GINDALBIE METALS LTD
ABN 24 060 857 614

AND ITS CONTROLLED ENTITIES
HALF-YEAR FINANCIAL REPORT
31 DECEMBER 2005

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 2005 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
Non-executive	
George Francis Jones B.Bus FCIS FAICD Independent Non Executive Chairman	Appointed 9 September 2005
Keith Graham McKay BSc (Hons) (Geol) FAusIMM Independent Non Executive Director	Director since December 1997
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	Appointed 1 October 2004
William James Ryan BE ME FAusIMM FAICD Independent Non Executive Director	Resigned 24 November 2005
Executive	
David Leslie McSweeney LLB MAusIMM Managing Director	Director since July 1993

REVIEW OF RESULTS AND OPERATIONS

The consolidated loss after income tax for the half year was $1,833,940 (2004: $1,420,382).

Karara Iron Ore Project

During the half year ended 31 December 2005, the Company's activities focused on the Karara Iron Ore Project, which includes the Karara Magnetite Deposit and Karara Hematite Project. 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 Project

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. The aim of the hematite exploration program is to initially delineate 10 million tonnes of hematite resources sufficient to support a 1.5 million tonne per annum mining operation commencing in 2007. Initial exploration over a six kilometre portion of the BIF has identified six surface outcrops of commercial grade hematite predominantly in an area known as Mungada Ridge.

During the half year, the Company completed its first RC drilling campaign to determine the extent of hematite enrichment below four of the initial six surface outcrops discovered from mapping and rock chip sampling. The drilling was broadly spaced and was designed to test the grade of hematite material, at a vertical depth of between 60 and 100 metres below surface outcrops where rock chip sampling had previously shown grades of 60% iron or greater.

REVIEW OF RESULTS AND OPERATIONS (continued)

The results to date demonstrate that hematite enrichment of BIF occurs to vertical depths greater than 100 metres at several locations along the Mungada Ridge. The ore distribution suggests a consistent structural control to mineralisation.

A multi pit blending strategy is considered likely to yield the best outcome for developing the hematite project.

The results from the four prospects, BH1, MR1, MR2 and MR5, drilled to date have given Gindalbie sufficient encouragement to initiate a second phase of more closely spaced RC and diamond drilling to determine the distribution, quality and variability of these four prospects. This second phase of drilling, consisting of 4,000 metres of RC drilling and 1,000 metres of diamond drilling, has now commenced.

Karara Hematite Development

In the September Quarterly Report, Gindalbie outlined its plan to produce 1.5 million tonnes per annum of direct shipping hematite ore ('DSO') from the project commencing in mid 2007. The project involves establishment of a mining operation, ore transport via road from Karara to Morawa, train loading and transport on rail between Morawa and Geraldton and the establishment of materials handling and export facilities at Berth 5 at the Geraldton Port.

The Company does not require the construction of any major infrastructure in order to facilitate its Karara hematite development due to its strategic location next to the existing haul road, existing rail network and the expanding port of Geraldton. An update on progress of the major components of the logistics supply chain follows.

Production Schedule

The Company is confident that the hematite drilling campaign now underway will establish sufficient hematite resources at Karara by June 2006 to support a production schedule commencing at the rate of 1.5 million tonnes per annum of hematite in mid 2007. The initial production schedule coincides with the construction by the Geraldton Port Authority of the new ship loader at Berth 5 at the Geraldton Port. The Company is also confident that ongoing exploration at Karara will continue to identify new hematite deposits, and that as a result, the Company will achieve its aim of expanding the DSO hematite production to 4 million tonnes per annum by 2009.

Haul Road

The Company plans to utilise the existing 85km haul road from Karara to Morawa to truck DSO hematite to the rail head for loading onto rail wagons. The haul road was used for iron ore haulage 40 years ago and remains in good standing although upgrading of the haulage surface will be required prior to commencing production. The haulage route does not pass through any towns or population centres. The final 20 kilometres of the haul road from Koolanooka to the rail siding at Morawa is currently being upgraded by Midwest Corporation to facilitate its Koolanooka hematite business.

Rail Network

Westnet has advised the Company that the Morawa to Geraldton section of the rail infrastructure has the capacity to handle the Company's initial 1.5 million tonnes per annum without any major capital upgrades to the main rail line. Extensions to several existing passing loops on the line will be required to facilitate the longer trains that will operate on the line once hematite production commences. The Company has been offered a site near Morawa for the establishment of its loading facilities and siding.

REVIEW OF RESULTS AND OPERATIONS (continued)

Geraldton Port

The Company is pleased to learn of the Western Australian Government's commitment to further enhance the Geraldton Port by the announcement to commit $35 million to the construction of a new 5,000 tonne per hour ship loader at Berth 5. This initiative effectively adds an additional 10 million tonnes per annum of iron ore export capacity to the Geraldton Port.

Karara Magnetite Deposit

Resource Drilling

The Company is on target to complete the Karara Magnetite Deposit resource estimation in late March 2006 targeting an initial 400 million tonnes of magnetite resources, following completion of drilling over the first 1.6 kilometres of the deposit in the December Quarter.

Drill hole results continue to demonstrate the continuity of the magnetite ore body over the 1.6 kilometre strike extent drilled to date. It is expected that this continuity will continue over the additional estimated 2.4 kilometres of the deposit yet to be drilled.

Resource Upgrade Program

The initial 10,000 metre resource drilling program has demonstrated that the geophysical magnetic image of the Karara Magnetite Deposit is an accurate measure of the outline of the ore body and has significantly increased the Company's confidence in the potential of the deposit to continue for up to at least 2 kilometres to the north and to extend at depth. In addition to the area along strike to the north, the Company plans to drill test the subcropping eastern limb of the deposit as part of a new 18,000 metre drilling program planned to increase the magnetite resource to in excess of 800 million tonnes.

The work at Karara to date has provided a high level of confidence in the Karara Magnetite Deposit. Consequently the Company has committed to moving directly into the Definitive Feasibility Study ('DFS') for the Karara magnetite deposit over calendar year 2006. A number of production scenarios will be investigated during this DFS process.

Karara Infrastructure Requirements

The Karara development will involve the processing of magnetite concentrate using conventional crushing, grinding and magnetite separation on site at Karara to form an iron concentrate with grade anticipated in the order of 68% iron.

Slurry Pipeline

The concentrate will be transported by a slurry pipeline from the mine site to the port destination, a distance of 220 kilometres. Slurry pipelines provide an economical method for transporting magnetite concentrates and are in use in many places in the world over similar distances.

Port

The Company plans to consider two options for the export of its products from Karara, the existing Port at Geraldton and the proposed Oakajee Port site which is located 25 kilometres north of Geraldton.

REVIEW OF RESULTS AND OPERATIONS (continued)

The Company is encouraged by the following facts about the proposed Oakajee Port facility:

1) It has been identified by several reviews as the most appropriate site for a deepwater port in the Geraldton region;
2) It has previously received environmental approvals;
3) It has strong government support; and
4) At least two other developers in the Geraldton region, who are involved in the Geraldton Iron Ore Alliance, (see below) have plans to utilise the Oakajee Port for their future iron ore projects.

Funding Strategy

The Company has announced its plans to introduce a joint venture partner for 50% of the Karara project as part of its strategy to finance the capital required for the development.

Discussions with major Asian steel mills and trading houses, regarding participation in the development of the Karara Magnetite Deposit continue with several groups expressing strong interest in a combination of equity participation, offtake and financing arrangements.

Other Activities

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:

Minjar Gold and Base Metal Project

The Minjar Gold and Base Metal Project comprises a 1,700 square kilometre tenement package which is considered highly prospective for gold and base metals. It is located adjacent to the Company's Karara Iron Ore Project approximately 500 kilometres north-east of Perth, in the South Murchison Region of Western Australia.

In September 2005, a decision was made to divest the Company's Minjar Gold and Base Metal assets and to focus on developing the Company's growing iron ore business.

During the half year, the Company completed the packaging of the project for sale to a third party. Prime Corporate Finance is managing the sale process on behalf of the Company.

The assets consist of the tenement package, some 400,000 ounces of defined gold resources and the 600,000 tonne per annum Minjar Treatment Plant.

Anketell Gold-Copper Project

The Anketell Gold-Copper Project is located approximately 100 kilometres north of Newcrest's large Telfer Gold Mine, in the Pilbara region of Western Australia. During the half year, joint venture partner, NGM Resources withdrew from the joint venture.

The Company is now reviewing its options for the future exploration of the Anketell Project.

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.

REVIEW OF RESULTS AND OPERATIONS (continued)

Vital Metals completed its $8m capital raising during late September 2005 and listed on the Australian Stock Exchange on 11 October 2005 after issuing Gindalbie 2 million fully paid Vital shares with a value of $400,000. No field activities were undertaken by Vital during the half year.

Geraldton Iron Ore Alliance

During the half year, the Company's efforts to establish an infrastructure alliance between the various iron ore developers in the Geraldton region was successful with the announcement of the formation of the Geraldton Iron Ore Alliance and the appointment of former Western Australian State Development Minister, Mr Clive Brown as the independent Chairman.

The initial members of the group are Gindalbie Metals Ltd, Midwest Corporation and Murchison Metals Ltd. The purpose of the alliance is to act as an industry group to lobby government and to promote the Geraldton 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.

Corporate

Appointment of New Director

On 12 September 2005, the Board agreed to appoint Mr George Jones (former Chairman of Portman Ltd) as a non-executive director of the Company, subject to shareholder approval at the Company's AGM. At the same time Mr Jones agreed to invest $2 million in Gindalbie Metals Ltd at 9 cents per share. The placement was also subject to shareholder approval at the AGM.

The shareholders approved the appointment of Mr Jones and the associated share placement at 9 cents per share at the Annual General Meeting. From the date of shareholder approval Mr Jones was also appointed Chairman of the Company, replacing Mr Keith McKay who continues to serve the Company as a non executive director.

On 30 December 2005 the Company announced the finalisation of the share placement to Mr Jones and his nominee, the Cape Bouvard Group, which is controlled by Perth's Sarich Family.

Entitlement Issue

During the half year, the Company placed 13,142,755 ordinary shares at 9 cents per share to raise $1.183 million, being the shortfall of the 1 for 2 Entitlements Issue that closed on 5 June 2005. The shortfall was placed to clients of Bell Potter in Melbourne.

EVENTS SUBSEQUENT TO BALANCE DATE

On 27 February 2006 the Company announced completion of an agreement to raise A$33 million in two tranches through the issue of 90 million shares at 37 cents per share to Australian and international institutional clients of Southern Cross Equities Ltd. The funds are to be used to facilitate completion of the Definitive Feasibility Study on development of both the Direct Shipping Ore and Pellet Projects at the Company's Karara Iron Ore Project.

There has not arisen in the interval between the end of the half year and the date of this report any other 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.

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

The lead auditor's independence declaration is set out on page 9 and forms part of the Directors' Report for the half-year ended 31 December 2005.

Dated at Perth this 10th day of March 2006.

Signed in accordance with a resolution of the directors.

D L McSweeney Director	G F Jones Director

KPMG

Independent review report to the members of Gindalbie Metals Limited

Scope

The financial report and directors' responsibility

The financial report comprises the condensed consolidated interim statement of income, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Gindalbie Metals Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2005. The Consolidated Entity comprises Gindalbie Metals Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial 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 adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

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

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

KPMG

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Gindalbie Metals Limited is not in accordance with:

a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

   ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

B C FULLARTON
Partner

Perth
10 March 2006

Lead Auditor's Independence Declaration under Section 307C of the Corporation 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 2005 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.

KPMG

B C FULLARTON
Partner

Perth
10 March 2006

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 33 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 2005 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 1029 "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 10th day of March 2006.

Signed in accordance with the resolution of the directors.

D L McSweeney
Director

G F Jones
Director

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
For the half-year ended 31 December 2005

	Notes	Consolidated 31 December 2005 $	Consolidated 31 December 2004 $
Revenue	2 (a)	-	40,467
Cost of sales	2 (b)	-	(232,236)
Gross Loss		-	(191,769)
Other revenue	2 (c)	656,102	277,626
Other expenses	2 (d)	(2,489,325)	(1,504,788)
Loss before financing costs		(1,833,223)	(1,418,931)
Financing costs	3 (a)	(717)	(1,451)
Loss before tax		(1,833,940)	(1,420,382)
Income tax expense		-	-
Loss for the period attributable to members of the parent entity		(1,833,940)	(1,420,382)
Basic loss per share – cents		(0.59)	(0.70)
Diluted loss per share – cents		(0.58)	(0.70)

The income statement is to be read in conjunction with the notes to the half year financial statements set out on pages 15 to 33.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2005

	Consolidated			
	Issued capital $	Accumulated losses $	Reserves $	Total $
Half-year ended 31 December 2005				
Opening balance at 1 July 2005	37,790,465	(20,361,601)	31,791	17,460,655
Equity settled share based payment transactions			972,720	972,720
Shares issued				
- 13,142,755 shares issued at 9 cents pursuant to a rights issue	1,182,848			1,182,848
- 22,222,222 shares placed at 9 cents per share	2,000,000			2,000,000
- 500,000 shares issued at 15 cents from exercise of employee options	75,000			75,000
Transaction costs of share issues	(66,671)			(66,671)
Net loss for the period (recognised income and expenses)	-	(1,833,940)	-	(1,833,940)
Closing balance at 31 December 2005	40,981,642	(22,195,541)	1,004,511	19,790,612
Half-year ended 31 December 2004				
Opening balance at 1 July 2004	26,699,563	(17,076,636)	-	9,622,927
Equity settled share based payment transactions				
Shares issued				
- 27,000,000 shares placed at 12.5 cents per share	3,375,000			3,375,000
Transaction costs of share issues	(189,429)			(189,429)
Net loss for the period	-	(1,420,382)	-	(1,420,382)
Closing balance at 31 December 2004	29,885,134	(18,497,018)	-	11,388,116

The statement of changes in equity is to be read in conjunction with the notes to the half year financial statements set out on pages 15 to 33.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
As at 31 December 2005

	Consolidated	
	31 December 2005 $	30 June 2005 $
CURRENT ASSETS		
Cash	8,587,611	10,134,169
Receivables	59,612	184,818
Inventories	51,496	48,980
Other financial assets	370,000	37,500
Other assets	19,323	62,162
TOTAL CURRENT ASSETS	9,088,042	10,467,629
NON CURRENT ASSETS		
Property, plant and equipment	1,896,743	1,872,662
Exploration, evaluation and development expenditure	10,927,566	6,891,322
TOTAL NON CURRENT ASSETS	12,824,309	8,763,984
TOTAL ASSETS	21,912,351	19,231,613
CURRENT LIABILITIES		
Payables	1,274,434	729,605
Interest bearing liabilities	53,896	77,181
Provisions	283,035	514,959
TOTAL CURRENT LIABILITIES	1,611,365	1,321,745
NON CURRENT LIABILITIES		
Provisions	510,374	449,213
TOTAL NON CURRENT LIABILITIES	510,374	449,213
TOTAL LIABILITIES	2,121,739	1,770,958
NET ASSETS	19,790,612	17,460,655
EQUITY		
Issued Shares	40,981,642	37,790,465
Reserves	1,004,511	31,791
Accumulated losses	(22,195,541)	(20,361,601)
TOTAL EQUITY	19,790,612	17,460,655

The balance sheet is to be read in conjunction with the notes to the half year financial statements set out on pages 15 to 33.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2005

	Consolidated	
	31 December 2005 $	31 December 2004 $
Cash flows from operating activities		
Cash receipts from customers	-	144,300
Cash payments to suppliers and employees	(1,428,722)	(2,458,594)
Interest received	239,218	115,803
Net cash used in operating activities	(1,189,504)	(2,198,491)
Cash flows from investing activities		
Payments for exploration and evaluation	(3,340,786)	(1,159,732)
Payments for property, plant and equipment	(114,988)	(142,381)
Proceeds on disposal of non-current assets	30,727	71,064
Net cash used in investing activities	(3,425,047)	(1,231,049)
Cash flows from financing activities		
Proceeds from issue of shares	3,257,848	3,375,000
Capital raising expenses	(121,237)	(189,429)
Repayment of borrowings	(68,618)	(52,867)
Net cash provided by financing activities	3,067,993	3,132,704
Net decrease in cash held	(1,546,558)	(296,836)
Cash at the beginning of the period	10,134,169	4,627,330
Cash and cash equivalents at 31 December	8,587,611	4,330,494

The statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 15 to 33.

1 SIGNIFICANT ACCOUNTING POLICIES

Gindalbie Metals Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2005 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

The condensed consolidated interim financial report was authorised for issue by the directors on 10 March 2006.

(a) Statement of Compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") 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 interim financial report of the consolidated entity also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRSs. This report must also be read in conjunction with any public announcements made by the Company during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRSs has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in Note 15. 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 AIFRSs.

(b) Basis of Preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except for financial instruments held at their fair value.

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

(b) Basis of Preparation (continued)

These 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.

This condensed consolidated interim financial report has been prepared on the basis of AIFRS's on issue that are effective at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRS's, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year-ended 30 June 2006.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 30 June 2006 are still subject to change and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS, as required by AASB 1. The impact of the transition from previous GAAP to AIFRS is explained in Note 15. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy.

The accounting policies have been applied consistently throughout the consolidated entity for the purposes of this condensed consolidated interim financial report.

(c) Basis 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 condensed consolidated interim financial report from the date that control commences until the date that control ceases.

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 condensed consolidated interim 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, and an appropriate proportion of production overheads.

(d) Property, plant and equipment (continued)

Owned assets (continued)
The cost of self-constructed assets and acquired assets includes:
(i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and
(ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

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 – AIFRS's, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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.

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. Land is not depreciated. 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, if not insignificant, is reassessed 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. Where 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, available-for-sale and fair value through the profit and loss is their quoted bid price at the balance sheet date.

Financial instruments classified as held for trading, available-for-sale or fair value through the profit and loss 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.

(e) Investments (continued)

Comparative period policy

Investments in other listed 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 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 three months or less.

(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 reporting 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 held-to-maturity securities and 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.

(i) Impairment (continued)

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
An impairment loss in respect of a held-to-maturity security or 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.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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, other than superannuation plans, 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 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.

(j) Employee benefits (continued)

Share-based payment transactions
The share option programme allows consolidated entity employees to ultimately 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 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, when 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 cost.

(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 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.

(o) Income Tax

Income tax on the income statement for the periods presented 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 substantially 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 or to the extent that such deferred tax assets are offset by deferred tax liabilities with the same taxation authority.

(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) Exploration, evaluation and development expenditure

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure to the area of interest is current and such costs are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

(r) Exploration, evaluation and development expenditure (continued)

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

When production commences, carried forward exploration, evaluation and development costs are amortised on a units of production basis over the life of the economically recoverable reserves.

	Note	Consolidated 31 Dec 2005 $	Consolidated 31 Dec 2004 $
2 LOSS BEFORE FINANCING COSTS			
2(a) Revenue			
Sales Revenue			
Gold		-	40,377
Silver		-	90
Total revenue from operations		-	40,467
2(b) Cost of sales			
Cost of Production			
Milling expenses		-	(44,818)
Mine administration expenses		-	(188,218)
Royalty expenses		-	800
Total costs of sales		-	(232,236)
2(c) Other revenues			
Interest		242,078	119,036
Net profit from sale of non-current assets		14,024	53,279
Other income		400,000	105,311
Total other revenues		656,102	277,626
2(d) Other expenses			
Operating lease rental expense		(34,575)	(35,889)
Depreciation – Plant & equipment		(74,203)	(74,650)
less capitalised to EE&D		20,984	14,178
Corporate and administration costs		(1,206,801)	(782,085)
Employee option expense		(972,720)	-
Care and maintenance expenses		(154,510)	(179,687)
Diminution in value of investment		(67,500)	-
Exploration expenditure written off		-	(142,079)
Provision for inventory obsolescence		-	(304,576)
Total other expenses		(2,489,325)	(1,504,788)

		31 Dec 2005 $	31 Dec 2004 $
3 FINANCING COSTS			
3(a) Financing costs			
Borrowing Costs			
Finance charges on hire purchase agreements		(717)	(1,451)
Total borrowing costs		(717)	(1,451)

4 NON-CASH FINANCING AND INVESTING ACTIVITIES

During the financial period the consolidated entity received 2,000,000 shares in Vital Metals Ltd (“Vital”) at 20 cents per share representing a value of $400,000. The transaction formed part of the earn in rights of Vital to the Company’s Mt Mulgine tenements. This transaction is not reflected in the statement of cash flows.

5 INCOME TAXES

Current tax

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Current tax for current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Deferred tax

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 the estimated average annual effective income tax rate for the interim periods presented.

6 PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 31 December 2005, the consolidated entity acquired assets with a cost of $114,985 (six months ended 31 December 2004: $144,546). Assets with a net book value of $16,703 were disposed of during the six months ended 31 December 2005 (six months ended 31 December 2004: $84,499), resulting in a gain on disposal of $14,024 (six months ended 31 December 2004: gain of $53,279).

7 CAPITAL AND RESERVES

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

For the six months ended 31 December 2005

	Note	Share Capital 31 Dec 2004 $	30 June 2005 $	31 Dec 2005 $
Issued capital		29,885,134	37,790,465	40,981,642

		Ordinary shares 2005	2004	Share capital 2005 $	2004 $
Reconciliation of issued capital					
On issue at 1 July		302,249,429	183,261,456	37,790,465	26,699,563
Shares placed at 12.5 cents per share		-	27,000,000	-	3,375,000
Shares issued at 9 cents pursuant to a rights issue	(a)	13,142,755	-	1,182,848	-
Shares placed at 9 cents per share	(b)	22,222,222	-	2,000,000	-
Shares issued at 15 cents from exercise of employee options		500,000	-	75,000	-
Capital raising costs				(66,671)	(189,429)
On issue at 31 December		338,114,406	210,261,456	40,981,642	29,885,134

(a) On 26 August 2005 the Company issued 13,142,755 ordinary shares at 9 cents being the shortfall of the 1 for 2 Entitlement Issue that closed on 5 June 2005.

(b) On 29 December 2005 the Company issued 22,222,222 ordinary shares following the completion of a share placement to Connemara Investments Pty Ltd and Ossan Pty Ltd. The shares were issued at 9 cents per share with the proceeds used for the further development of the Karara Iron Ore Project.

8 EARNINGS PER SHARE

Basic earnings per share
The calculation of basic earnings per share for the six months ended 31 December 2005 was based on the loss attributable to ordinary shareholders of $1,833,940 (six months ended 31 December 2004: $1,420,382) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2005 of 310,989,462 (six months ended 31 December 2004: 203,217,978), calculated as follows:

8 EARNINGS PER SHARE (CONTINUED)

Loss attributable to ordinary shareholders	Consolidated	
For the six months ended 31 December 2005	2005	2004
	$	$
Basic earnings	(1,833,940)	(1,420,382)

Weighted average number of ordinary shares	2005	2004
For the six months ended 31 December 2005	No of shares	No of shares
Issued ordinary shares at 1 July	302,249,429	183,261,456
Effect of share placement	-	19,956,522
Effect of 1 for 2 Entitlement Issue shares	8,714,218	-
Effect of shares issued on exercise of employee share options	25,815	-
Weighted average number of ordinary shares at 31 December	310,989,462	203,217,978

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2005 was based on loss attributable to ordinary shareholders of $1,833,940 (six months ended 31 December 2004: $1,420,382) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2005 of 313,634,171 (six months ended 31 December 2004: 203,217,978), calculated as follows:

Loss attributable to ordinary shareholders (diluted)	Consolidated	
For the six months ended 31 December 2005	2005	2004
	$	$
Basic earnings	(1,833,940)	(1,420,382)

Weighted average number of ordinary shares (diluted)	2005	2004
For the six months ended 31 December 2005	No of shares	No of shares
Weighted average number of ordinary shares at 31 December	310,989,462	203,217,978
Effect of share options on issue	2,644,709	-
Weighted average number of ordinary shares (diluted) at 31 December	313,634,171	203,217,978

9 EMPLOYEE BENEFITS

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. The terms and conditions of the share option programme and grants made during the year ended 30 June 2005 are disclosed in the most recent annual financial report. During the six months ended 31 December 2005 further grants have been made to employees under the employee share option plan and through shareholder approval at the AGM on 30 November 2005.

The terms and conditions of the grants made during the six months ended 31 December 2005 are as follows; all option exercises are settled by physical delivery of shares:

Grant date / employees entitled	Number of Instruments	Vesting conditions	Expiry Date	Contractual life of options
Employee share option plan				
Option grant to senior employees at 9 Sept 2005	400,000	30/06/2006	30/09/2008	3yrs
Option grant to senior employees at 9 Sept 2005	400,000	31/03/2007	30/09/2008	3yrs
Option grant to senior employees at 24 Oct 2005	100,000	31/12/2006	30/09/2008	3yrs
Option grant to senior exec at 29 Nov 2005	500,000	Immediate	30/09/2010	4.8yrs
Option grant to senior exec at 29 Nov 2005	500,000	30/06/2007	30/09/2010	4.8yrs
Option grant to senior exec at 29 Nov 2005	1,000,000	31/12/2008	30/09/2010	4.8yrs
Shareholder approval				
Option grant to directors and senior execs at 30 Nov 2005	3,200,000	Immediate	30/09/2010	4.8yrs
Option grant to directors and senior execs at 30 Nov 2005	3,200,000	31/03/2007	30/09/2010	4.8yrs
Option grant to directors and senior execs at 30 Nov 2005	6,400,000	31/03/2008	30/09/2010	4.8yrs

The fair values of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black Scholes formula. The contractual life of the option is used as an input into this formula.

Fair value of share options and assumptions for the six months ended 31 December 2005

	2005							2004
Fair value at measurement date (cents)	4.95	3.93	8.12	23.63	22.40	20.21	18.14	2.26
Share price (cents)	11	11	17	29.5	29.5	29.5	29.5	8.7
Exercise price (cents)	14	20	22	12	16	25	35	15
Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes formula) (%)	72.84	72.84	78.35	77.88	77.88	77.88	77.95	71.80
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
Expected dividends	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	5.130

9 EMPLOYEE BENEFITS (CONTINUED)

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.

10 FINANCIAL INSTRUMENTS

Fair values
The carrying amount and fair value of financial assets at 31 December 2005 is $9,036,546 (30 June 2005: carrying amount and fair value of $10,418,649).

The carrying amount and fair value of financial liabilities at 31 December 2005 is $1,612,636 (30 June 2005: carrying amount and fair value of $1,074,756).

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

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

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.

11 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.

12 CONTINGENT LIABILITIES

There have been no material changes in contingent liabilities since 30 June 2005.

13 RELATED PARTIES

Transactions with key management personnel
Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits (see note 9). Key management personnel received total compensation of $1,358,097 for the six months ended 31 December 2005 (twelve months ended 30 June 2005: $1,045,885). Of this amount $847,134 related to share based payment expenses valued under the Black Scholes model (twelve months ended 30 June 2005: $56,457).

Transactions with directors
The Company transacted with directors and director related entities during the six months ended 31 December 2005. These transactions amounted to $53,400 (twelve months ended 30 June 2005: $57,778).

14 SUBSEQUENT EVENTS

On 27 February 2006, the Company announced completion of an agreement to raise A$33 million in two tranches through the issue of 90 million shares at 37 cents per share to Australian and international institutional clients of Southern Cross Equities Ltd. The funds are to be used to facilitate completion of the Definitive Feasibility Study on development of both the Direct Shipping Ore and Pellet Projects at the Company's Karara Iron Ore Project.

There have been no other material subsequent events since 31 December 2005.

15 EXPLANATION OF TRANSITION TO AIFRS'S

As stated in Note 1(a), these are the consolidated entity's first condensed consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards – AIFRS's.

The accounting policies in Note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 31 December 2005, the comparative information for the six months ended 31 December 2004, the financial statements for the year ended 30 June 2005 and 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, comparative information for the six months ended 31 December 2004 and financial statements for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to AIFRS's has affected the consolidated entity's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
Notes to the condensed consolidated interim financial statements
For the half-year ended 31 December 2005

15 EXPLANATION OF TRANSITION TO AIFRS'S (CONTINUED)

Reconciliation of equity

	Note	Consolidated 1 July 2004 AGAAP $	Consolidated 1 July 2004 Transition Impact $	Consolidated 1 July 2004 AIFRS $	Consolidated 31 December 2004 AGAAP $	Consolidated 31 December 2004 Transition Impact $	Consolidated 31 December 2004 AIFRS $	Consolidated 30 June 2005 AGAAP $	Consolidated 30 June 2005 Transition Impact $	Consolidated 30 June 2005 AIFRS $
ASSETS										
Current assets										
Cash and cash equivalents		4,627,330		4,627,330	4,330,494		4,330,494	10,134,169		10,134,169
Receivables		129,686		129,686	76,167		76,167	184,818		184,818
Inventories		258,266		258,266	41,018		41,018	48,980		48,980
Other financial assets		-		-	100,000		100,000	37,500		37,500
Other		113,397		113,397	39,768		39,768	62,162		62,162
Total current assets		**5,128,679**	**-**	**5,128,679**	**4,587,447**	**-**	**4,587,447**	**10,467,629**	**-**	**10,467,629**
Non-current assets										
Receivables		-		-	-		-	-		-
Other financial assets		-		-	-		-	-		-
Property, plant and equipment		1,931,572		1,931,572	1,921,106		1,921,106	1,872,662		1,872,662
Exploration evaluation and development expenditure		5,485,089		5,485,089	6,502,870		6,502,870	6,891,322		6,891,322
Total non-current assets		**7,416,661**	**-**	**7,416,661**	**8,423,976**	**-**	**8,423,976**	**8,763,984**	**-**	**8,763,984**
Total assets		**12,545,340**	**-**	**12,545,340**	**13,011,423**	**-**	**13,011,423**	**19,231,613**	**-**	**19,231,613**

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
Notes to the condensed consolidated interim financial statements
For the half-year ended 31 December 2005

15 EXPLANATION OF TRANSITION TO AIFRS'S (CONTINUED)

Reconciliation of equity (continued)

	Note	Consolidated 1 July 2004 AGAAP	Consolidated 1 July 2004 Transition Impact	Consolidated 1 July 2004 AIFRS	Consolidated 31 December 2004 AGAAP	Consolidated 31 December 2004 Transition Impact	Consolidated 31 December 2004 AIFRS	Consolidated 30 June 2005 AGAAP	Consolidated 30 June 2005 Transition Impact	Consolidated 30 June 2005 AIFRS
		$	$	$	$	$	$	$	$	$
LIABILITIES										
Current liabilities										
Payables		1,747,439		1,747,439	581,280		581,280	729,605		729,605
Interest bearing liabilities		78,365		78,365	50,996		50,996	77,181		77,181
Provisions		999,551		999,551	522,379		522,379	514,959		514,959
Total current liabilities		**2,825,355**	**-**	**2,825,355**	**1,154,655**	**-**	**1,154,655**	**1,321,745**	**-**	**1,321,745**
Non-current liabilities										
Interest bearing liabilities		70,118		70,118	48,722		48,722	-		-
Provisions		26,940		26,940	419,930		419,930	449,213		449,213
Total non-current liabilities		**97,058**	**-**	**97,058**	**468,652**	**-**	**468,652**	**449,213**	**-**	**449,213**
Total liabilities		**2,922,413**	**-**	**2,922,413**	**1,623,307**	**-**	**1,623,307**	**1,770,958**	**-**	**1,770,958**
Net Assets		**9,622,927**	**-**	**9,622,927**	**11,388,116**	**-**	**11,388,116**	**17,460,655**	**-**	**17,460,655**
EQUITY										
Issued Shares		26,699,563		26,699,563	29,885,134		29,885,134	37,790,465		37,790,465
Reserves	(a)	-		-	-		-		31,791	31,791
Retained Losses	(a) (b)	(17,076,636)		(17,076,636)	(18,497,018)		(18,497,018)	(20,329,810)	(31,791)	(20,361,601)
Total Equity		**9,622,927**	**-**	**9,622,927**	**11,388,116**	**-**	**11,388,116**	**17,460,655**	**-**	**17,460,655**

15 EXPLANATION OF TRANSITION TO AIFRS'S (CONTINUED)

Reconciliation of profit for 2005

		Consolidated For the six months ended 31 Dec 2004			Consolidated For the year ended 30 June 2005		
	Note	AGAAP	Transition impact	AIFRS	AGAAP	Transition impact	AIFRS
		$	$	$	$	$	$
Revenue		40,467		40,467	40,467		40,467
Cost of sales		(461,963)		(461,963)	(686,731)		(686,731)
Gross loss		(421,496)		(421,496)	(646,264)		(646,264)
Other revenues	(b)	362,125		362,125	745,891	(129,258)	616,633
Financing costs		(1,451)		(1,451)	(5,044)		(5,044)
Other expenses	(a),(b)	(1,359,560)		(1,359,560)	(3,347,757)	97,467	(3,250,290)
Loss before tax		(1,420,382)		(1,420,382)	(3,253,174)	(31,791)	(3,284,965)
Income tax expense		-		-	-	-	-
Net loss for the period attributable to members of the parent entity		(1,420,382)		(1,420,382)	(3,253,174)	(31,791)	(3,284,965)

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 in 2004 and 2005.

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 is to increase *other expenses from ordinary activities* by $972,720 for the six months ended 31 December 2005 and 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 has been reclassified from other expenses to other revenue 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.

15 EXPLANATION OF TRANSITION TO AIFRS'S (CONTINUED)

(c) 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.