



**ABN 24 060 857 614**

**GINDALBIE METALS LTD  
AND ITS CONTROLLED ENTITIES**

**INTERIM FINANCIAL REPORT  
31 DECEMBER 2006**

## GINDALBIE METALS LTD AND CONTROLLED ENTITIES DIRECTORS' REPORT

Your directors present their report together with the consolidated financial report for the half-year ended 31 December 2006 and the auditors review report thereon.

### DIRECTORS

The Directors of the Company during or since the end of the half-year are:

Name of Director	Period of Directorship
<b>Executive</b>	
George Francis Jones B.Bus FCIS FAICD Executive Chairman	Director since September 2005 Appointed Executive Chairman 10 July 2006
Garret John Dixon B.Eng MBA MAICD Managing Director	Appointed 8 December 2006
David Leslie McSweeney LLB MAusIMM Managing Director	Resigned 8 December 2006
<b>Non-executive</b>	
Didier Marcel Murcia BJuris LLB Independent Non Executive Director	Director since February 1998
Tunku Ya'acob Bin Tunku Abdullah DPTJ FCA CA(M) BSc (Hons) CFP Non Executive Director	Director since October 2004
Michael John O'Neill Dip Bus(Admin) FFin FAICD Independent Non Executive Director	Director since April 2006

### REVIEW OF RESULTS AND OPERATIONS

The consolidated loss after income tax for the half year was \$1,509,000 (2005: \$1,834,000).

#### Karara Iron Ore Project

During the half year ended 31 December 2006, the Company's activities continued to focus on the Karara Iron Ore Project, which includes the Karara Magnetite Deposit and Karara Hematite Deposit. The Project is located 90 kilometres east of Morawa in Western Australia's South Murchison Region, 220 kilometres inland from the Port of Geraldton. The Project is the focus of Gindalbie's two-stage strategy to become a diversified iron ore company.

#### Karara Hematite Deposit

##### *Introduction*

The Karara Hematite Project consists of some 60 kilometres of Banded Iron Formation ('BIF') unit that is also host to the Karara Magnetite Deposit. The Karara BIF produced small quantities of hematite ore nearly 40 years ago, however, Gindalbie is the first company to conduct a systematic exploration program for hematite enrichment.

##### *Karara Hematite Resource*

Significant progress towards the goal of achieving 40 million tonnes of Resource was made during the half year with an initial hematite resource being announced subsequent to half year end on 23 January 2007.

# **GINDALBIE METALS LTD AND CONTROLLED ENTITIES**

## **DIRECTORS' REPORT**

### **REVIEW OF RESULTS AND OPERATIONS (continued)**

The Inferred Resource estimate totals 14.1 million tonnes grading 60.6% Fe, 7.8% SiO<sub>2</sub>, 1.2% Al<sub>2</sub>O<sub>3</sub>, 0.11% P, 0.06% S and 3.1% LOI. This initial hematite resource estimate, which follows the completion of over 29,000 metres of Reverse Circulation (RC) and diamond drilling, is contained within the first nine hematite deposits to be covered by Gindalbie's hematite resource development program at Karara. The Company's target was to establish an initial hematite resource of +10 million tonnes grading on average +60% Fe within these nine deposits.

The resource will form the basis for the development of hematite Ore Reserves and mine plans to support the proposed first-phase 3mt/annum DSO business being developed by Gindalbie and its partner AnSteel (the Karara Joint Venture) at Karara.

#### *Karara Hematite Infrastructure*

The Definitive Feasibility Study has continued with significant progress achieved during the six months as summarised below:

- Finalisation of the 65 kilometre haul road design, pending input from local authorities and Main Roads Western Australia.
- Finalisation of the design scope for the Tilley Rail Siding.
- Completion of the detailed design scope for the rail wagons.
- Continuation of the Engineering design work for the facilities at the Geraldton Port. This work is being conducted with input from the Geraldton Port Authority and Maunsell Engineers.
- Review by the Geraldton Iron Ore Alliance of the study into the materials handling capacity of the rail receival systems at Geraldton Port. Meetings were held with the Geraldton Port Authority and other government bodies to discuss the report and recommendations.
- Commencement of pit optimisation work for the 14.1 million tonne hematite resource.

### **Karara Magnetite Deposit**

#### *Introduction*

During the half year, the Karara Iron Ore Project Joint Venture partners announced a significant resource increase for the Karara Magnetite Deposit to 1.29 billion tonnes at 36.3% Fe.

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. It is planned to produce a nominal 8.0 mtpa of concentrate in the minesite based concentrator. Half of this will feed the Chinese based Joint Venture pellet plant and the balance will be sold by the Joint Venture partners to Ansteel for their sinter plant, also co-located with the Ansteel steel mill and Joint Venture pellet plant at Ba Yu Quan in China.

# **GINDALBIE METALS LTD AND CONTROLLED ENTITIES DIRECTORS' REPORT**

## **REVIEW OF RESULTS AND OPERATIONS (continued)**

### *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, near the port city of Yingkou in north-eastern China, within the confines of AnSteel's new 5 million tonne per annum, fully integrated steel mill due for completion in 2008. High-grade iron concentrate from the Karara Project, together with production from the new Joint Venture Pellet Plant in China, will meet a substantial proportion of the raw material input requirements of AnSteel's new steel mill.

### *Magnetite Resource Upgrade Program*

An infill drilling program over the 1,000 metre long southern portion of the Karara Magnetite resource continued during the half year as part of another planned 18,000 metre drilling program, designed to further upgrade the classification of this part of the Magnetite resource and to increase the confidence level for detailed mine planning and scheduling of the Magnetite Resource. RSG Global has commenced the initial phase of mine plan scheduling, and optimisation work.

### *Resource Definition*

In November, the Company received an updated resource model prepared by independent specialist, RSG Global. This increased the Karara deposit resources by 75% from 737 million to 1.29 billion tonnes grading 36.3% Fe and upgraded the previously Inferred category to Indicated and Inferred. The geological database from which this Resource is calculated is the result of a total of 37,000 metres of RC and diamond drilling, 20,000 head assays and 1,650 Davis Tube Recovery results.

The Indicated Resource component totals 569 million tonnes grading 36.6% Fe, which is sufficient for approximately 28 years of concentrate production at the 8mt/annum design capacity of the Karara concentrator facility, which is the subject of the current feasibility study.

### *Metallurgical Testwork Programs*

Metallurgical pilot plant testing of the flow sheet is almost complete and the results are being analysed and compared with the conceptual design assumptions used to prepare flowsheet designs. A flowsheet optimisation process is now in progress.

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*

Conceptual design, equipment sizing, general arrangements drawings and designs for the concentrator, slurry pipeline, filtration plant and storage area are now nearing completion and equipment pricing and estimating of capital and operating costs is in progress.

## **GINDALBIE METALS LTD AND CONTROLLED ENTITIES DIRECTORS' REPORT**

### **REVIEW OF RESULTS AND OPERATIONS (continued)**

#### *Karara Magnetite Infrastructure*

During the half year, the Company progressed detailed planning for project infrastructure, including power and water supplies, concentrate transport, port storage and despatch to the JV pellet plant. The power and water demand for the project is being refined as metallurgical testing results are used to fine tune the project flowsheet.

#### *a) Slurry pipeline*

The 225 kilometre slurry pipeline route has been selected and follows the existing haul road route from Karara to Morawa and then from Morawa to Geraldton. The Company has commenced discussions with the underlying landholders. The pipeline will be buried in a trench approximately 2 metres below surface. 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.

#### *b) Water supply*

In working with water supply Authorities, the Company has been directed to alternative potential water supply sources, which are closer to the proposed slurry pipeline route. Test drilling, pump testing and water quality analysis is progressing. Proving up this water resource will allow co-location of a greater length of both slurry and water pipelines, reducing pipeline construction costs and land access requirements.

#### *c) Power supply*

During the half year, announcements by power transmission authority, Western Power Network, have raised the likelihood of a timely upgrade on the State distribution grid in the Mid West region. This is consistent with the Karara long term power strategy to draw power from this grid, providing strong market competition between virtually all fuel types and generators.

Power represents a major cost for the magnetite project with approximately 30% of all operating costs being related to power supply. Approximately 100 MW of power will be required for the project. The large power consumption of the project requires a stable and reliable source of power.

In this regard, the Company has continued to work with all potential power generators, transmission groups and all levels of Government to ensure the necessary supply of power to the project can be achieved in a timely and cost effective manner.

#### *d) Port*

During the half year, the Company signed a MOU with the Geraldton Port Authority to progress its lease negotiations in connection with Berth 7. Engineering plans for the design and construction of a 7,000 tonne per hour shiploader and wharf at Berth 7 in association with the Geraldton Port Authority commenced during the half year, providing operating and capital cost estimate inputs to the Feasibility Study.

## **GINDALBIE METALS LTD AND CONTROLLED ENTITIES DIRECTORS' REPORT**

### **REVIEW OF RESULTS AND OPERATIONS (continued)**

In addition to the ongoing progress of the Karara Iron Ore Project, other activities of the Company for the half year have included the following:

#### **Regional Iron Ore Exploration (Gindalbie 100%)**

During the half year, the Company initiated a program of regional exploration for direct shipping ore (DSO) targets on the 100% owned Gindalbie iron ore rights tenement ground.

The work completed during the half year consisted of drafting of work programs for a regional exploration campaign and preparation of the associated budgets.

Further work on the Lodestone Prospect that is about 50 kilometres southeast of the Karara project was also completed. The Lodestone Prospect consists of a Banded Iron Formation (BIF) that is about 6.0 kilometres long and 0.8 kilometres wide, with a similar magnetic intensity to the Karara magnetite deposit. A first-pass phase of drilling has been planned at this prospect in the next 6 months to investigate the potential of the deposit to host a Karara-style magnetite deposit, and also to determine the prospectivity of the area for hematite mineralisation. The prospectivity of Lodestone is encouraging given the geological association and close proximity to the Mount Gibson Extension Hill and Iron Hill Prospects that are about 10 kilometres to the south.

#### **Geraldton Iron Ore Alliance**

The Company continues to be an active member of the Geraldton Iron Ore Alliance chaired by Mr Clive Brown. The purpose of the Alliance is to act as an industry group to lobby government and to promote the Mid West iron ore industry in general. Specifically, the group agrees on the need to co-operate in the continued enhancement of enabling infrastructure in the region.

#### **Mt Mulgine Tungsten Project**

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.

A number of field activities were completed at Mt Mulgine by Vital Metals during the half year, including hyper-spectral survey, mag-lag geochemical survey and geological and geophysical compilation and interpretation.

#### **Minjar Gold and Base Metal Project**

During the half year the Company received the second instalment in the amount of \$2 million from Monarch Gold Mining Company 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 2007.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES  
DIRECTORS' REPORT**

**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001**

The lead auditor's independence declaration is set out on page 7 and forms part of the Directors' Report for the half-year ended 31 December 2006.

**ROUNDING OFF**

The consolidated entity 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.

Dated at Perth this 1<sup>st</sup> day of March 2007.

Signed in accordance with a resolution of the directors.



---

G F Jones  
Director



---

G J Dixon  
Director



**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 review for the half-year ended 31 December 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'Brett Fullarton'.

Brett Fullarton  
*Partner*

Perth  
1 March 2007



## **Independent auditor's review report to the members of Gindalbie Metals Limited**

We have reviewed the accompanying interim financial report of Gindalbie Metals Limited, which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes 2 to 10 and the directors' declaration set out on page 10 of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Gindalbie Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Gindalbie Metals Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and



(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

A handwritten signature in blue ink that reads 'KPMG' in a stylized, cursive font.

KPMG

A handwritten signature in blue ink that reads 'Brett Fullarton' in a cursive font.

Brett Fullarton  
*Partner*

Perth  
1 March 2007

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES  
DIRECTORS' DECLARATION**

In the opinion of the Directors of Gindalbie Metals Ltd ("the Company"):

1. the financial statements and notes set out on pages 11 to 18 are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 1<sup>st</sup> day of March 2007.

Signed in accordance with a resolution of the directors.



---

G F Jones  
Director



---

G J Dixon  
Director

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED INTERIM INCOME STATEMENT**  
**For the six months ended 31 December 2006**

	Notes	Consolidated 31 Dec 2006 \$'000	31 Dec 2005 \$'000
Other income	2(a)	1,568	414
Administration expenses		(3,446)	(1,207)
Other expenses	2(b)	<u>(757)</u>	<u>(1,282)</u>
Loss from operating activities		(2,635)	(2,075)
Financial income	3	1,126	242
Financial expenses	3	<u>-</u>	<u>(1)</u>
Net financing income		<u>1,126</u>	<u>241</u>
Loss before tax		<u>(1,509)</u>	<u>(1,834)</u>
Income tax expense		<u>-</u>	<u>-</u>
Loss for the period		<u>(1,509)</u>	<u>(1,834)</u>
Basic loss per share – cents		(0.35)	(0.59)
Diluted loss per share – cents		(0.35)	(0.59)

The income statement is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 15 to 18.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 31 December 2006**

	Issued capital \$'000	Consolidated Accumulated losses \$'000	Reserves \$'000	Total \$'000
<b>Six months ended 31 December 2006</b>				
Opening balance at 1 July 2006	72,777	(22,868)	2,092	52,001
Equity settled share based payment transactions			650	650
Shares issued				
- Exercise of 5,160,000 employee options at various exercise prices	1,311			1,311
Transaction costs of share issues	(3)			(3)
Net loss for the period (recognised income and expenses)	-	(1,509)	-	(1,509)
Closing balance at 31 December 2006	<u>74,085</u>	<u>(24,377)</u>	<u>2,742</u>	<u>52,450</u>
<b>Six months ended 31 December 2005</b>				
Opening balance at 1 July 2005	37,790	(20,362)	32	17,460
Equity settled share based payment transactions			973	973
Shares issued				
- 13,142,755 shares issued at 9 cents pursuant to a rights issue	1,183			1,183
- 22,222,222 shares placed at 9 cents per share	2,000			2,000
- 500,000 shares issued at 15 cents from exercise of employee options	75			75
Transaction costs of share issues	(67)			(67)
Net loss for the period (recognised income and expenses)	-	(1,834)	-	(1,834)
Closing balance at 31 December 2005	<u>40,981</u>	<u>(22,196)</u>	<u>1,005</u>	<u>19,790</u>

The statement of changes in equity is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 15 to 18.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED INTERIM BALANCE SHEET**  
**As at 31 December 2006**

	Note	Consolidated 31 Dec 2006 \$'000	30 Jun 2006 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		28,211	36,165
Trade and other receivables		8,318	10,986
Inventories		27	8
Investments		<u>1,150</u>	<u>450</u>
<b>TOTAL CURRENT ASSETS</b>		<u>37,706</u>	<u>47,609</u>
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment		2,313	1,198
Exploration and evaluation assets	4	<u>18,440</u>	<u>9,673</u>
<b>TOTAL NON CURRENT ASSETS</b>		<u>20,753</u>	<u>10,871</u>
<b>TOTAL ASSETS</b>		<u>58,459</u>	<u>58,480</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		5,715	6,100
Employee benefits		<u>242</u>	<u>362</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>5,957</u>	<u>6,462</u>
<b>NON CURRENT LIABILITIES</b>			
Employee benefits		<u>52</u>	<u>17</u>
<b>TOTAL NON CURRENT LIABILITIES</b>		<u>52</u>	<u>17</u>
<b>TOTAL LIABILITIES</b>		<u>6,009</u>	<u>6,479</u>
<b>NET ASSETS</b>		<u>52,450</u>	<u>52,001</u>
<b>EQUITY</b>			
Issued capital	5	74,085	72,777
Reserves		2,742	2,092
Accumulated losses		<u>(24,377)</u>	<u>(22,868)</u>
<b>TOTAL EQUITY</b>		<u>52,450</u>	<u>52,001</u>

The balance sheet is to be read in conjunction with the consolidated notes to the consolidated interim financial report set out on pages 15 to 18.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**For the six months ended 31 December 2006**

	Consolidated	
	31 Dec 2006	31 Dec 2005
	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Management fee received from joint venture partner	576	-
Cash receipts from other parties	56	-
Cash payments to suppliers and employees	(3,523)	(1,428)
Interest received	<u>989</u>	<u>239</u>
<b>Net cash used in operating activities</b>	<u>(1,902)</u>	<u>(1,189)</u>
<b>Cash flows from investing activities</b>		
Exploration and evaluation expenditure	(8,545)	(3,341)
Acquisition of property, plant and equipment	(1,568)	(115)
Proceeds on sale of non-current assets	2,517	31
Purchase of listed company shares	(6,440)	-
Proceeds on sale of listed company shares	<u>6,676</u>	<u>-</u>
<b>Net cash used in investing activities</b>	<u>(7,360)</u>	<u>(3,425)</u>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of shares	1,311	3,258
Payment of capital raising costs	(3)	(121)
Repayment of borrowings	<u>-</u>	<u>(69)</u>
<b>Net cash from financing activities</b>	<u>1,308</u>	<u>3,068</u>
<b>Net decrease in cash and cash equivalents</b>	(7,954)	(1,546)
<b>Cash and cash equivalents at 1 July</b>	<u>36,165</u>	<u>10,134</u>
<b>Cash and cash equivalents at 31 December</b>	<u>28,211</u>	<u>8,588</u>

The statement of cash flows is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 15 to 18.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**Condensed notes to the consolidated interim financial report**  
**For the six months ended 31 December 2006**

**1 SIGNIFICANT POLICIES**

**(a) Reporting entity**

Gindalbie Metals Limited (the “Company”) is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the “consolidated entity”).

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006 is available upon request from the Company’s registered office at Level 9, 216 St George’s Terrace, Perth WA or at [www.gindalbie.com.au](http://www.gindalbie.com.au).

**(b) Statement of compliance**

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards AASB 134 *Interim Financial Reports* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006.

This consolidated interim financial report was approved by the Board of Directors on 1 March 2007.

The consolidated entity 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 have been rounded off to the nearest thousand dollars, unless otherwise stated.

**(c) Significant accounting policies**

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

**(d) Estimates**

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2006.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**Condensed notes to the consolidated interim financial report**  
**For the six months ended 31 December 2006**

	Note	Consolidated 31 Dec 2006 \$'000	31 Dec 2005 \$'000
<b>2 INCOME AND EXPENSES</b>			
<b>2(a) Other income</b>			
Joint venture management fees		576	-
Profit on sale of listed company shares		236	-
Appreciation in value of investment		700	-
Net gain on disposal of property, plant and equipment		-	14
Joint venture transaction fee received in shares		-	400
Other income		<u>56</u>	<u>-</u>
Total other income		<u>1,568</u>	<u>414</u>
<b>2(b) Other expenses</b>			
Operating lease rental expense		(39)	(35)
Depreciation – Plant & equipment		(141)	(74)
less capitalised to E&E		79	21
Employee option expense		(650)	(973)
Care and maintenance expenses		5	(154)
Net loss on disposal of property plant and equipment		(5)	-
Impairment in value of investment		-	(67)
Exploration and evaluation expenditure written off		<u>(6)</u>	<u>-</u>
Total other expenses		<u>(757)</u>	<u>(1,282)</u>

**3 NET FINANCING INCOME**

Interest income		<u>1,126</u>	<u>242</u>
Financial income		<u>1,126</u>	<u>242</u>
Interest expense		-	-
Finance charges on hire purchase agreements		-	(2)
less capitalised to E&E		<u>-</u>	<u>1</u>
Financial expenses		<u>-</u>	<u>(1)</u>
Net financing income		<u>1,126</u>	<u>241</u>

**4 EXPLORATION AND EVALUATION ASSETS**

Costs carried forward in respect of areas of interest in:

Exploration and evaluation assets			
Carrying amount at 1 July		9,673	6,891
Additions		8,773	2,782
Expenditure written off		(6)	-
Disposals		<u>-</u>	<u>-</u>
Carrying amount at 31 December		<u>18,440</u>	<u>9,673</u>

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.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**Condensed notes to the consolidated interim financial report**  
**For the six months ended 31 December 2006**

**5 ISSUED CAPITAL**

**Share capital**

The consolidated entity recorded the following amounts within shareholder's equity as a result of the issue of ordinary shares:

	Ordinary shares		Share capital	
	2006	2005	2006 \$'000	2005 \$'000
<b>Reconciliation of issued capital</b>				
On issue at 1 July	430,884,406	302,249,429	72,777	37,790
Shares issued at 9 cents pursuant to a rights issue	-	13,142,755	-	1,183
Shares placed at 9 cents per share	-	22,222,222	-	2,000
Shares issued from exercise of employee options	5,160,000	500,000	1,311	75
Capital raising costs	<u>                    </u>	<u>                    </u>	<u>(3)</u>	<u>(67)</u>
On issue at 31 December	<u>436,044,406</u>	<u>338,114,406</u>	<u>74,085</u>	<u>40,981</u>

**6 SHARE-BASED PAYMENTS**

The Company has an employee share option plan which was approved at the 2006 Annual General Meeting held on 22 November 2006. Grants made during the year ended 30 June 2006 are disclosed in the consolidated financial report as at and for the year ended 30 June 2006. During the six months ended 31 December 2006 further grants have been made to employees under the employee share option plan.

The terms and conditions of the grants made during the six months ended 31 December 2006 are as follows (all option exercises are settled by physical delivery of shares):

Employee entitled/Grant date	Number of Instruments	Vesting conditions	Expiry Date	Contractual life of options
<i>Employee share option plan</i>				
Option grant to senior employee at 12 July 2006	200,000	Immediate	30/09/2010	4.25yrs
Option grant to senior employee at 12 July 2006	200,000	1/02/2007	30/09/2010	4.25yrs
Option grant to senior employee at 12 July 2006	200,000	1/02/2008	30/09/2010	4.25yrs
Option grant to senior employee at 25 Sept 2006	250,000	28/02/2007	30/09/2010	4yrs
Option grant to senior employee at 25 Sept 2006	250,000	31/03/2008	30/09/2010	4yrs
Option grant to senior employee at 25 Sept 2006	500,000	31/03/2009	30/09/2010	4yrs
<i>Shareholder approval</i>				
Option grant to director at 22 Nov 2006	150,000	Immediate	30/09/2010	3.8yrs
Option grant to director at 22 Nov 2006	150,000	31/03/2007	30/09/2010	3.8yrs
Option grant to director at 22 Nov 2006	300,000	31/03/2008	30/09/2010	3.8yrs

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**Condensed notes to the consolidated interim financial report**  
**For the six months ended 31 December 2006**

**6 SHARE-BASED PAYMENTS (Continued)**

Fair value of share options and assumptions for the six months ended 31 December 2006:

<b>Grant Date</b>	<b>12 Jul 06</b>	<b>25 Sep 06</b>	<b>22 Nov 06</b>
<b>Fair value at grant date (cents)</b>	<b>33.78</b>	<b>21.14</b>	<b>28.28</b>
Share price (cents)	56.2	41.8	51.9
Exercise price (cents)	63	55	55
Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes formula) (%)	77.95	70	70
Option life (expressed as weighted average life used in the modelling under the Black Scholes formula) (years)	4.25	4	3.8
Expected dividends	Nil	Nil	Nil
Risk-free interest rate (based on government bonds) (%)	5.315	5.89	5.89

The basis of measuring fair value is consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2006.

**7 SEGMENT REPORTING**

The Consolidated entity operates in one business segment, namely mineral exploration in Australia. The revenues and results of this segment are those of the consolidated entity as a whole and are set out in the Income Statement.

**8 CONTINGENT LIABILITIES**

There have been no material changes in contingent liabilities since 30 June 2006.

**9 RELATED PARTIES**

***Transactions with key management personnel***

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and share-based payments (see note 6).

On 8 December 2006 Mr Garret Dixon commenced employment as the new Managing Director of the Company. The key terms of Mr Dixon's service contract are as outlined in the ASX announcement dated 7 November 2006. The former Managing Director, Mr David McSweeney was paid a termination fee in accordance with his service contract of 2 years salary plus leave entitlements.

***Transactions with directors***

The Company transacted with directors and director related entities during the six months ended 31 December 2006. These transactions amounted to \$28,721 (twelve months ended 30 June 2006: \$105,521).

**10 SUBSEQUENT EVENTS**

There has not arisen in the interval between the end of the half year and the date of this report any item, transaction or event of a material or 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 subsequent financial periods.