



**ABN 24 060 857 614**

**GINDALBIE METALS LTD  
AND ITS CONTROLLED ENTITIES**

**INTERIM FINANCIAL REPORT  
31 DECEMBER 2007**

**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 2007 and the auditors review report thereon.

**DIRECTORS**

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

<b>Name of Director</b>	<b>Period of Directorship</b>
<b>Executive</b>	
Garret John Dixon B.Eng MBA MAICD Managing Director	Director since December 2006
<b>Non-executive</b>	
George Francis Jones B.Bus FCIS FAICD Non-Executive Chairman	Director since September 2005
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
Wang Heng M. Eng Non Executive Director	Director since November 2007

**REVIEW OF RESULTS AND OPERATIONS**

The consolidated loss after income tax for the half year was \$2.503m (2006: \$1.509m).

**Karara Iron Ore Project Development**

During the half year the Bankable Feasibility Studies (BFS) of the Karara Iron Ore Project were completed. The Karara Iron Ore Project includes both the Karara Magnetite and Hematite Projects. On the basis of these studies the Company entered into a Joint Venture Development Agreement with Ansteel. The signing of this document was witnessed by the President of China, Mr Hu Jintao and the Prime Minister of Australia, Mr John Howard at a ceremony in Sydney, coinciding with the visit of President Hu Jintao to Australia for the APEC Leaders Conference.

Numerous planning and implementation activities occurred following completion of the BFS. The BFS results for both Projects are set out below.

**Karara Magnetite BFS**

The BFS of the Karara Magnetite Project was completed on schedule at the end of August 2007. The document was delivered to Gindalbie and Ansteel for consideration of the development of the project.

## GINDALBIE METALS LTD AND CONTROLLED ENTITIES DIRECTORS' REPORT

The key outcomes from the Bankable Feasibility Study were;

- A\$2.25 billion NPV<sub>9%</sub> and 24.6% Internal Rate of Return with forecast A\$9.33 billion after tax free cash flow from the first 25 years of operation.
- Rail is the preferred concentrate transport mode to facilitate future expansion, with ore to be transhipped to China using Capesize vessels.
- First ore delivery targeted for H1 2010, subject to timely receipt of environmental approvals and completion of financing.
- Infrastructure capacity will facilitate future expansions.

The BFS confirmed that the Karara Magnetite Project is an economically robust, long-life iron ore project which will generate substantial returns for the Karara Joint Venture partners and deliver significant benefits to the Mid West region, the City of Geraldton and the State of Western Australia.

Under the terms of the Joint Venture with Ansteel, an initial output of 8Mtpa (million tonnes per annum) of magnetite concentrate will be produced on site at Karara, 225km south-east of Geraldton, with a current preference for this product to be transported to Geraldton Port via rail.

The decision to use rail as the preferred product transport mode in the BFS was selected by the joint venture participants on the basis that they are likely to significantly expand the production rate at Karara in the near future. In this regard, the proposed upgraded rail network would provide the Project with an ore transport system capacity of 30mtpa. The rail option offers a fully scalable transport solution with only incremental capital required to implement future expansions of the Project.

Magnetite concentrate from Karara will be shipped to China via a process involving transportation on shuttle vessels to a location off Geraldton for loading on to Capesize vessels which will freight the iron ore concentrate to the port of Yingkou in north-east China.

The Karara Magnetite Deposit is a world-class deposit with attractive features in terms of its scale, quality, consistency and low waste: ore stripping ratio.

### *Capital Cost Estimates*

Capital cost estimates were prepared by Gindalbie in conjunction with Promet Engineers and other consultants. The estimated capital cost breakdown for the Project BFS is set out in Table 1 below:

Description	Capital Cost A\$ (million)
Mine Site Costs	886.4
Infrastructure Costs	290.8
Transport System Costs	195.9
<b>Total – Australia</b>	<b>1,373.1</b>
Pellet Plant – China	186.2
<b>Total Project Capital Costs</b>	<b>1,559.3</b>
Contingencies	147.0
<b>Total Project Capital Allowance</b>	<b>1,706.3</b>

**Table 1 - Magnetite Capital Costs by Area of Activity**

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

*Operating Cost Estimate*

The average operating cost estimate for the Concentrate operations in Australia at full production is as per Table 2.

<b>Cost Items</b>	<b>A\$ M per annum</b>	<b>A\$/t Concentrate</b>
Mine Site Operating Costs	244.8	30.60
Transport Costs – Mine to Port to China	272.4	34.05
Royalties	35.5	4.44
<b>Landed Cost - Concentrate in China</b>	<b>552.7</b>	<b>69.09</b>

**Table 2 – Magnetite Operating Costs by Area of Activity**

In addition, the operating costs set out in Table 3 will be incurred in the joint venture pellet plant in China. (These costs exclude the cost of the actual supply of concentrate from the joint venture in Australia):

<b>Cost Items</b>	<b>A\$ M per annum</b>	<b>A\$/t Pellets</b>
Pelletising Costs	43.6	10.90

**Table 3 – Pellet Plant Operating Costs in China**

*Financial Evaluation*

Extensive financial modelling was undertaken for both the concentrate operations in Australia and the pellet plant operations in China. A summary of the financial analysis and model outcomes is set out in Table 4:

<b>Items</b>	<b>Unit</b>	<b>Value</b>
Discount rate	%	9
Project NPV after tax	A\$ Million	\$2,252
Project IRR after tax	%	24.6
Indicative Annual Cash Surplus after Tax	A\$ Million	\$360
Life Of Mine Cash Surplus after Tax	A\$ Million	\$9,333
Project IRRE after tax	%	37.5

*All numbers presented above are for 100% of the Project*

**Table 4 – Summary Financial Evaluation for Karara Magnetite Project**

The financial results in the BFS are based on a concentrate price of A\$111.9 per tonne of concentrate (C&F China) and A\$178.58 per tonne of pellets (C&F China). The Equity IRR is based on a 70/30 debt to equity ratio.

*Magnetite Resource and Reserve*

The resource estimate for the Karara Magnetite Project was upgraded to 1.426 billion tonnes at 36.3% (Table 5) in June 2007 by Coffey (previously RSG Global), an independent mining consultant. From this a probable reserve was defined as set out in Table 6.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES  
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<b>Resource Classification</b>	<b>Mt</b>	<b>Fe %</b>	<b>SiO<sub>2</sub>%</b>	<b>Al<sub>2</sub>O<sub>3</sub> %</b>	<b>P %</b>	<b>LOI %</b>
Indicated	655	36.4	42.65	0.82	0.091	-0.69
Inferred	771	36.2	42.76	0.94	0.087	-0.79
<b>Total</b>	<b>1,426</b>	<b>36.3</b>	<b>42.71</b>	<b>0.89</b>	<b>0.089</b>	<b>-0.74</b>

**Table 5: Karara Magnetite Resource – June 2007**

<b>Karara Magnetite Initial Ore Reserves &amp; Concentrate Estimates – August 2007</b>						
<b>Pit Design</b>	<b>Mt</b>	<b>Fe %</b>	<b>SiO<sub>2</sub> %</b>	<b>Al<sub>2</sub>O<sub>3</sub> %</b>	<b>P %</b>	<b>LOI</b>
<b>Ore</b>	<b>497</b>	<b>36.3</b>	<b>42.71</b>	<b>0.89</b>	<b>0.089</b>	<b>-0.74</b>
<b>Concentrate</b>	<b>197</b>	<b>68.2</b>	<b>4.75</b>	<b>0.08</b>	<b>0.01</b>	<b>-2.9</b>

**Table 6: Karara Magnetite Reserve Classification**

<b>August 2007 Reserve &amp; Resource Classification</b>						
<b>Reserve Classification</b>	<b>Mt</b>	<b>Fe %</b>	<b>SiO<sub>2</sub> %</b>	<b>Al<sub>2</sub>O<sub>3</sub> %</b>	<b>P %</b>	<b>LOI</b>
Probable	497	36.3	42.71	0.89	0.089	-0.74
<b>Resource Classification</b>	<b>Mt</b>	<b>Fe %</b>	<b>SiO<sub>2</sub> %</b>	<b>Al<sub>2</sub>O<sub>3</sub> %</b>	<b>P %</b>	<b>LOI</b>
Indicated	158	36.4	42.65	0.82	0.091	-0.69
Inferred	771	36.2	42.76	0.94	0.087	-0.79
Subtotal	929	36.3	42.71	0.89	0.089	-0.74

Note: 1. The reserve was defined to provide sufficient material from the indicated resource material to support a minimum of 25 year mine life.  
2. DTR Mass Recovery > 20% and Sulphur < 0.25%; Excluding Western Mafics/Shale Units  
3. Resources are exclusive of Reserves

**Table 7: Karara Magnetite Reserve & Resource Classification**

*Additional Mineral Inventory*

The geological model for the Karara Magnetite Deposit remains open at depth and contains a large body of material below the level of defined Reserves and Resources identified in Table 7.

The Mineral Inventory is based on a number of deeper diamond drill holes penetrating below the general level of drilling. Eight deep diamond drill holes clearly demonstrate that the mineralisation continues at least 200 metres below the general level of drilling.

The geological model confirms the potential for the Karara Magnetite deposit resource inventory to be increased to more than 2 billion tonnes, underpinning the longer-term growth and future expansion of iron concentrate production from the Karara deposit.

The key areas of focus for the joint venture participants over the coming months will be to secure all the required statutory approvals for the Karara Project in a timely fashion and to put all necessary debt and equity funding in place for the Project. The Project is expected to deliver first concentrate and pellets by the first quarter of 2010.

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

**Hematite BFS**

The BFS of the Hematite Project was completed on schedule at the end of August 2007. The document was delivered to Gindalbie and Ansteel for consideration of the development of the project.

The key outcomes from the Bankable Feasibility Study were:

- A\$79.6 million NPV<sub>10%</sub> and 27.5% Internal Rate of Return with forecast A\$184 million life-of-mine free cash flow.
- Hematite lump and fines products averaging 61.5% Fe will be shipped via Berth 5 at Geraldton Port in Panamax vessels at an initial rate of 3.0Mtpa to Ansteel in China.
- First ore delivery targeted for H1 2009, subject to timely receipt of environmental approvals and completion of financing.

The BFS confirmed that the Hematite Project is an economically robust direct shipping ore (DSO) project which will generate lump and fines products for Ansteel at a rate of 3Mtpa (million tonnes per annum) from the initial Product Inventory of 14.3 million tonnes. The development of the Hematite Project forms an integral part of the development of the Karara Magnetite Project in terms of infrastructure and logistic chains.

The product will be initially transported to Geraldton Port via road and rail and then rail only once the adjacent Karara Magnetite Project is commissioned by Gindalbie and Ansteel in early 2010. The decision to use a road/rail transport combination in the first 15 months of production is in line with the stated desire of the Joint Venture to generate early cash flows for the joint venture participants in the lead up to the commissioning of the Karara Magnetite Project.

Hematite DSO will be shipped to China via a storage and loading facility which will integrate with the expanded Berth 5 ship loading facility at Geraldton Port. Ansteel will take all 3Mtpa of production from the Hematite Project.

*Mineral Resources and Ore Reserves*

Hematite Resources were upgraded during the half year to 27.1 million tonnes at 61.7% Fe for the first 10 deposits of the Project (Table 8). Of this Resource, 17.8 million tonnes at 62.0% Fe was defined as Indicated Resources and form the basis for the estimate of the Product Inventory of 14.3 million tonnes at 61.5% Fe for the project.

<b>Resource Classification</b>	<b>Mt</b>	<b>Fe (%)</b>	<b>SiO<sub>2</sub> (%)</b>	<b>Al<sub>2</sub>O<sub>3</sub> (%)</b>	<b>P (%)</b>	<b>LOI (%)</b>
Indicated	17.8	62.0	5.7	1.9	0.11	3.2
Inferred	9.3	61.1	6.3	3.0	0.12	4.3
<b>TOTAL</b>	<b>27.1</b>	<b>61.7</b>	<b>5.9</b>	<b>2.3</b>	<b>0.11</b>	<b>3.5</b>

**Table 8 - Hematite Project - Mineral Resources as at 31 August 2007**

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Following completion of mine planning and detailed mine design activities, an Ore Reserve Statement was also prepared, as follows:

Source	Ore Reserve (Mt)	Fe (%)	SiO <sub>2</sub> (%)	Al <sub>2</sub> O <sub>3</sub> (%)	P (%)	LOI (%)
Probable Reserve	10.9	61.7	6.0	2.2	0.10	3.5
Inferred Resource	3.4	61.0	5.6	3.5	0.10	4.9
<b>TOTAL PRODUCT INVENTORY</b>	<b>14.3</b>	<b>61.5</b>	<b>5.8</b>	<b>2.5</b>	<b>0.10</b>	<b>3.8</b>

**Table 9 - Hematite Project Ore Reserve Statement and Production Estimate as at 31 August 2007**

*Capital Cost Estimates*

Capital cost estimates were prepared by Gindalbie in conjunction with Arccon Engineers and other consultants. The estimated capital cost breakdown for the Hematite Project is set out in Table 10 below:

Description	Capital Cost A\$ (million)
Mine Site Costs	45.1
Infrastructure Costs	36.0
Transport System Costs	13.0
<b>Total Projected Capital Costs</b>	<b>94.1</b>
Contingencies	14.0
<b>Total Project Capital Allowance</b>	<b>108.1</b>

**Table 10 – Hematite Capital Cost by Area of Activity**

*Operating Cost Estimate*

The operating cost estimate for the hematite operation is split between two periods as set out in Table 11 below. The first period to 31 March 2010 has the project transporting ore on road and rail whilst post 31 March 2010 all hematite ore will be transported on rail only following the commissioning of the Karara Magnetite Project by Gindalbie and Ansteel.

Cost Items	A\$/dry tonne – Pre 31 March 2010	A\$/dry tonne – Post 31 March 2010
Mine Site Operating Costs	23.28	23.28
Transport Costs – Mine to Port	23.65	12.75
Royalties	4.73	4.73
<b>FOB Cost of Ore at Geraldton Port</b>	<b>51.66</b>	<b>40.76</b>

**Table 11 – Hematite Operating Cost by Area of Activity**

## GINDALBIE METALS LTD AND CONTROLLED ENTITIES DIRECTORS' REPORT

### *Financial Evaluation*

Extensive financial modelling was undertaken on the Hematite Project. A summary of the financial analysis and model outcomes is set out in Table 12 below:

<b>Items</b>	<b>Unit</b>	<b>Value</b>
Discount rate	%	10
Project NPV after tax	A\$ Million	\$79.6
Project IRR after tax	%	27.5
Project Total Cash Surplus after Tax	A\$ Million	\$184

**Table 12 – Summary Financial Evaluation for Hematite Project**

The financial results are based on a Fines price of A\$58.7 per tonne (FOB Geraldton) and a Lump price of A\$75.0 per tonne (FOB Geraldton).

### **Karara Iron Ore Project Infrastructure**

Since the completion of the BFS, the key development areas have progressed in the following manner.

#### *Mining*

The mining contract tenders were forwarded to prospective bidders in December 2007. Responses and award of the tender is scheduled for the March and June 2008 Quarters.

#### *Water Supply*

The second production bore testing at the Mingenew bore field (140km from Karara) was completed which confirmed the suitability of the field to supply the Project's water supply.

Submissions to the Department of Water for extraction licenses are currently in preparation.

#### *Concentrator Design*

Conceptual design has been passed to AMDI (Design Institute associated with Ansteel in China) with transfer of all relevant Australian Standards in preparation for conversion of the concept design to detailed design.

All long lead items including Crushers, HPGR's and grinding mills have been bid by prospective suppliers with selection and award due in the March 2008 Quarter.

#### *EPCM Contractor*

All tender submissions from prospective EPCM Contractors have been received. Contract award is expected during February 2008. At this time a new Project Office will be established to facilitate the development of the Project.



## GINDALBIE METALS LTD AND CONTROLLED ENTITIES DIRECTORS' REPORT

### *Rail*

Heads of Agreement with Westnet were signed in December 2007. Under the Agreement, Westnet and Gindalbie have established a group that will determine the optimal rail transport solution for the Karara Iron Ore Project from Karara to the Geraldton Port.

### *Port*

Negotiations for leases for stock pile sheds to be located behind Berths 5 and 6 at Geraldton Port are well advanced. It is anticipated that the leases will take effect from 1 July 2008. This will allow construction of stockpile storage sheds and conveyors to commence upon the receipt of project environmental approval.

It is also anticipated that the design and location for the transshipment loading facility will be completed in the same period.

### *Power*

Gindalbie (through Karara Energy a 100% owned subsidiary) has secured a long-term power purchase contract with Western Australian electricity utility, Verve Energy, which will underpin the supply of power to the Karara Iron Ore Project. The contract provides for price certainty for the consumption of up to one million megawatt-hours (MWh) of base load power per annum over an initial 15 year period, which is sufficient to meet the power requirements of the Karara Iron Ore Project.

Karara Energy has also registered with Western Australia's Independent Market Operator to operate as a retailer in the WA power market.

In addition, Karara Energy has entered into an Early Undertakings Contract with Western Power to expedite the delivery of planned upgrades of the transmission network between Eneabba and Karara and the new work required to achieve transmission connection at the Project from the South West Interconnected System.

### **Karara Iron Ore Project Exploration (Ansteel earning 50%)**

Exploration work on the Karara Iron Ore Project during the period focussed on a series of Davis Tube Recovery (DTR) sampling programs.

These programs were undertaken following strong indications of enrichment of magnetite at depth under both the Blue Hills North and Gully Prospects in hematite drilling programs in 2007. The focus of the programs was to determine the quality of magnetite rich ores within hematite pit designs and at depth below the pits.

Both programs of DTR sampling produced outstanding results with wide intersections of high grade magnetite in DTR tests confirmed.

At Blue Hills North a substantial body of magnetite rich BIF exists below and along strike from the previously defined hematite DSO resource. The extent of this style of mineralisation remains open along strike and at depth. In the June 2008 half year resource estimates and optimisation of the combined hematite and magnetite mineralisation will occur with the aim of providing new pit designs to provide ore to both the proposed Hematite Project and Karara Magnetite Project.

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

### **Karara Iron Ore Project Approvals**

Two project approvals are currently being sought from government regulators with respect to the Hematite Project and Karara Magnetite project both in Joint Venture with Ansteel (50%).

### **Hematite Project Approvals**

The final Public Environment Review (PER) document was submitted to the regulator and advertised for public comment. All public submissions were received subsequent to the end of December 2007 and the Company is currently responding to the points raised by the public submissions.

The Environmental Protection Authority (EPA) is scheduled to complete its recommendations to the Minister in the June 2008 Half Year.

### **Karara Magnetite Project Approvals**

Draft PER documents were submitted to the EPA during the period. Responses have been received from the EPA and other statutory authorities.

The Company is currently preparing the final documents for advertisement to the public and is scheduled to complete these in the June 2008 Half Year.

### **Strategic Review of the Mid West Banded Iron Formation**

During the half year the Government handed down its Midwest Strategic Framework review of the mining and biodiversity conservation issues in the Midwest region of Western Australia. The review outlines areas where the Government favours mining development and preferred sites for conservation in the region as well as highlighting further areas for investigation. It also highlights the Karara/Mungada/Blue Hills ranges as having significant biodiversity value as well as significant economic potential.

Gindalbie is working closely with the Government to clarify the implications of the review for the Projects. The Company believes that the PER assessments currently underway are a sound basis for determining the balanced view of environmental conservation, social and economic impacts of the Projects to the State of Western Australia.

The Company continues to seek project development whilst maintaining the areas conservation value by minimising the environmental impact of development, and maximising recovery and rehabilitation of the areas of disturbance associated with the proposed mining projects.

### **Regional Iron Ore Exploration**

In addition to Gindalbie's interest in the Karara Iron Ore Project, the Company holds significant (1,900km<sup>2</sup>) tenure in its own right and is now actively exploring this tenure for further hematite and magnetite mineralisation. A number of prospects have already been identified and drill testing of these prospects has commenced.

Exploration during the half year focussed on the completion of the preliminary metallurgical test work on the Lodestone prospect and continuation of the regional mapping program.

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

### **Lodestone Prospect (Gindalbie 100%)**

Geological mapping of the Lodestone Prospect located 50 kilometres southeast of the Karara Project was completed during the half year. The Lodestone Prospect consists of a Banded Iron Formation (BIF) that is about 6 kilometres long, with a similar magnetic intensity to the Karara magnetite deposit.

A first-pass phase of drilling commenced in early July to investigate the potential of the deposit to host a Karara-style magnetite deposit (both in physical dimensions, ore quality and tonnage) and also to determine the prospectivity of the area for hematite mineralisation. The drilling also generated samples for preliminary metallurgical test work.

Assay results were returned which indicated that the Lodestone Magnetite drilling and test work produces concentrate on average grading 67% Fe. These results were in response to the generally lower iron grade observed for the BIF. Deeper levels of oxidation were also observed at the Prospect. The results indicate a large body of mineralisation is present, however, it contains internal shale bands which result in generally narrower intersections of high iron recovery material as compared to that seen at Karara.

Preliminary optimisation work by Coffey of the geological and concentrate models will proceed during the June 2008 Half Year. Further drilling will be undertaken following the completion of this initial work.

### **Warriedar Joint Venture (GBG 60%, Royal Resources 40%)**

During the half year encouraging drilling results were returned from the Shine, Gap and Lister prospects previously identified from the regional mapping and rock chip sampling program.

The surface outcrop of hematite mineralisation on the Warriedar JV ground is extensive and straddles the boundary between this tenure and tenure owned 100% by Gindalbie.

Further drilling programs are planned for the June 2008 half year as Program of Work (PoW) approvals and drilling rigs become available.

### **Mt Mulgine Tungsten Project (Vital Metals Ltd Earning up to 70%)**

Following lengthy delays involving completion of Aboriginal Heritage and Botanical Surveys, with associated Government permitting, drilling has commenced at the Mt Mulgine Project using one drill rig on a 14-hole RC drill program. One of these targets is located within the current limits of the 'Trench' tungsten/molybdenum deposit, with the rest designed to test new prospective areas.

## **Corporate**

### **Appointment of Non-Executive Director**

In November 2007 the Company appointed Mr Wang Heng to the Board of Gindalbie as a Non-Executive Director. Mr Wang is the General Manager of Ansteel Group International Trade Company and has more than 20 years experience in the steel-making industry in China. He has extensive experience in international trade and logistics and was responsible for planning and managing Ansteel's overseas development and logistic strategies, including establishing its alliance with COSCO China. Mr Wang is also representing Ansteel in the long term contract negotiations with CVRD, Rio Tinto and BHP Billiton.

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

### **Ansteel Share Placement**

During the half year, and following receipt of all Chinese regulatory approvals by Ansteel, the Company issued Ansteel with 65 million ordinary shares on 4 September 2007. The share placement was made at 60 cents per share raising \$39 million.

Following the issue of shares, Ansteel became the Company's second largest shareholder with a 12.8% interest.

### **Proposed Merger with Sundance Resources**

In September 2007 Gindalbie announced a proposed merger with Sundance Resources. Following due diligence undertaken by each of the companies and feedback received from shareholders of both companies, the Boards of Gindalbie and Sundance decided not to proceed with the proposed merger.

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

During the half year the Company received the third and final instalment in the amount of \$5 million from Monarch Gold Mining Company in respect to the sale of the Minjar gold and base metal assets.

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

**LEAD AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration is set out on page 13 and forms part of the Directors' Report for the six months ended 31 December 2007.

**ROUNDING OFF**

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

Dated at Perth this 22nd day of February 2008.

Signed in accordance with a resolution of the directors.



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G F Jones  
Director



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G J Dixon  
Director



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

To: the directors of Gindalbie Metals Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the financial half-year ended 31 December 2007 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*

KPMG

T R Hart  
*Partner*

Perth  
22 February 2008



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

### **Report on the financial report**

We have reviewed the accompanying interim financial report of Gindalbie Metals Ltd, which comprises the consolidated interim balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the interim period ended on that date, a statement of accounting policies and other explanatory notes and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

#### *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 establishing 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 Group's financial position as at 31 December 2007 and its performance for the interim period 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 Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a 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 Ltd is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2007 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

*KPMG*

KPMG

T R Hart  
*Partner*

Perth  
22 February 2008



**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 17 to 24 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 2007 and of its performance for the six month period 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 22nd day of February 2008.

Signed in accordance with a resolution of the directors.



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G F Jones  
Director



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G J Dixon  
Director

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED INTERIM INCOME STATEMENT**  
**For the six months ended 31 December 2007**

	Notes	Consolidated 31 Dec 2007 \$'000	31 Dec 2006 \$'000
Other income	2(a)	888	1,568
Administration expenses		(3,495)	(3,446)
Other expenses	2(b)	<u>(1,457)</u>	<u>(757)</u>
Loss from operating activities		(4,064)	(2,635)
Financial income	3	<u>1,561</u>	<u>1,126</u>
Net financing income		<u>1,561</u>	<u>1,126</u>
Loss before tax		<u>(2,503)</u>	<u>(1,509)</u>
Income tax expense		-	-
Loss for the period		<u>(2,503)</u>	<u>(1,509)</u>
Basic loss per share – cents		(0.52)	(0.35)
Diluted loss per share – cents		(0.52)	(0.35)

The condensed notes on pages 21 to 24 are an integral part of these consolidated interim financial statements.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 31 December 2007**

	Issued capital \$'000	Consolidated Accumulated losses \$'000	Reserves \$'000	Total \$'000
<b>Six months ended 31 December 2007</b>				
Opening balance at 1 July 2007	77,880	(25,746)	2,718	54,852
Equity settled share based payment transactions			1,358	1,358
Shares issued				
- 65,000,000 shares issued to Ansteel	39,000			39,000
- Exercise of 6,000,000 employee options at various exercise prices	2,066			2,066
- Transfer on exercise of employee options	1,286		(1,286)	-
Transaction costs of share issues	(42)			(42)
Net loss for the period (recognised income and expenses)	<u>-</u>	<u>(2,503)</u>	<u>-</u>	<u>(2,503)</u>
Closing balance at 31 December 2007	<u>120,190</u>	<u>(28,249)</u>	<u>2,790</u>	<u>94,731</u>
<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)	<u>-</u>	<u>(1,509)</u>	<u>-</u>	<u>(1,509)</u>
Closing balance at 31 December 2006	<u>74,085</u>	<u>(24,377)</u>	<u>2,742</u>	<u>52,450</u>

The condensed notes on pages 21 to 24 are an integral part of these consolidated interim financial statements.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED INTERIM BALANCE SHEET**  
**As at 31 December 2007**

	Note	Consolidated 31 Dec 2007 \$'000	30 Jun 2007 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		49,725	16,099
Trade and other receivables		1,165	13,668
Prepayments		29	69
Inventories		<u>53</u>	<u>12</u>
<b>TOTAL CURRENT ASSETS</b>		<b><u>50,972</u></b>	<b><u>29,848</u></b>
<b>NON CURRENT ASSETS</b>			
Receivables		1,721	-
Property, plant and equipment		3,713	2,600
Exploration and evaluation assets	4	<u>43,827</u>	<u>29,761</u>
<b>TOTAL NON CURRENT ASSETS</b>		<b><u>49,261</u></b>	<b><u>32,361</u></b>
<b>TOTAL ASSETS</b>		<b><u>100,233</u></b>	<b><u>62,209</u></b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		5,032	6,912
Employee benefits		<u>452</u>	<u>420</u>
<b>TOTAL CURRENT LIABILITIES</b>		<b><u>5,484</u></b>	<b><u>7,332</u></b>
<b>NON CURRENT LIABILITIES</b>			
Employee benefits		<u>18</u>	<u>25</u>
<b>TOTAL NON CURRENT LIABILITIES</b>		<b><u>18</u></b>	<b><u>25</u></b>
<b>TOTAL LIABILITIES</b>		<b><u>5,502</u></b>	<b><u>7,357</u></b>
<b>NET ASSETS</b>		<b><u>94,731</u></b>	<b><u>54,852</u></b>
<b>EQUITY</b>			
Issued capital	5	120,190	77,880
Reserves		2,790	2,718
Accumulated losses		<u>(28,249)</u>	<u>(25,746)</u>
<b>TOTAL EQUITY</b>		<b><u>94,731</u></b>	<b><u>54,852</u></b>

The condensed notes on pages 21 to 24 are an integral part of these consolidated interim financial statements.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
For the six months ended 31 December 2007

	Consolidated	
	31 Dec 2007	31 Dec 2006
	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Cash receipts from customers	578	576
Cash receipts from other parties	-	56
Cash payments to suppliers and employees	(3,584)	(3,523)
Interest received	<u>1,181</u>	<u>989</u>
<b>Net cash used in operating activities</b>	<u>(1,825)</u>	<u>(1,902)</u>
<b>Cash flows from investing activities</b>		
Loans repaid by other entities	4,572	-
Exploration and evaluation expenditure	(12,499)	(8,545)
Acquisition of property, plant and equipment	(1,235)	(1,568)
Proceeds from sale of gold assets	5,000	2,517
Purchase of listed company shares	-	(6,440)
Proceeds on sale of listed investments	<u>309</u>	<u>6,676</u>
<b>Net cash used in investing activities</b>	<u>(3,853)</u>	<u>(7,360)</u>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of shares	41,067	1,311
Payment of capital raising costs	(42)	(3)
Payments for cash backing of performance bonds	<u>(1,721)</u>	<u>-</u>
<b>Net cash from financing activities</b>	<u>39,304</u>	<u>1,308</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	33,626	(7,954)
<b>Cash and cash equivalents at 1 July</b>	<u>16,099</u>	<u>36,165</u>
<b>Cash and cash equivalents at 31 December</b>	<u>49,725</u>	<u>28,211</u>

The condensed notes on pages 21 to 24 are an integral part of these consolidated interim financial statements.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**Condensed notes to the consolidated interim financial statements**  
**For the six months ended 31 December 2007**

**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 2007 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 2007 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 AASB 134 *Interim Financial Reporting* 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 2007.

This consolidated interim financial report was approved by the Board of Directors on 22 February 2008.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report 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 2007.

**(d) Estimates**

The preparation of interim financial reports 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 2007.

**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**Condensed notes to the consolidated interim financial statements**  
**For the six months ended 31 December 2007**

	Consolidated	
	31 Dec 2007	31 Dec 2006
	\$'000	\$'000
<b>2 INCOME AND EXPENSES</b>		
<b>2(a) Other income</b>		
Joint venture management fees	578	576
Net gain on disposal of listed company shares	59	236
Appreciation in value of investments	-	700
Other income	<u>251</u>	<u>56</u>
Total other income	<u>888</u>	<u>1,568</u>
<b>2(b) Other expenses</b>		
Operating lease rental expense	(24)	(39)
Depreciation – Plant & equipment	(248)	(141)
less capitalised to E&E	176	79
Employee option expense	(1,358)	(650)
Care and maintenance expenses	-	5
Net loss on disposal of property plant and equipment	-	(5)
Exploration and evaluation expenditure written off	<u>(3)</u>	<u>(6)</u>
Total other expenses	<u>(1,457)</u>	<u>(757)</u>
<b>3 NET FINANCING INCOME</b>		
Interest income	<u>1,561</u>	<u>1,126</u>
Net financial income	<u>1,561</u>	<u>1,126</u>
<b>4 EXPLORATION AND EVALUATION ASSETS</b>		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation assets		
Carrying amount at 1 July	29,761	9,673
Additions	14,069	8,773
Expenditure written off	(3)	(6)
Disposals	-	-
Carrying amount at 31 December	<u>43,827</u>	<u>18,440</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 statements**  
**For the six months ended 31 December 2007**

**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	
	2007	2006	2007 \$'000	2006 \$'000
<b>Reconciliation of issued capital</b>				
On issue at 1 July	440,878,850	430,884,406	77,880	72,777
Shares issued at 60 cents per share	65,000,000	-	39,000	-
Shares issued from exercise of employee options	6,000,000	5,160,000	3,352	1,311
Capital raising costs	_____	_____	<u>(42)</u>	<u>(3)</u>
On issue at 31 December	<u>511,878,850</u>	<u>436,044,406</u>	<u>120,190</u>	<u>74,085</u>

**6 SHARE-BASED PAYMENTS**

The Company has an employee share option plan which was approved at the 2006 Annual General Meeting. Grants made during the year ended 30 June 2007 are disclosed in the consolidated financial report as at and for the year ended 30 June 2007. During the six months ended 31 December 2007 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 2007 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
<b>Employee share option plan</b>				
Option grant to senior employee at 20 Sept 2007	300,000	1/03/2008	1/08/2012	4.9yrs
Option grant to senior employee at 20 Sept 2007	300,000	1/03/2009	1/08/2012	4.9yrs
Option grant to senior employee at 20 Sept 2007	400,000	1/03/2010	1/08/2012	4.9yrs
Option grant to senior employee at 23 Nov 2007	400,000	1/03/2008	1/08/2012	4.75yrs
Option grant to senior employee at 23 Nov 2007	200,000	1/03/2009	1/08/2012	4.75yrs
Option grant to senior employee at 23 Nov 2007	400,000	1/03/2010	1/08/2012	4.75yrs
<b>Shareholder approval</b>				
Option grant to director at 26 Sept 2007	500,000	Immediate	6/11/2011	4.2yrs
Option grant to director at 26 Sept 2007	1,000,000*	4/12/2008	6/11/2011	4.2yrs
Option grant to director at 26 Sept 2007	1,500,000*	4/12/2009	6/11/2011	4.2yrs

\*These options were issued subsequent to half year end upon acceptance by the director.



**GINDALBIE METALS LTD AND CONTROLLED ENTITIES**  
**Condensed notes to the consolidated interim financial statements**  
**For the six months ended 31 December 2007**

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

Fair value of share options and assumptions for the six months ended 31 December 2007:

<b>Grant Date</b>	<b>20 Sept 07</b>	<b>26 Sept 07</b>	<b>23 Nov 07</b>
<b>Fair value at grant date (cents)</b>	<b>109.76</b>	<b>127.00</b>	<b>85.14</b>
Share price (cents)	162.5	162.1	135.8
Exercise price (cents)	131	60	131
Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes formula) (%)	70	70	70
Option life (expressed as weighted average life used in the modelling under the Black Scholes formula) (years)	4.9	4.2	4.75
Expected dividends	Nil	Nil	Nil
Risk-free interest rate (based on government bonds) (%)	6.38	6.38	6.38

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 2007.

**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 2007.

**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).

**10 SUBSEQUENT EVENTS**

On 12 February 2008, the Company announced the execution of the Subscription Agreement with its Karara Joint Venture partner, Anshan Iron & Steel Group Corporation ("Ansteel"). In line with the agreement Ansteel made its first subscription payment to the Joint Venture entity, Karara Mining Limited (KML), under the Subscription Agreement totalling \$50 million to acquire 19.23% of KML.

Other than the matter discussed above, 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.