747	730		730
Interest bearing loans		78		78	77		77	78		78	77		77
Employee benefits		246		246	261		261	246		246	261		261
Provisions		755		755	254		254	755		755	254		254
Total current liabilities		**2,826**	**-**	**2,826**	**1,322**	**-**	**1,322**	**2,826**		**2,826**	**1,322**		**1,322**
NON CURRENT LIABILITIES													
Interest bearing liabilities		70		70	-		-	70		70	-		-
Employee benefits		27		27	7		7	27		27	7		7
Provisions		-		-	442		442	-		-	442		442
Total non-current liabilities		**97**	**-**	**97**	**449**	**-**	**449**	**97**		**97**	**449**		**449**
Total liabilities		**2,923**	**-**	**2,923**	**1,771**	**-**	**1,771**	**2,923**		**2,923**	**1,771**		**1,771**
Net Assets		**9,622**	**-**	**9,622**	**17,460**	**-**	**17,460**	**9,585**		**9,585**	**17,392**		**17,392**
EQUITY													
Issued Capital		26,699		26,699	37,790		37,790	26,699		26,699	37,790		37,790
Reserves	(a)	-		-	-	32	32	-		-	-	32	32
Retained Losses	(a)(b)	(17,077)		(17,077)	(20,330)	(32)	(20,362)	(17,114)		(17,114)	(20,398)	(32)	(20,430)
Total Equity		**9,622**	**-**	**9,622**	**17,460**	**-**	**17,460**	**9,585**		**9,585**	**17,392**		**17,392**

29. EXPLANATION OF TRANSITION TO AIFRSs (Continued)

Reconciliation of profit for 2005

	Note	Consolidated For the year ended 30 June 2005			Company For the year ended 30 June 2005		
		AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition Impact $'000	AIFRS $'000
Revenue		40	-	40	40	-	40
Cost of sales		(237)	-	(237)	(237)	-	(237)
Gross loss		(197)	-	(197)	(197)	-	(197)
Other income	(b)	515	(129)	386	953	(129)	824
Administration expenses		(1,559)	-	(1,559)	(1,530)	-	(1,530)
Other expenses	(a),(b)	(2,238)	97	(2,141)	(2,812)	97	(2,715)
Loss from operating activities		(3,282)	(32)	(3,314)	(3,389)	(32)	(3,421)
Financial income		231	-	231	307	-	307
Financial expenses		(5)	-	(5)	(5)	-	(5)
Net financing income		226	-	226	302	-	302
Loss before tax		(3,253)	(32)	(3,285)	(3,284)	(32)	(3,316)
Income tax expense		-	-	-	-	-	-
Loss for the year		(3,253)	(32)	(3,285)	(3,284)	(32)	(3,316)

Notes to the reconciliations of equity and profit

(a) The consolidated entity applied AASB 2 to its share-based payment arrangements at 1 July 2005 except for equity-settled share-based payment arrangements granted before 7 November 2002. The consolidated entity has granted equity-settled share-based payments during the 2005 and 2006 financial years.

Under previous GAAP, the consolidated entity did not account for equity settled share based payments. Such payments are now recognised at fair value in accordance with AASB 2.

The effect in the consolidated entity of accounting for equity-settled share-based payment transactions at fair value was to increase *other expenses* by $31,791 for the year ended 30 June 2005. The adoption of AASB 2 is equity-neutral for equity-settled transactions. The expense recognised for the consumption of employee services received as consideration for share options granted will be deductible for tax purposes when the share options are exercised.

(b) Under AIFRS the gain or loss on the disposal of property, plant and equipment is recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the consolidated entity an amount of $129,258 was reclassified from other expenses to other income for the financial year ended 30 June 2005.

(c) Under AIFRS the balance sheet method of tax effect accounting is adopted rather than the liability method previously applied under GAAP. Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group presently offsets deferred tax assets and deferred tax liabilities relating to the same taxation authority.

The residual of any deferred tax assets are not presently recognised as they do not meet the 'highly probable' requirements of AASB 112. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.