

# GINDALBIE METALS LTD

ABN 24 060 857 614

## SEPTEMBER 2006 QUARTERLY REPORT



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### HIGHLIGHTS FOR THE SEPTEMBER 2006 QUARTER

#### KARARA IRON ORE PROJECT

##### Karara Concentrate/Pellet Project

- Decision to locate the Joint Venture pellet plant in China at the site of Ansteel's new 5 mtpa steel mill under construction at the Port of Yingkou.
- Pellet test work in the USA by Metso has demonstrated that the pellets produced from the Karara Concentrate have a physical strength that exceed the wider pellet market and have better than anticipated slurry dewatering characteristics.
- The BFS has advanced with Thiess 80% complete on issue of enquiries to equipment suppliers for the capital estimates of the 8mtpa concentrator, pipeline and filtration plant.
- Infrastructure progress included the signing of a MOU with a preferred supplier of gas, a MOU with the Geraldton Port Authority and settlement of the 225 kilometre slurry pipeline route.
- A 1.6 kilometre step out drill program, designed to increase the magnetite Resource to between 1.0 and 1.5 billion tonnes over the first 3.4 kilometre strike length of the Karara magnetite deposit, was completed.

##### Karara Hematite Project

- New hematite prospects identified from rock chip sampling and mapping programs during the Quarter, further reinforcing the hematite exploration potential at Karara.
- 5,403 metres of infill RC drilling and 1,846 metres of diamond drilling completed. Best intersections included:
  - 36m @ 62.1% Fe from surface in Hole MGC 109;
  - 21m @ 65.5% Fe from 109 metres in Hole MGC 118;
  - 47m @ 62.8% Fe from 10 metres in Hole MKD 157.
- The first drill holes at a new prospect, MR6, returned intersections of:
  - 26m @ 62.6% Fe from 26 metres in Hole MGC 184;
  - 54m @ 63.2% Fe from 40 metres in Hole MGC 185.
- Hematite Resource modeling for the first nine prospects MR1 to MR6 and BH1 to BH3 commenced during the Quarter.
- Infrastructure progress included the initial design of the Tilley rail siding and the upgrade of the 85 kilometre haul road from Karara to Tilley.
- The Scoping Document for environmental approval was submitted to and accepted by the Environmental Protection Authority ("EPA").

##### Regional Iron Ore Prospects (Gindalbie 100%)

- A review of regional iron ore exploration targets resulted in the decision to commence exploration at the 5 kilometre long Lodestone prospect for Karara style magnetite and hematite deposits.

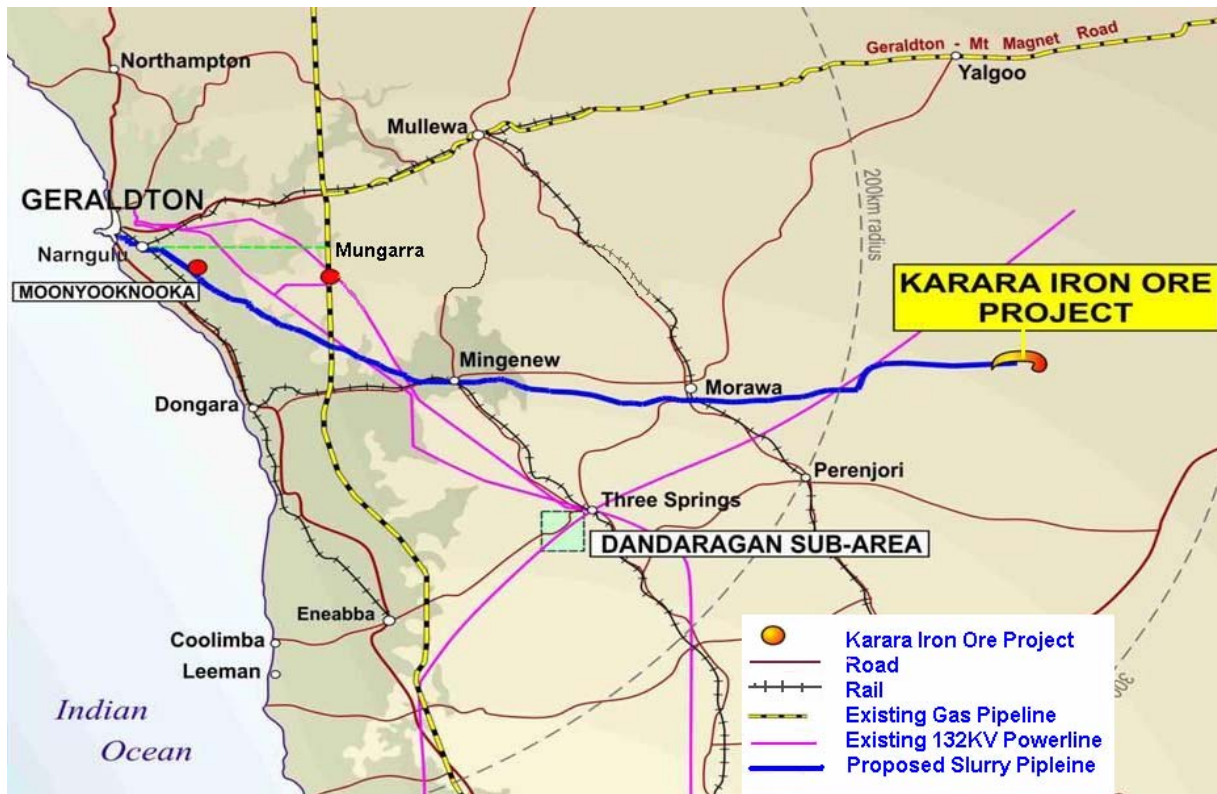
##### Corporate

- Cash reserves at 30 September 2006 of A\$26.5 million plus liquid investments of A\$7.25 million



**KARARA IRON ORE PROJECT (AnSteel Earning a 50% Interest)**

The Karara Iron Ore Project, including the Karara Magnetite and Hematite Projects, is located 90 kilometres east of Morawa in Western Australia’s Mid West Region, 220 kilometres inland from the Port of Geraldton (Figure 1). The Project is the focus of Gindalbie’s two-stage strategy to become a diversified iron ore company.



**Figure 1: Karara Iron Ore Project Location Plan**

**KARARA JOINT VENTURE AGREEMENT - ANSTEEL**

The Karara Iron Ore Joint Venture is a 50:50 joint venture between Gindalbie and one of China’s largest steel producers, Anshan Iron and Steel Group Corporation (“AnSteel”). The Joint Venture partners are funding feasibility studies focussed on the integrated development of the Karara Iron Ore Project located in Western Australia’s Mid West region. The manager of the joint venture is Karara Management Services Pty Ltd (“KMS”), a wholly owned subsidiary of Gindalbie.

During the Quarter, the second Karara Iron Ore Joint Venture Meeting was held in Hong Kong with representatives of AnSteel.

**Background - AnSteel**

AnSteel is currently one of China’s largest steel producers and is the major producer in the north-east region of China, with crude steel production of 13 million tonnes, annual sales revenues in excess of US\$11 billion and a profit of approximately US\$1.5 billion in 2005. First established in 1916, AnSteel is one of China’s oldest and one of the world’s most influential steel companies. AnSteel has announced a merger with Benxi Steel (7 million tonnes of crude steel production in 2004), also based in Liaoning Province, with completion of this merger expected in 2006 under the merged name of ANBEN STEEL GROUP COMPANY. ANBEN is expected to have total steel production capacity of 30 million tonnes per annum by 2010.

Under current Chinese central government policies, AnSteel is considered to be one of the country's key growth companies and has strong support in securing new sources of long-term iron ore supply through international investment. It reports that it has financial support for its investments with the China National Development Bank.

AnSteel is developing a new integrated iron and steel making facility at the Port of Yingkou, approximately 100 kilometres south-west of its current steel making facility in the city of Anshan. See Figure 2. The new facility will have the capacity of 5.0 mtpa of finished steel products and is the facility that the Karara Iron Project's products will feed upon commencement of production.



**Figure 2: Map of Liaoning Province, China featuring the Port of Yingkou**

## **KARARA CONCENTRATE/PELLET PROJECT**

### **Revised Base Case**

During the Quarter, the Karara Iron Ore Project Joint Venture partners agreed to revisions to the Base Case production scenario for the Karara Concentrate/Pellet Project. The Base Case now involves the construction of the Joint Venture's 4 mtpa pellet plant in Yingkou, Liaoning Province, China.

The Karara Project will involve the processing of magnetite ore into concentrate at the Karara mine site using conventional crushing, grinding and magnetic separation, followed by slurry pipeline transportation directly into the Company's proposed storage space at the port of Geraldton, a distance of 225 kilometres.

### **Joint Venture Pellet Plant in China**

AnSteel has earmarked a site for the new 4 mtpa Pellet Plant, which would be owned on a 50:50 basis by the joint venture partners, in the port city of Yingkou in north-eastern China, 1km from a major new 5 million tonne per annum steel mill due for completion in 2008. The Karara Joint Venture Pellet Plant will meet a substantial proportion of AnSteel's new steel mill input requirements.

The decision to locate the joint venture pellet plant in China further enhances the strong relationship between Gindalbie and AnSteel.

As part of the first phase of the Karara Definitive Feasibility Study, Gindalbie and AnSteel jointly reviewed the optimal location for the proposed Pellet Plant, with studies comparing the benefits of locating the plant in Geraldton in Western Australia to the proposed location in Yingkou, located in the Liaoning Province of China. Figure 2.

This study demonstrated that a 50% capital cost saving could be achieved in constructing the 4 mtpa Pellet Plant in China, where the cost of constructing the plant at the site of AnSteel's new steel mill are estimated to be in the order of A\$180 million.

AnSteel's steel mill location, at the Ba Yu Quan port in Yingkou, also offers a number of operating cost benefits because of the close proximity to an existing power station, water supply and utilities, and access to competitively priced power and labour. The close proximity of the pellet plant site to AnSteel's new steel mill also offers the potential for close integration of the Karara Project with AnSteel's rapidly growing Chinese steel operations.

**Pellet Testwork Program**

The pellet plant process and flow sheet design relevant to pelletizing Karara concentrates was progressed during the Quarter. Work by the preferred grate/kiln technology supplier, Metso, included a preliminary test run of pellet production at their test facility in the USA. Karara concentrate in these tests demonstrated better than anticipated slurry dewatering characteristics. The pellets produced have exceeded the physical strength requirements of the overall pellet market. The pellets produced from the tests will also be subjected to other metallurgical and high temperature performance tests to predict their performance in a number of customer's blast furnace facilities.

This test work will now be used in the design of the Joint Venture pellet plant in Yingkou.

By the end of the Quarter discussions were underway with a Chinese Engineering Institute to provide the balance-of-plant design work and capital and operating cost estimate relevant to the pellet plant located at the Ba Yu Quan Port. This Institute has just completed the design, construction and commissioning of a near identical plant in Wuhan. That near identical plant utilised the preferred grate/kiln technology, which was also provided by Metso.

The Engineering Institute has confirmed that they will be in a position to complete their study in time to meet the overall project feasibility study schedule which forecasts delivery of the study report to Joint Venture partners by the end of February for their consideration and development decision.

**Magnetite Exploration**

During the Quarter, magnetite exploration drilling continued across the Karara Magnetite Deposit with 35 holes (both RC and Diamond) drilled for 9,360 metres. The majority of drilling was infill drilling targeting mineralisation at the southern end of the existing resource where the initial mining area is being planned. Some step out drilling to the north was also undertaken. The location of the drilling this Quarter is set out in Figure 3.

Wide intersections of 200 to 250 metres at approximately 37% iron grade continued to be identified, in the infill and step out drilling, demonstrating ore body continuity from the previous intersections and the Company's geological understanding of the deposit. Also included were a number of holes on the edge of the BIF unit and on the Eastern Limb of the deposit. These intersections were generally shorter and lower grade as expected. Representative intersections recorded during the Quarter are summarised in Table 1:

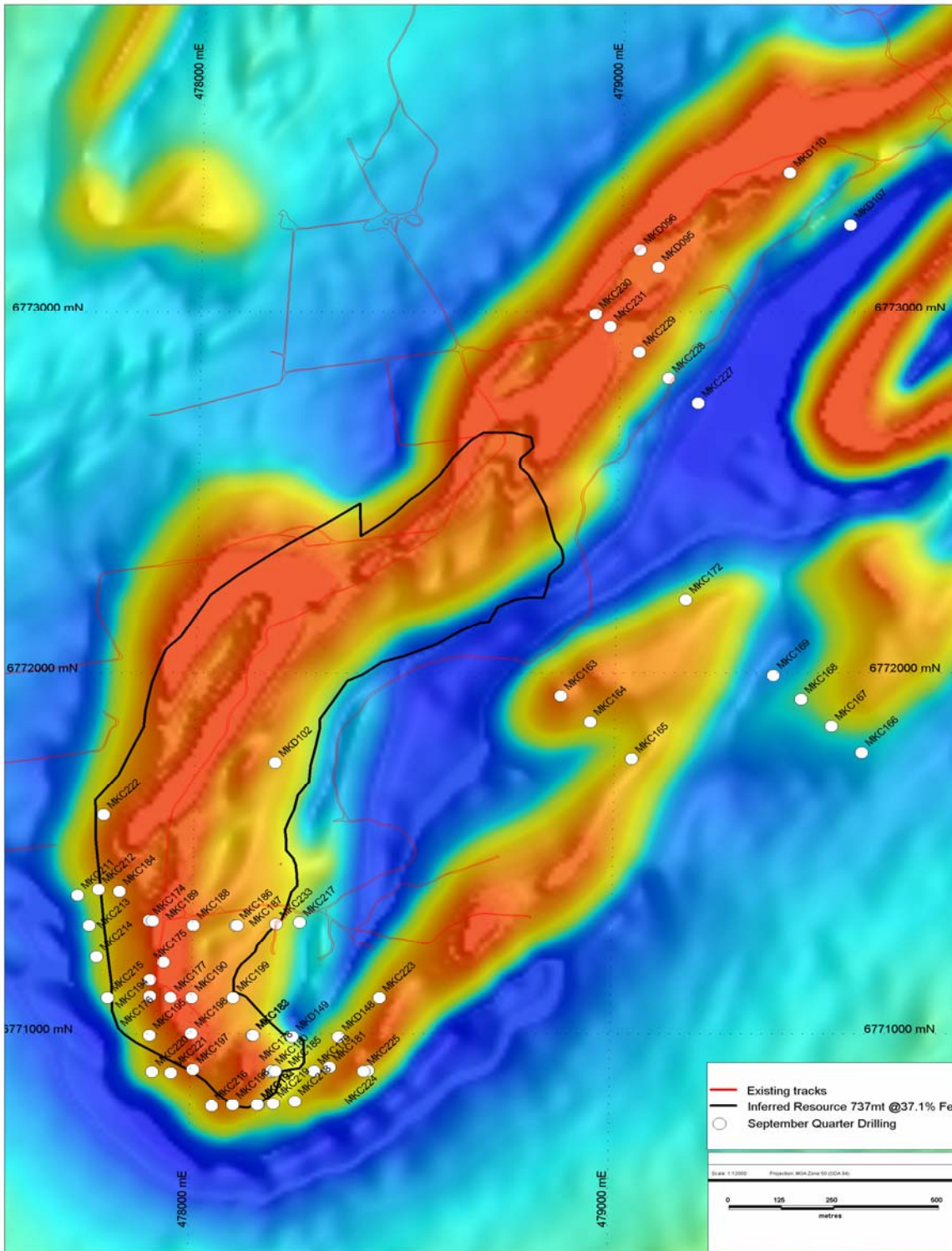
**Table 1: Magnetite Drilling Results – Karara**

Hole ID	From(m)	To(m)	Interval(m)	Fe%	SiO <sub>2</sub> %	P%
MKC 095	82	260	178	37.2	41.8	0.10
MKC 174	0	250	250	37.9	41.5	0.10
MKC 175	0	210	210	37.7	41.4	0.09
MKC 231	0	60	60	38.5	40.7	0.08

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A diamond hole (Hole HKD 107) was drilled significantly deeper than the surrounding RC holes and included an intersection of 100 metres at 36.5% Fe from 408 metres, demonstrating the continuity of the ore body at depth in addition to the continuity along strike.

A full list of magnetite drill intersections for the Quarter are set out in Appendix B to this report.



**Figure 3: Magnetite Drillhole Locations for the September 2006 Quarter**

**Resource Definition**

In September, the Company submitted to RSG Global a geological database inclusive of 42,000 metres of RC and diamond drilling, 20,000 head assay and 1,650 Davis Tube Recovery results to allow the development and calculation of an updated Resource Model. RSG Global will report the results of the modelling in November 2006.

**Resource Upgrade Program**

An infill drilling program over the 1,000 metre long southern block of the 737 tonne Karara Magnetite resource continued during the Quarter as part of a planned 18,000 metre drilling program, designed to increase the confidence level of the Magnetite Resource. The drilling is designed to define the geotechnical and metallurgical characteristics of the southern area on a 100 metre x 100 metre spacing to a Measured and Indicated level of confidence for the purposes of the Bankable Feasibility Study. This program has been targeted at the likely initial mining area of the deposit.

**Metallurgical Testwork Programs and Bankable Feasibility Study**

A Bankable Feasibility Study is being undertaken under the Karara Project Alliance with Thiess Pty Ltd and Promet Engineers. Metallurgical pilot plant testing and conceptual engineering are proceeding concurrently with the objective of completing the project economic evaluation during February 2007. Process flowsheet design for the concentrator, pipeline, filtration plant and storage area are well advanced, enabling engineering and estimating work to progress during the December Quarter.

Pilot testing of the representative ore sample obtained from the resource definition drilling program continues to confirm the metallurgical performance that was predicted in earlier Desktop and Scoping studies.

**Process and Equipment Engineering Studies**

Flowsheet and conceptual engineering design work, processing plant equipment selection, and site layouts for the concentrator are now virtually complete and equipment pricing and construction material quantities are nearing completion. Equipment pricing and construction material quantities estimation are now well advanced and will allow preparation of the bankable capital and operating cost estimates during the December Quarter.

**Karara Magnetite Infrastructure**

During the Quarter, the Company progressed on the planning for the site infrastructure including conceptual mine planning arrangements and the layouts of the concentrator, waste dumps and tailings dams.

*Slurry Pipeline*

The 225km slurry pipeline route has been selected and follows the existing haul road route from Karara to Morawa and then from Morawa to Geraldton. See Figure 1. The Company proposes to negotiate individual easement agreements with the 85 underlying landholders. The pipeline will be buried in a trench approximately 2 metres below surface.

The Company's pipeline design and construction engineers, Slurry Systems Pty Ltd and NACAP, have recently completed a similar slurry pipeline project for OneSteel's Project Magnet at Whyalla. The concentrate slurry will consist of 60% solids and 40 % water. The Company is examining options for re-use of surplus water in commercial and agricultural applications in the Geraldton district.

*Water supply*

As mentioned in the June Quarterly Report, the Company has applied for a licence to extract up to 10GL of water annually from the Dandaragan borefield. The borefield is approximately 140km from the Karara mine site and a separate easement and water pipeline is required from the borefield to the concentrator.

*Power supply*

During the Quarter, the Company significantly advanced its power supply options and has put in place a MOU with a power group with existing gas supplies, capable of meeting the Company's 100MW power generation requirements for the concentrator.

*Port*

During the Quarter, the Company signed a MOU with the Geraldton Port Authority to progress its lease negotiations in connection with Berth 7. The Company is progressing with its engineering plans for the design and construction of a 5,000 tonne per hour shiploader and wharf at Berth 7 in association with the Geraldton Port Authority.

**Karara Magnetite Development Schedule**

The development schedule for the Karara Magnetite Project is as per Table 2 below.

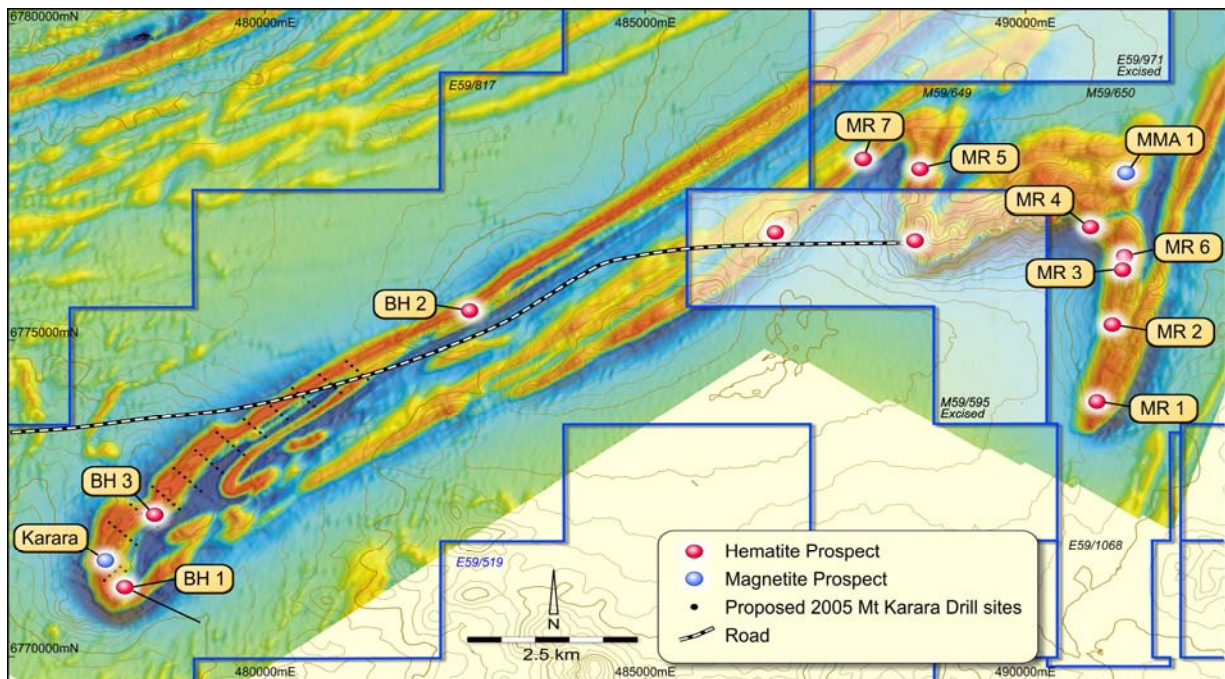
**Table 2: Karara Magnetite Project – Key Target Dates**

Resource Definition and Financial Viability Report	February 2007
Public Environmental Review (PER)	October 2006 to October 2007
Detailed Design Mining	October 2007 to April 2008
Order Long Lead Items	January 2008
Construction	January 2008 – December 2009
Commencement of Export – Geraldton	1 <sup>st</sup> Quarter 2010

**KARARA HEMATITE PROJECT**

Significant progress towards the goal of achieving 40 million tonnes of Resource was made during the Quarter. Resource drilling encountered a number of very significant intersections, particularly from the MR3, MR6 and BH3 prospects. The first drilling results from MR6 prospect were received with wide intersections of greater than 62% Fe encountered.

Ore body modelling commenced on MR1-6 and BH1-3 prospects with work progressively handed over to RSG Global for optimisation. In addition, the exploration program highlighted a number of new discoveries in the MMA1 area. See Figure 4.



**Figure 4: Karara Iron Ore Project Aeromagnetic Image**

**Karara Resource Drilling Program**

The drilling program during the Quarter covered the MR1-6 and BH1-3 prospects as shown in Figure 4. Resource drilling consisted of 5,403 metres of infill RC drilling to follow up the successful Stage 1 drilling programs conducted over the September 2005 to March 2006 period. Diamond drilling totalling 1,846 metres was also completed during the Quarter principally to obtain metallurgical and geotechnical core for despatch to laboratories for a range of metallurgical testing, including lump:fines ratio and rock strength testing. Prospect by prospect drilling results are listed below.

A full list of hematite drill results for the Quarter is set out in Appendix A to this Report.

*MR1 Prospect*

RC drilling comprising 8 holes for 806 metres following up previous drilling grading 62% Fe was completed during the Quarter. Significant intersections are set out in Table 3 below. Drilling was designed to close off the mineralisation to the south, which was achieved, and to extend to the north the higher grade intersections shown in MGD 197. A zone of "Kanga" detrital iron grading approximately 55% Fe was also intersected down dip to the west of the main zone of enrichment. This zone will be followed up by drilling in the December Quarter.

**Table 3: Drilling results for MR1 - Mungada South**

Hole ID	From(m)	To(m)	Interval(m)	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P%	LOI%
MGC 168	16	18	2	56.1	5.2	3.8	0.01	10.5
MGD 197	9	12	3	56.3	9.1	2.0	0.05	7.7
MGG 197	21	31	10	64.4	2.5	0.7	0.21	4.1

*MR2 Prospect*

RC drilling comprising 34 holes for 1,871 metres was completed to follow up historical and Gindalbie intersections. This program delineated two continuous zones of mineralisation approximately 700 metres in strike length. The hematite enrichment is characterised by two zones adjacent to a hanging wall (western) contact with shale (see Figure A of Appendix C). Phosphorus grade varies from 0.05% for zone 1 to 0.15% for Zone 2. Results received during the Quarter are shown in Table 4.

**Table 4: Drilling results for MR 2**

Hole ID	From(m)	To(m)	Interval(m)	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P%	LOI%
MGC 131	43	52	9	66.5	2.7	0.6	0.02	1.7
MGC 134	61	70	9	62.7	5.0	0.9	0.11	2.6
MGC 135	39	46	7	63.2	4.9	1.8	0.03	2.4
MGC 164	28	43	15	64.7	2.8	1.1	0.14	3.2

*MR 3 Prospect*

7 holes for 891 metres were completed during the Quarter. A number of results from drilling during the June Quarter were also received. The ore body extends over 400 metres and remains open at depth. A number of very encouraging intersections were received during the Quarter including those set out in Table 5 below.



Table 5: Drilling results for MR3

Hole ID	From(m)	To(m)	Interval(m)	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P%	LOI%
MGC 108	0	36	36	59.8	11.1	0.8	0.06	2.2
MGC 109	0	36	36	62.1	7.1	1.2	0.07	2.5
MGC 113	62	78	16	62.3	7.8	1.1	0.04	1.7
MGC 115	54	66	12	65.3	3.0	1.3	0.07	2.0
MGC 116	10	20	10	63.8	5.6	1.6	0.04	1.8
MGC 118	72	92	20	63.7	5.7	0.4	0.03	2.7
MGC 118	109	130	21	65.5	3.1	0.7	0.12	0.4

Further drilling is planned to expand the mineralisation north and south and to access down-dip, deeper positions in the ore body. Two main lodes as illustrated in Figure B of Appendix C have been defined with additional short strike length lodes in favourable structural positions situated between the western and eastern lodes.

#### MR5 Prospect

The RC drilling program of 13 holes for 779 metres at MR 5 followed up recent Stage 1 drilling and targeted nearer surface mineralisation, up dip from the deeper holes and deeper mineralisation intersected during the Company's initial drill program.

Drilling encountered narrow zones of hematite enrichment with results summarised in Table 6.

Table 6: Drilling results for MR 5

Hole ID	From(m)	To (m)	Interval(m)	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P%	LOI%
MGC 189	11	14	3	61.6	5.8	2.4	0.02	3.2
MGC 190	50	54	4	58.4	7.3	1.0	0.10	7.5
MGC 191	0	9	9	60.5	4.8	1.3	0.12	6.7
MGC 194	2	9	7	61.1	4.4	2.2	0.13	5.5

#### MR6 Prospect

In July 2006, following up historical WMC drilling results, the mapping and sampling program discovered hematite outcrops approximately 300 metres along strike from the MR3 deposit. Rock chip sampling delivered attractive grades of mineralisation from the initial work. During the Quarter, 11 RC holes for 1,065 metres were drilled on 50 metre sections. The drilling intersected 10-35 metre wide intersections of enriched hematite in the initial discovery area over a strike length of 200 metres. Of particular relevance is the generally low grade of phosphorus encountered at this deposit. Better results are summarised in Table 7.

The proximity of this deposit to MR3 has raised the possibility of the two deposits being mined concurrently. Further drilling will take place in the December Quarter to confirm continuity of the mineralisation between MR3 and MR6.

Table 7: Drilling result for MR6

Hole ID	From (m)	To (m)	Interval(m)	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P%	LOI%
MGC177	14	32	18	60.0	8.3	3.0	0.08	2.4
MGC179	62	79	17	62.9	6.2	1.3	0.07	2.1
MGC180	19	29	10	62.1	5.4	2.5	0.08	2.9
MGC181	36	48	12	62.7	6.7	1.6	0.06	1.5
MGC182	9	21	12	64.3	2.3	1.1	0.13	4.2
MGC183	15	34	19	61.8	5.6	2.4	0.06	3.0
MGC184	26	52	26	62.6	5.6	2.2	0.06	2.3
MGC185	40	94	54	63.2	5.2	1.7	0.04	2.1

*BH 3 Prospect*

Diamond drilling of 1 hole for 120 metres was completed, twinning the previous RC hole MKC 103. See Figure C of Appendix C. MKD 157 returned consistent widths to the original RC hole. The grade of the diamond drilling intersection compared favourably with the pre-existing RC holes. The diamond core has been dispatched for metallurgical testing.

Drilling results at BH3 are set out in Table 8 below.

**Table 8: Drilling results for BH3**

Hole ID	From(m)	To(m)	Interval(m)	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P	LOI
MKD157	10	57	47	62.8	3.9	0.9	0.06	5.1
MKC103	12	50	38	62.4	4.2	1.0	0.05	5.3

**Karara Hematite Exploration**

In addition to the successful resource drilling program, the Hematite exploration program completed during the Quarter consisted of mapping and rock chip sampling over the MMA1 area and part of the BIF unit north east of the Karara Magnetite Deposit, Figure 4 . The results of the rock chip sampling indicate a wide area of hematite enrichment in and around the hills exposed in the MMA1 region. A number of prospects are indicated in this area and of particular note was the discovery of MR7 approximately 200 metres to the west of MR5. Refer to Figure 5.

Rock chip samples at MR7 indicate a generally lower grade of phosphorus mineralisation at surface in this area. If proven in drilling to be consistent at depth, this lower overall grade of phosphorus contamination at MR7 is likely to complement the quality of the ores discovered to date in the MR1-6 prospects. The exploration program will continue in this area over the coming quarters with the focus being initial RC drilling programs into the most consistent outcrops of hematite mineralisation discovered in the September Quarter.

The widespread nature of the hematite enrichment in outcrop leads the Company to believe that very significant deposits of hematite enrichment may be present under cover in the MMA1 area. This belief is also supported by the Company's early structural interpretation of the hematite enrichment mechanisms for the district.

The new discoveries enhance the Company's confidence in the overall prospectivity of the area and highlight the need for an ongoing, systematic exploration program to define suitable product for blending with the initial discoveries.

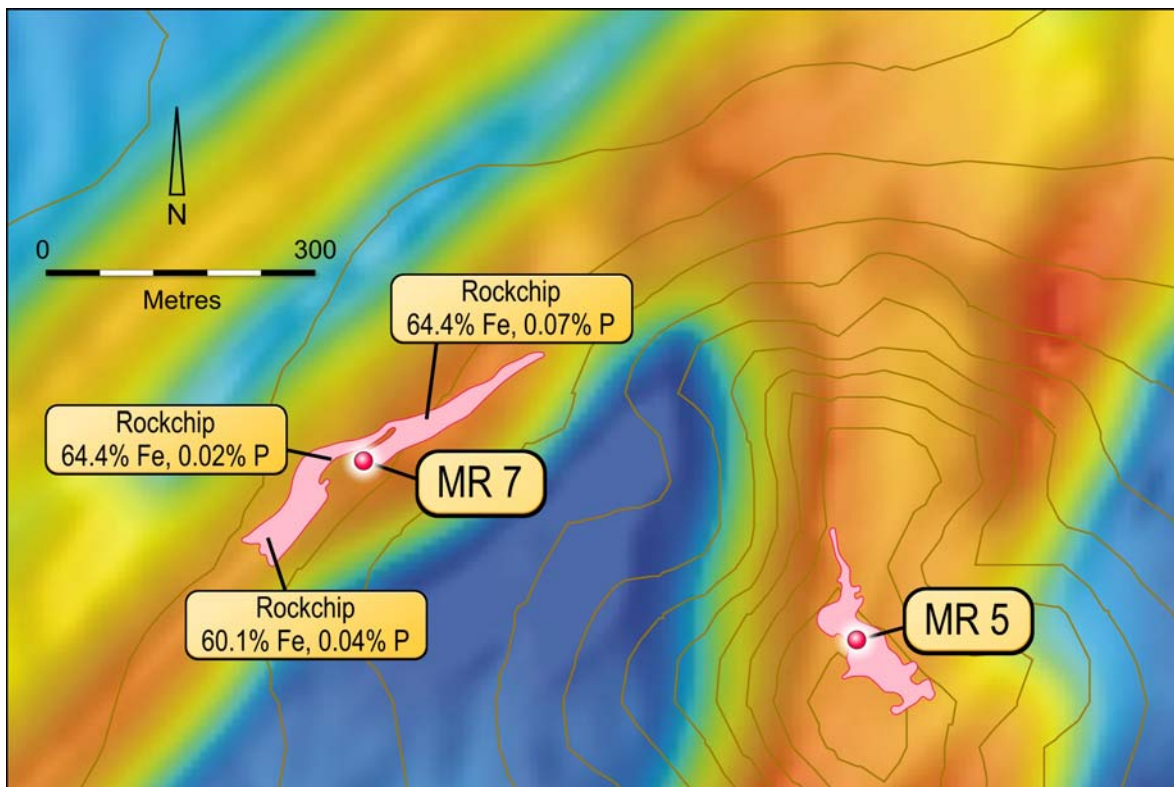


Figure 5: Location of New MR7 Hematite Prospect

#### Karara Hematite Infrastructure

The study work on the preliminary design and costing of the hematite infrastructure for the Stage 1 hematite project was completed during the Quarter. The Bankable Feasibility Study has commenced with significant progress achieved during the Quarter as summarised below:

- The accommodation village size has been finalised at 200 persons for the hematite project, expandable to 500 persons for the combined hematite and magnetite projects during construction. Layout and designs are expected to be completed in early November for review, with finalisation and pricing completed by the end of the December 2006.
- Detailed design work has commenced on the 65 kilometres Karara to Tilley haul road. Design is expected to be completed, with the application for approval during the December Quarter. The design will comply with the AustRoads - rural road standard. Pricing for the road construction and haulage contracts will be sought after the design is complete.
- A design for a shared rail siding at Tilley, 4 kilometres north of Morawa was agreed with Midwest Corporation. The layout will allow the two parties to construct and commission the two stage design independently, if required. A common engineering consultant was appointed to complete the design, procurement and construction phases of the siding.
- A detailed design for the initial 90 rail wagons is currently being developed in conjunction with the Company's preferred wagon suppliers from China. The design is expected to be completed in early November and pricing received by the end of the December Quarter.
- Engineering design work on the facilities at the Geraldton Port commenced during the Quarter. This work is being conducted with input from the Geraldton Port Authority and Maunsell Engineers.
- The study by Strategic Design and Development commissioned by the Geraldton Iron Ore Alliance, into the materials handling capacity of the rail receival facility at the Geraldton Port was completed during the Quarter and is currently being reviewed.

**Karara Hematite Development Schedule**

The development schedule for the Karara Hematite Project is as per Table 9 below.

**Table 9: Karara Hematite Project – Key Target Dates**

Hematite Drilling and Hematite Resource	December 2006
Public Environmental Review (PER)	October 2006 to June 2007
Commencement of Hematite Mining	4 <sup>th</sup> Quarter 2007
Berth 5 Shiploader Commissioning	4 <sup>th</sup> Quarter 2007
Commencement of Export – Geraldton	2 <sup>nd</sup> Quarter 2008

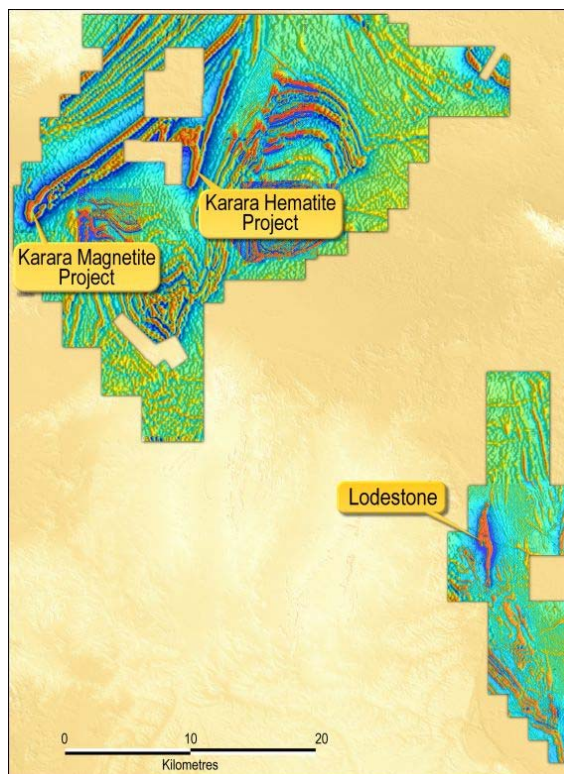
Over the coming six months, Gindalbie will continue with its hematite resource drilling programs to define sufficient hematite Resources to commence project development during 2007. The results to date have increased the Company’s confidence in the potential to achieve its target of delineating an initial hematite resource of +10 million tonnes grading on average +60% Fe from both a grade and tonnage perspective.

The feasibility study’s progress continues to indicate that the infrastructure in the region is capable of being upgraded to achieve production by the second quarter of 2008 through the Port of Geraldton.

**REGIONAL IRON ORE EXPLORATION (GINDALBIE 100%)**

During the Quarter, the Company completed its review of regional exploration targets on the 100% owned Gindalbie held iron ore rights contiguous with the Karara Joint Venture ground.

The highlight of the regional exploration program was the identification of the potential of the Lodestone Prospect to host Karara style magnetite and hematite mineralisation. See Figure 6.



**Figure 6: Regional Exploration Targets**

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The Lodestone Prospect lies approximately 50 kilometres south east of the Karara project. It consists of a Banded Iron Formation (BIF) approximately 6.0 kilometres in length and up to 0.8 kilometres wide. It possesses a similar magnetic intensity to the Karara Magnetite deposit and is seen as similar in character and style as the Extension Hill and Mt Gibson deposits located approximately 10km to the south. The initial exploration program will consist of geological mapping and sampling, geophysical survey and a small program of drilling to obtain sample for baseline metallurgical testwork.

Geological mapping and exploration clearance approvals have commenced with a view to commencing drilling early in 2008.

### **MINJAR GOLD AND BASE METAL PROJECT**

During the Quarter the Company received the second instalment in the amount of \$2 million from Monarch in respect to the sale of the Minjar gold and base assets with the balance of \$6.6 million due in two further instalments during the first half of 2007.

### **MT MULGINE TUNGSTEN PROJECT (Vital Metals Ltd Earning up to 70%)**

The Company has a Joint Venture agreement with Vital Metals Ltd ("Vital") whereby Vital can earn up to 70% in the tungsten mineralisation on the Company's Mt Mulgine Project by spending \$750,000 over three years.

No fieldwork was undertaken by Vital Metals Ltd during the Quarter.

### **CORPORATE**

#### **Cash Reserves**

At 30 September 2006, the Company had cash reserves of A\$26.5 million which includes the Company's share of the Karara Iron Ore Joint Venture cash. The Company also has liquid investments with a market value at 30 September 2006 of A\$7.25 million.

#### **Annual General Meeting ('AGM')**

The Company's AGM will be held at 10.00am on 22 November 2006 in the Fremantle Room, Parmelia Hilton Hotel, 14 Mill Street, Perth WA 6000.

#### **Shareholder Information**

At 30 September 2006, the Company had 4,874 shareholders and 430,954,406 shares on issue with the Top 20 Shareholders holding 59.34% of the total issued capital.

Yours faithfully

**GINDALBIE METALS LTD**



**DAVID McSWEENEY**  
Managing Director

**Competent Person Compliance Statements**

*The information in this report that relates to Exploration Results is based on information compiled by Mr Andrew Munckton who is a Member of the Australasian Institute of Mining and Metallurgy.*

*Mr Munckton is a full-time employee of the Company and has sufficient experience which is relevant to the style of mineralisation and type of deposit and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Munckton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

*The information in the report that relates to the Mineral Resource is based on information compiled by Alex Virisheff, who is a Member of The Australasian Institute of Mining and Metallurgy. Alex Virisheff is employed by RSG Global.*

*Alex Virisheff has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Reserves". Alex Virisheff consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.*

# GINDALBIE METALS LTD

ABN 24 060 857 614

## SEPTEMBER 2006 QUARTERLY REPORT

### APPENDIX A

#### September Quarter Hematite Drill Results

(Cutoff >55% Fe, minimum intersection of 4 metres and maximum internal waste of 2 metres)

HoleID	North	East	Depth	From (m)	To (m)	Interval (m)	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P%	LOI%
<b>MR1</b>											
MGD197	6,774,055	490,956	70	21	31	10	64.43	2.47	0.73	0.210	4.09
<b>MR2</b>											
MGC119	6,775,341	491,169	210	27	35	8	58.47	11.86	1.84	0.080	2.41
MGC119				39	45	6	59.14	9.76	2.84	0.017	2.63
MGC119				50	55	5	58.17	11.57	2.81	0.007	1.75
MGC120	6,775,292	491,148	84	1	6	5	59.82	7.30	1.08	0.154	5.64
MGC120				72	77	5	57.46	11.09	2.67	0.014	3.05
MGC122	6,775,500	491,131	54	24	31	7	61.40	7.22	1.81	0.067	2.74
MGC123	6,775,243	491,145	66	45	50	5	60.91	6.51	3.20	0.035	2.79
MGC124	6,775,138	491,110	80	61	68	7	62.97	4.95	1.06	0.077	2.87
MGC131	6,775,541	491,120	102	43	52	9	66.47	2.65	0.59	0.019	1.67
MGC132	6,775,539	491,102	100	56	64	8	65.67	3.40	0.70	0.013	1.93
MGC133	6,775,181	491,135	60	40	47	7	61.63	6.70	1.69	0.055	2.60
MGC134	6,775,181	491,133	80	61	70	9	62.72	4.99	0.85	0.115	2.56
MGC135	6,775,142	491,136	55	39	46	7	63.21	4.93	1.82	0.030	2.41
MGC136	6,775,142	491,135	80	62	66	4	63.30	5.07	0.82	0.107	2.55
MGC137	6,775,101	491,130	60	42	49	7	63.18	5.39	1.80	0.046	2.01
MGC138	6,775,101	491,128	78	65	69	4	64.02	3.84	0.68	0.086	3.08
MGC140	6,775,051	491,134	80	63	70	7	60.92	6.22	2.75	0.014	2.83
MGC141	6,775,622	491,135	100	47	60	13	64.92	3.43	0.79	0.099	2.58
MGC142	6,775,621	491,133	120	80	99	19	62.32	6.15	0.67	0.056	3.36
MGC143	6,775,661	491,176	80	8	15	7	58.64	9.24	1.31	0.069	4.53
MGC143				21	25	4	59.51	5.65	3.33	0.146	5.43
MGC143	6,775,661	491,176	80	32	44	12	56.65	12.82	1.77	0.122	4.15
MGC144	6,775,661	491,174	108	28	53	25	61.65	5.80	1.22	0.148	4.19
MGC164	6,775,702	491,169	114	28	43	15	64.66	2.78	1.08	0.140	3.20
MGC164				79	83	4	58.03	12.12	0.41	0.128	2.01
<b>MR3</b>											
MGC108	6,776,444	491,189	100	0	36	36	59.84	11.06	0.81	0.057	2.22
MGC108				51	64	13	66.26	2.93	0.46	0.096	1.42
MGC109	6,776,444	491,188	100	0	36	36	62.12	7.15	1.22	0.068	2.47
MGC110	6,776,481	491,177	78	21	27	6	60.84	11.39	0.11	0.049	1.24
MGC111	6,776,480	491,177	127	45	60	15	62.38	8.18	0.29	0.086	1.77
MGC112	6,776,580	491,229	84	11	24	13	57.24	14.24	1.62	0.041	1.83
MGC112	6,776,580	491,229	84	55	65	10	60.32	9.84	1.87	0.056	1.75
MGC113	6,776,581	491,227	120	62	78	16	62.31	7.84	1.12	0.039	1.69
MGC113				92	106	14	59.23	7.61	1.60	0.136	2.73
MGC114	6,776,564	491,250	60	2	11	9	58.85	12.03	1.19	0.058	2.16
MGC115	6,776,563	491,248	90	13	18	5	63.63	5.25	1.57	0.047	1.82
MGC115				54	66	12	65.31	2.99	1.32	0.065	2.02
MGC116	6,776,563	491,247	109	10	20	10	63.49	5.59	1.61	0.042	1.77
MGC116				38	46	8	63.26	4.15	1.95	0.163	2.88
MGC116				61	72	11	61.85	7.95	1.71	0.031	1.64
MGC116				91	98	7	63.25	4.72	0.45	0.117	2.83
MGC117	6,776,554	491,197	110	12	23	11	60.79	10.80	0.55	0.025	1.26
MGC117				26	31	5	63.92	5.34	0.96	0.042	1.34

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### APPENDIX A - CONTINUED

#### September Quarter Hematite Drill Results

(Cutoff >55% Fe, minimum intersection of 4 metres and maximum internal waste of 2 metres)

HoleID	North	East	Depth	From (m)	To (m)	Interval (m)	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P%	LOI%
MGC117				62	66	4	62.71	5.94	0.74	0.168	3.10
MGC118	6,776,555	491,195	131	2	7	5	62.36	8.01	0.63	0.051	1.73
MGC118				36	42	6	60.64	8.93	0.32	0.128	1.59
MGC118				72	92	20	63.67	5.69	0.35	0.033	2.67
MGC118				109	130	21	65.53	3.14	0.69	0.126	0.41
<b>MR5</b>											
MGC125	6,777,578	488,549	150	41	45	4	57.75	8.77	3.59	0.095	4.48
MGC128	6,778,039	488,523	66	6	12	6	58.13	7.26	0.78	0.185	8.21
MGC189	6,778,129	488,489	40	2	6	4	58.06	6.54	1.66	0.140	8.26
MGC190	6,778,130	488,513	54	39	47	8	55.86	12.41	0.74	0.108	6.58
MGC190				50	54	4	58.43	7.27	1.02	0.104	7.47
MGC191	6,778,081	488,483	36	0	9	9	60.49	4.86	1.31	0.121	6.74
<b>MR6</b>											
MGC040	6,776,095	491,294	133	4	36	32	63.08	4.55	1.46	0.073	2.84
MGC040				102	106	4	57.78	8.89	2.71	0.095	2.14
MGC041	6,776,093	491,285	120	18	28	10	60.12	7.78	1.99	0.104	2.50
MGC041				30	34	4	59.46	7.04	2.79	0.055	2.97
MGC041				36	56	20	60.10	9.59	1.69	0.048	2.11
MGC041				64	68	4	62.75	6.46	0.95	0.059	2.10
MGC041				74	106	32	61.48	7.89	1.19	0.039	2.10
MGC177	6,776,135	491,279	48	14	32	18	59.99	8.31	2.99	0.081	2.42
MGC179	6,776,003	491,299	100	62	79	17	62.91	6.19	1.29	0.070	2.08
MGC180	6,776,003	491,303	80	19	29	10	62.10	5.39	2.51	0.078	2.87
MGC180				52	57	5	63.56	4.12	2.37	0.070	2.00
MGC181	6,776,002	491,302	126	36	48	12	62.69	6.65	1.62	0.060	1.52
MGC181				116	120	4	56.95	6.42	3.06	0.641	4.79
MGC182	6,775,949	491,299	120	9	21	12	64.31	2.34	1.06	0.130	4.20
MGC183	6,776,058	491,296	80	15	34	19	61.84	5.64	2.44	0.063	2.99
MGC184	6,776,058	491,294	124	26	52	26	62.57	5.57	2.24	0.061	2.29
MGC185	6,776,055	491,294	114	40	94	54	63.24	5.20	1.72	0.038	1.94
<b>BH3</b>											
MKD157	6,771,869	478,373	73	10	57	47	62.76	3.87	0.87	0.055	5.09



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### APPENDIX B

#### September Quarter Magnetite Drill Results

(Cutoff >25% Fe, Minimum intersection of 10 metres and maximum internal waste of 4 metres)

HoleID	North	East	From (m)	To (m)	Interval (m)	Fe%	SiO2%	P%
MKD095	6,773,125	479,088	18	62	44	37.8	42.0	0.087
MKD095			82	260	178	37.2	41.8	0.097
MKD096	6,773,173	479,044	0	112	112	36.5	41.7	0.077
MKD102	6,771,752	478,192	0	298	298	34.6	44.5	0.069
MKD107	6,773,242	479,545	22	120	98	38.1	42.5	0.059
MKD107			176	188	12	34.7	44.5	0.073
MKD107			196	232	36	30.3	45.4	0.067
MKD107			250	390	140	36.6	42.5	0.099
MKD107			408	508	100	36.5	42.5	0.098
MKD110	6,773,386	479,399	0	94	94	36.4	42.7	0.083
MKD110			110	261	151	37.6	40.8	0.092
MKD148	6,770,991	478,352	11	60	49	34.9	44.7	0.093
MKD149	6,770,991	478,243	0	12	12	36.0	35.4	0.027
MKD149			24	84	60	37.6	39.5	0.070
MKC163	6,771,936	478,871	0	26	26	33.2	39.9	0.021
MKC163			34	62	28	29.5	49.7	0.029
MKC163			74	112	38	32.1	46.2	0.059
MKC164	6,771,865	478,942	28	38	10	33.0	35.5	0.015
MKC165	6,771,762	479,042	34	62	28	37.8	41.8	0.087
MKC165			66	82	16	36.2	28.8	0.112
MKC166	6,771,780	479,590	38	54	16	30.0	46.1	0.043
MKC167	6,771,853	479,518	2	14	12	32.0	36.2	0.018
MKC167			44	58	14	36.0	38.4	0.138
MKC168	6,771,927	479,444	26	44	18	30.0	46.6	0.055
MKC169	6,771,993	479,377	112	142	30	28.1	48.8	0.051
MKC172	6,772,204	479,166	86	112	26	32.9	46.3	0.061
MKC174	6,771,314	477,898	0	250	250	37.9	41.5	0.099
MKC175	6,771,199	477,932	0	210	210	37.7	41.4	0.091
MKC176	6,771,104	477,901	2	220	218	38.0	41.8	0.087
MKC177	6,771,101	477,951	0	250	250	40.0	38.1	0.085
MKC178	6,770,895	478,194	0	228	228	36.1	43.7	0.070
MKC179	6,770,898	478,296	0	136	136	36.6	43.8	0.102
MKC180	6,770,899	478,195	0	152	152	34.3	45.9	0.064
MKC181	6,770,907	478,333	0	92	92	36.7	43.5	0.105
MKC182	6,770,996	478,147	0	80	80	33.1	45.9	0.069
MKC183	6,770,996	478,149	0	80	80	31.1	46.8	0.068
MKC184	6,771,396	477,825	0	186	186	35.4	43.3	0.090
MKC185	6,770,898	478,204	0	246	246	35.5	44.1	0.086
MKC186	6,771,301	478,105	0	250	250	36.3	43.3	0.077
MKC187	6,771,300	478,107	0	250	250	34.0	44.2	0.067
MKC188	6,771,301	478,003	0	200	200	36.3	43.0	0.070
MKC189	6,771,314	477,906	0	250	250	36.9	42.8	0.076
MKC190	6,771,100	478,000	0	250	250	38.1	41.7	0.081
MKC191	6,770,803	478,164	0	198	198	38.9	39.6	0.153
MKC192	6,770,803	478,162	2	240	238	37.3	43.0	0.082
MKC194	6,771,150	477,900	0	210	210	36.8	43.1	0.085
MKC195	6,770,996	477,902	0	154	154	38.1	40.9	0.092
MKC196	6,770,803	478,103	0	244	244	36.5	43.1	0.087

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### APPENDIX B - CONTINUED

#### September Quarter Magnetite Drill Results

(Cutoff >25% Fe, Minimum intersection of 10 metres and maximum internal waste of 4 metres)

HoleID	North	East	From (m)	To (m)	Interval (m)	Fe%	SiO2%	P%
MKC197	6,770,902	478,007	0	208	208	36.8	42.8	0.077
MKC198	6,771,001	478,001	0	250	250	37.4	42.1	0.085
MKC199	6,771,100	478,100	0	250	250	37.1	41.4	0.082
MKC211	6,771,385	477,726	0	34	34	33.2	46.0	0.065
MKC212	6,771,401	477,775	4	100	96	35.1	44.1	0.077
MKC213	6,771,301	477,754	0	48	48	35.5	43.5	0.054
MKC214	6,771,213	477,772	0	68	68	34.9	43.9	0.062
MKC215	6,771,100	477,800	0	54	54	38.7	41.2	0.078
MKC216	6,770,800	478,052	2	162	160	36.0	43.5	0.094
MKC217	6,771,310	478,256	1	90	89	39.2	40.0	0.066
MKC218	6,770,813	478,251	0	125	125	38.4	40.4	0.142
MKC219	6,770,807	478,199	0	168	168	38.3	40.2	0.139
MKC220	6,770,895	477,909	0	56	56	35.9	42.5	0.074
MKC221	6,770,893	477,954	0	166	166	36.8	42.6	0.080
MKC222	6,771,607	477,785	18	100	82	37.2	41.6	0.086
MKC223	6,771,100	478,448	0	158	158	36.4	42.0	0.092
MKC224	6,770,898	478,424	8	20	12	28.0	28.0	0.084
MKC225	6,770,897	478,414	2	14	12	27.6	30.8	0.039
MKC225	6,770,897	478,414	44	92	48	37.2	41.3	0.122
MKC227	6,772,748	479,188	96	108	12	36.7	44.3	0.075
MKC228	6,772,817	479,117	0	50	50	35.3	42.9	0.076
MKC229	6,772,889	479,046	0	60	60	36.9	41.9	0.072
MKC230	6,772,995	478,940	10	60	50	30.3	41.6	0.094
MKC231	6,772,960	478,976	0	60	60	38.5	40.7	0.083
MKC233	6,771,305	478,200	0	168	168	35.0	43.5	0.083

APPENDIX C

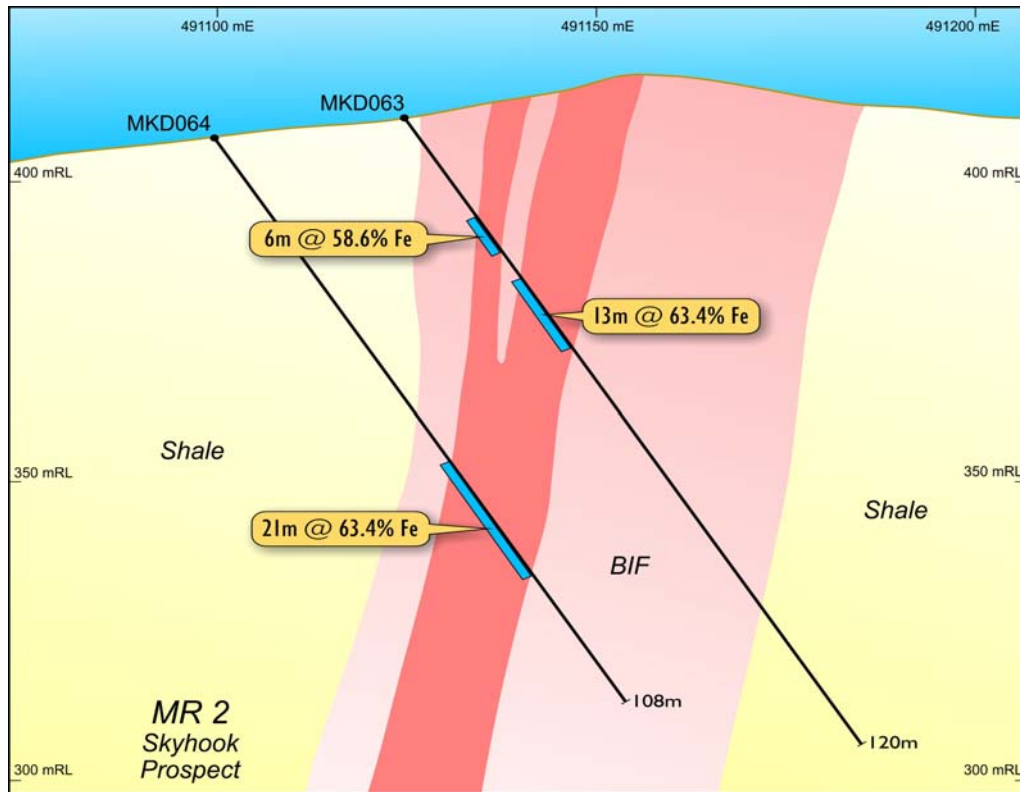


Figure A: Cross section of MR2

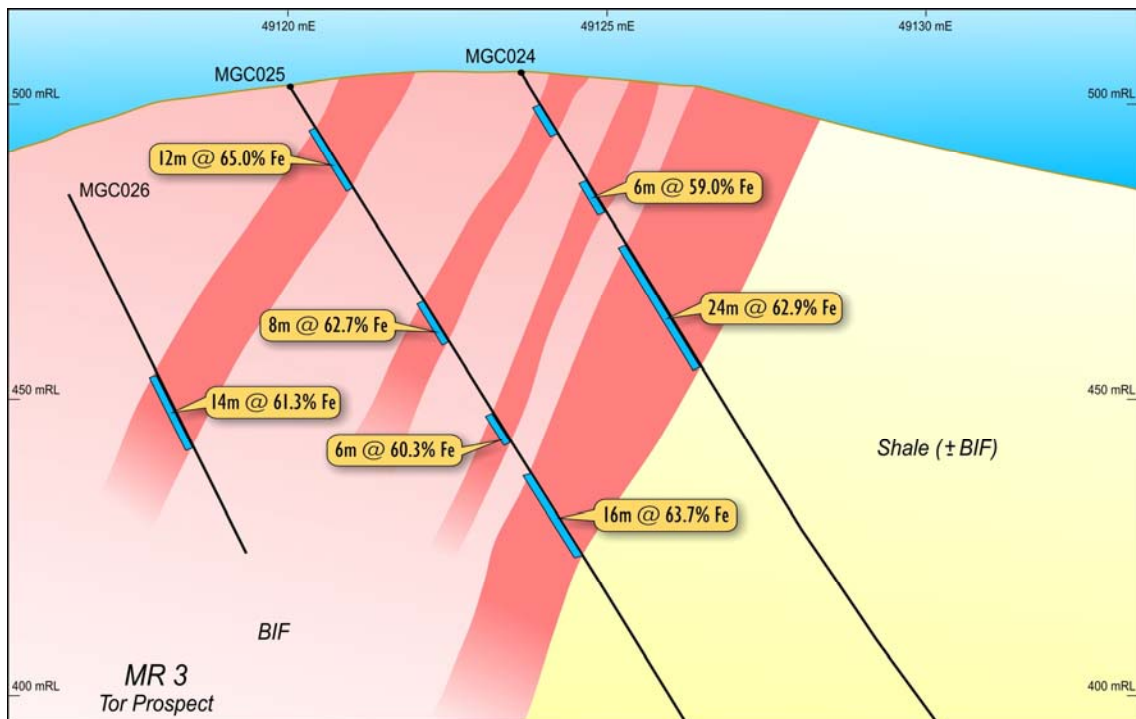


Figure B: Cross Section of MR 3

APPENDIX C - CONTINUED

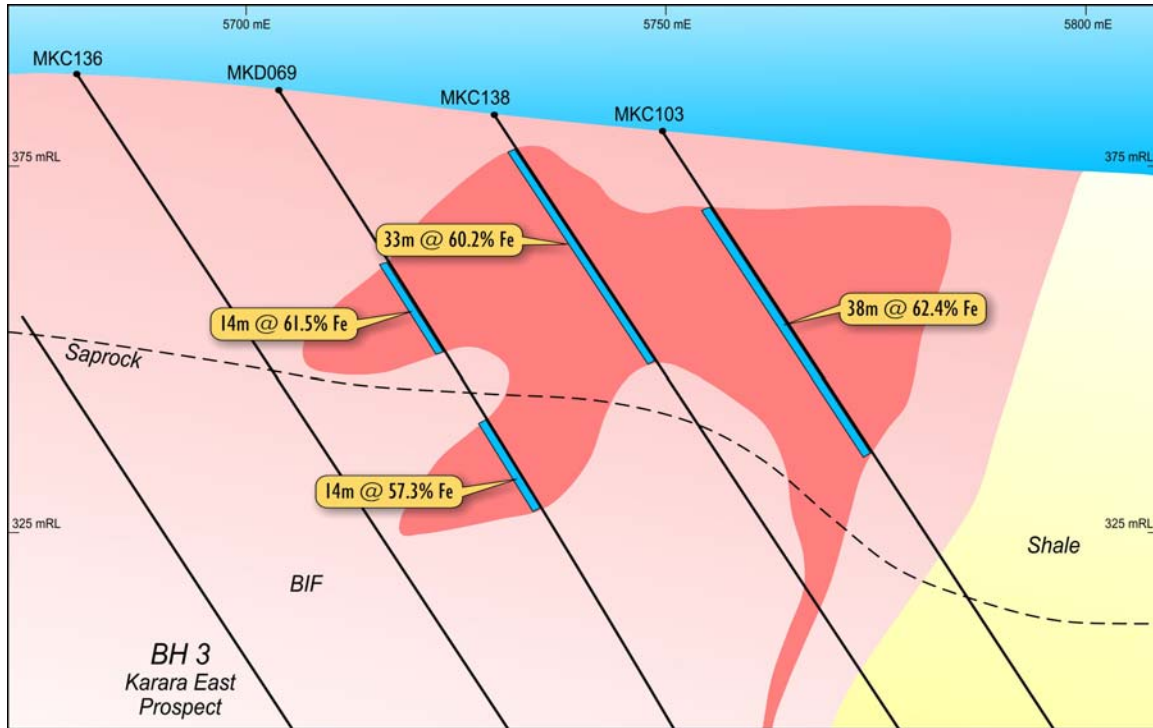


Figure C: Cross section of BH3