



FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2008

ACN 060 857 614

GINDALBIE METALS LTD AND CONTROLLED ENTITIES

DIRECTORS' REPORT

For the year ended 30 June 2008

The Directors present their report together with the financial report of Gindalbie Metals Ltd ('the Company') and of the Consolidated entity, being the Company and its controlled entities for the financial year ended 30 June 2008 and the Auditor's report thereon.

1. DIRECTORS

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

| Name & Qualifications | Age | Experience and Special Responsibilities |
|--|-----|---|
| Mr George F Jones B.Bus, FCIS, FAICD Non-Executive Chairman | 63 | Non-Executive Chairman Sundance Resources Limited Former Non-Executive Chairman Mundo Minerals Limited Former Non-Executive Chairman of Portman Limited Extensive experience in the mining, banking and finance industries Member of the Remuneration Committee Director since September 2005 |
| Mr Garret J Dixon B.Eng, MBA, MAICD Managing Director | 49 | Former Managing Director of Mitchell Corp Australia Former Executive General Manager of HWE Mining Extensive experience in the mining, transport and contracting industries in Australia and overseas Director since December 2006 |
| Mr Didier M Murcia B Juris LL.B Independent Non-Executive Director | 45 | Principal of Murcia Pestell Hillard Executive Director of Aminex plc Non-Executive Director of Gryphon Minerals Ltd Chairman Target Energy Limited Honorary Consul of United Republic of Tanzania Chair of Audit and Remuneration Committees and member of Risk, Compliance and Sustainability Committee Director since February 1998 |
| Mr Tunku Ya'acob Bin Tunku Abdullah DPTJ, FCA, CA(M), BSc (Hons), CFP Non-Executive Director | 48 | Group Managing Director of Melewar Industrial Group Berhad Deputy Chairman MAA Holdings Berhad Chairman of National Insurance Association of Malaysia Vice President of the Federation of Public Listed Companies Member of the Audit Committee Director since October 2004 |
| Mr Michael J O'Neill Dip Bus Admin, SFFin, FAICD Independent Non-Executive Director | 62 | Former Western Australian General Manager of ANZ Bank Board member of the Western Australian Institute of Sport Extensive banking and finance experience Member of the Audit Committee, Remuneration Committee and Environmental Approvals Committee Director since April 2006 |
| Mr Wang Heng M.Eng Non-Executive Director | 44 | General Manager Ansteel Group International Trade Company Former General Manager Angang Group Hong Kong (Holdings) Ltd Appointed 28 November 2007 |
| Mr Geoffrey LW Wedlock BSc Independent Non-Executive Director | 60 | Former Managing Director of Grange Resources Ltd Former Managing Director of Portman Ltd Former Executive Vice President and CEO of BHP Iron Ore Pty Ltd Extensive experience in mining, transport and infrastructure industries Member of Risk, Compliance and Sustainability Committee Appointed 22 February 2008 |

2. COMPANY SECRETARY

Mr David J Stokes LLB, BBus is a Commercial Lawyer and joined Gindalbie Metals Ltd in November 2006. Mr Stokes previously spent three and a half years at Iluka Resources Limited as Corporate Counsel and has been working in the energy and resources sector for over 12 years. In addition to his role as Company Secretary, Mr Stokes is also the General Counsel of the Company.

3. PRINCIPAL ACTIVITIES

The principal activities of the Consolidated entity during the year were exploration for and evaluation of iron ore projects and joint venturing with other mining companies to explore for minerals. During the year the Consolidated entity also commenced development of its iron ore projects. There has been no significant change in the nature of these activities during the year.

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4. RESULTS

The profit after tax of the Consolidated entity for the financial year was \$44,520,606 (2007: loss \$2,877,544) and a loss of \$1,989,813 (2007: profit \$2,766,895) for the Company.

5. REVIEW OF OPERATIONS

The Consolidated entity predominantly explored and evaluated iron ore projects throughout the year. During the year the Consolidated entity commenced development of its iron ore projects. A full review of operations is set out in the 2008 Annual Report.

6. DIRECTORS' MEETINGS

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

| Director | Directors Meetings | | Audit Committee Meetings | | Remuneration Committee Meetings | |
|---|--------------------|---|--------------------------|---|---------------------------------|---|
| | A | B | A | B | A | B |
| Mr GF Jones | 7 | 7 | - | - | - | - |
| Mr GJ Dixon | 7 | 7 | - | - | - | - |
| Mr DM Murcia | 6 | 7 | 2 | 2 | 5 | 5 |
| Mr TYBT Abdullah | 4 | 7 | 1 | 2 | - | - |
| Mr MJ O'Neill | 7 | 7 | 2 | 2 | 5 | 5 |
| Mr W Heng (appointed 28 November 2007) | 1 | 4 | - | - | - | - |
| Mr GLW Wedlock (appointed 22 February 2008) | 4 | 4 | - | - | - | - |

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the year

7. STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated entity during the financial year.

8. LIKELY DEVELOPMENTS

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

9. ENVIRONMENTAL REGULATION

The Consolidated entity's current exploration and development activities are conducted in accordance with environmental regulations under both Commonwealth and State legislation.

As stated in the Environmental Policy, the Company is committed to achieving superior standards in its environmental performance. It has employed environmental professionals to monitor this area of operating performance, with responsibility for monitoring of environmental exposures and compliance with environmental regulations.

As part of its corporate environmental management program, Gindalbie is in the process of establishing parameters for its proposed mining operations. This will include:

- setting and communicating environmental objectives and quantified targets
- monitoring progress against these objectives and targets
- implementing environmental management plans in operating areas which may have a significant environmental impact
- identifying where remedial actions will be required and implementing action plans
- monitoring of licence requirements, with performance against licence conditions reported to the various State regulators on a regular basis.

To enable it to meet its responsibilities, a regular internal reporting process has been established. Environmental performance in the field is reported to the project management team. This performance is also reported to the Gindalbie Board on a regular basis.

Compliance with the requirements of environmental regulations and with specific requirements of the relevant managing authorities including the Department of Environment and Conservation, and the Department of Industry and Resources was achieved across all aspects of the current operations.

There were no instances of non-compliance in relation to any instructions or directions from the relevant governing agencies. The Board is not aware of any significant breaches during the period covered by this report.

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10. EVENTS SUBSEQUENT TO REPORTING DATE

On 31 July 2008 the Company made its first equity contribution to the Karara Iron Ore Project Joint Venture totalling \$18,380,000. On the same day Anshan Iron & Steel Group Corporation ("Ansteel") made its third equity contribution in the amount of \$123,380,000 bringing its total contributions to \$228,380,000. These payments reduce the Company's ownership interest in the Karara Mining Ltd Consolidated entity to 50% from the 66.67% reported as at balance date. A further gain on disposal by dilution of the Company's interest in Karara Mining Ltd of \$29,514,000 will be recognised in August 2008.

Other than the matter discussed above, there have been no events subsequent to reporting date which would have a material effect on the Consolidated entity's financial statements at 30 June 2008.

11. NON-AUDIT SERVICES

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

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the independence and objectivity of the auditor.
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is included in the directors' report and set out on page 15.

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

| | Consolidated 2008 \$ |
|---|----------------------------|
| Statutory audit: | |
| Auditors of the Company – <i>KPMG Australia</i> | |
| - audit and review of financial reports | 75,918 |
| | <u>75,918</u> |
| Services other than statutory audit: | |
| Other services – <i>KPMG Australia</i> | |
| - taxation services | 96,079 |
| - valuation advice | 32,167 |
| - restructuring advice | 123,000 |
| | <u>251,246</u> |

12. REMUNERATION REPORT - audited

12.1 Key management personnel disclosures – audited

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

Executive directors

Mr GJ Dixon (Managing Director & CEO)

Non-executive directors

Mr GF Jones (Non Executive Chairman) (reverted from Executive Chairman on 28 November 2007)

Mr DM Murcia

Mr TYBT Abdullah

Mr MJ O'Neill

Mr W Heng (appointed 28 November 2007)

Mr GLW Wedlock (appointed 22 February 2008)

Executives

Mr AT Munckton (General Manager Operations)

Mr PE Freund (General Manager Magnetite)

Mr DJ Stokes (General Counsel & Company Secretary)

Mr B Conrick (Contracts & Infrastructure Manager) (appointed 22 August 2007)

Mr PJ McBain (General Manager Project Development) (appointed 1 May 2008)

Mr DC Southam (Chief Financial Officer) (appointed 19 May 2008)

Mr DP Gordon (Chief Financial Officer) (resigned 16 May 2008)

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DIRECTORS' REPORT
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12. REMUNERATION REPORT (Continued)

12.2 Principles of compensation - audited

Remuneration is referred to as compensation throughout this report.

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

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

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

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

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

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

Fixed compensation

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

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

Performance-linked compensation

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

Options are issued under the Employee Share Option Plan (made in accordance with the criteria as set out in the plan approved by shareholders at the 2006 AGM), at the discretion of the directors or are issued under specific shareholder approval. All options are issued for no consideration. Historically, specific performance hurdles have not been established in order for the options to be exercised.

Service agreements

All key management personnel are employed under standard Company employment contracts except the CEO who is employed under a service contract.

The following key terms apply in respect of each of the contracts:

| Position | Term | Notice Period | Redundancy Terms |
|-------------------------------------|-------------|----------------------|-------------------------|
| Chairman | Unlimited | 3 months | Nil |
| CEO | Unlimited | 3 months | 12 months salary |
| CFO | Unlimited | 4 weeks | 12 months salary |
| GM Operations | Unlimited | 6 weeks | 12 months salary |
| GM Magnetite | Unlimited | 6 weeks | 12 months salary |
| General Counsel & Company Secretary | Unlimited | 4 weeks | 12 months salary |
| Contracts & Infrastructure Manager | Unlimited | 4 weeks | 12 months salary |
| GM Project Development | Unlimited | 4 weeks | 12 months salary |

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12. REMUNERATION REPORT (Continued)

12.2 Principles of compensation – audited

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

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

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

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

Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 2007 AGM, is not to exceed \$600,000 per annum and is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies.

For the year ended 30 June 2008 the non executive directors were remunerated \$60,000 per annum. In November 2007 the Executive Chairman reverted to a Non Executive Chairman role on a remuneration of \$240,000 per annum.

Directors' fees cover all board activities. Committee fees at \$25,000 per annum are paid to those directors who chair committees. Non-executive directors do not generally receive bonuses but may be issued with employee options under the Employee Share Option Plan or via the express approval of shareholders.

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12. REMUNERATION REPORT (Continued)

12.3 Analysis of options and rights over equity instruments granted as compensation – audited

Details of the vesting profile of the options granted as compensation to each key management person is detailed below:

| | Number of options granted | Grant Date | % vested in year | Forfeited in year | Date on which grant vests/vested | Value yet to vest \$ (a) |
|-------------------|---------------------------|-------------|------------------|-------------------|----------------------------------|--------------------------|
| Directors | | | | | | |
| Mr GF Jones | 2,000,000 | 30 Nov 2005 | 100% | - | 31 Mar 2008 | - |
| Mr DM Murcia | 300,000 | 30 Nov 2005 | 100% | - | 31 Mar 2008 | - |
| Mr TYBT Abdullah | 300,000 | 30 Nov 2005 | 100% | - | 31 Mar 2008 | - |
| Mr MJ O'Neill | 300,000 | 22 Nov 2006 | 100% | - | 31 Mar 2008 | - |
| Mr GJ Dixon | 500,000 | 26 Sep 2007 | 100% | - | 26 Sep 2007 | - |
| | 1,000,000 | 26 Sep 2007 | - | - | 4 Dec 2008 | 494,415 |
| | 1,500,000 | 26 Sep 2007 | - | - | 4 Dec 2009 | 1,236,037 |
| Executives | | | | | | |
| Mr AT Munckton | 500,000 | 30 Nov 2005 | 100% | - | 31 Mar 2008 | - |
| | 300,000 | 20 Sep 2007 | 100% | - | 1 Mar 2008 | - |
| | 300,000 | 20 Sep 2007 | - | - | 1 Mar 2009 | 165,112 |
| | 400,000 | 20 Sep 2007 | - | - | 1 Mar 2010 | 322,632 |
| Mr PE Freund | 1,000,000 | 29 Nov 2005 | - | - | 31 Dec 2008 | 29,423 |
| Mr DJ Stokes | 250,000 | 25 Sep 2006 | 100% | - | 31 Mar 2008 | - |
| | 500,000 | 25 Sep 2006 | - | - | 31 Mar 2009 | 31,716 |
| Mr B Conrick | 400,000 | 23 Nov 2007 | 100% | - | 1 Mar 2008 | - |
| | 200,000 | 23 Nov 2007 | - | - | 1 Mar 2009 | 87,653 |
| | 400,000 | 23 Nov 2007 | - | - | 1 Mar 2010 | 239,785 |
| Mr PJ McBain | 400,000 | 12 May 2008 | - | - | 1 May 2009 | 268,930 |
| | 400,000 | 12 May 2008 | - | - | 1 May 2010 | 295,823 |
| | 400,000 | 12 May 2008 | - | - | 1 May 2011 | 304,787 |
| Mr DC Southam | 500,000 | 30 Apr 2008 | - | - | 18 May 2009 | 208,298 |
| | 500,000 | 30 Apr 2008 | - | - | 18 May 2010 | 226,476 |
| | 500,000 | 30 Apr 2008 | - | - | 18 May 2011 | 232,864 |
| Mr DP Gordon | 1,000,000 | 30 Nov 2005 | 100% | - | 31 Mar 2008 | - |

(a) The values presented above represent the remaining values yet to vest based upon the Black-Scholes valuation as at the grant date. The minimum value of options yet to vest is \$nil as the service criteria may not be met and consequently the option may not vest.

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12. REMUNERATION REPORT (Continued)

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

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

| | | Short term | | Post-employment | Share based payments | Other compensation | | Total \$ | Value of options as proportion of remuneration % |
|---|------|---------------------|----------------------|-------------------------------|----------------------------|----------------------------|------------------------------|-------------|---|
| | | Salary & fees \$ | Cash bonus (c) \$ | Superannuation benefits \$ | Value of options (a) \$ | Termination benefits \$ | Insurance premiums (b) \$ | | |
| Directors | | | | | | | | | |
| Non-executive directors | | | | | | | | | |
| Mr GF Jones (Chairman) (d) | 2008 | 285,714 | - | 4,286 | 129,910 | - | 2,071 | 421,981 | 30.8% |
| | 2007 | 360,000 | 100,000 | - | 299,220 | - | 2,242 | 761,462 | 39.3% |
| Mr DM Murcia | 2008 | 85,000 | - | - | 19,486 | - | 2,071 | 106,557 | 18.3% |
| | 2007 | 48,000 | - | - | 44,883 | - | 2,242 | 95,125 | 47.2% |
| Mr TYBT Abdullah | 2008 | 60,000 | - | - | 19,486 | - | 2,071 | 81,557 | 24.0% |
| | 2007 | 48,000 | - | - | 44,883 | - | 2,242 | 95,125 | 47.2% |
| Mr MJ O'Neill | 2008 | 85,000 | - | - | 47,723 | - | 2,071 | 134,794 | 35.4% |
| | 2007 | 48,000 | - | - | 121,958 | - | 2,242 | 172,200 | 70.8% |
| Mr W Heng (appointed 28 November 2007) | 2008 | 35,500 | - | - | - | - | 1,214 | 36,714 | - |
| Mr GLW Wedlock (appointed 22 February 2008) | 2008 | 19,866 | - | 1,788 | - | - | 728 | 22,382 | - |
| Executive directors | | | | | | | | | |
| Mr GJ Dixon (Managing Director & CEO) | 2008 | 504,587 | 100,000 | 45,413 | 1,977,660 | - | 2,071 | 2,629,731 | 75.2% |
| | 2007 | 264,644 | - | 23,818 | - | - | 1,121 | 289,583 | - |
| Mr DL McSweeney (Managing Director & CEO) (resigned 8 December 2006) | 2007 | 127,724 | 80,000 | 19,023 | 126,007 | 763,743 | 1,121 | 1,117,618 | 11.3% |
| Total, all directors | 2008 | 1,075,667 | 100,000 | 51,487 | 2,194,265 | - | 12,297 | 3,433,716 | |
| | 2007 | 896,368 | 180,000 | 42,841 | 636,951 | 763,743 | 11,210 | 2,531,113 | |

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12. REMUNERATION REPORT (Continued)

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

| | | Short term | | Post-employment | Share based payments | Other compensation | | Total | Value of options as proportion of remuneration % |
|---|------|---------------------|----------------------|-------------------------------|----------------------------|----------------------------|------------------------------|-----------|--|
| | | Salary & fees \$ | Cash bonus (c) \$ | Superannuation benefits \$ | Value of options (a) \$ | Termination benefits \$ | Insurance premiums (b) \$ | | |
| Executives | | | | | | | | | |
| Mr AT Munckton (General Manager Operations) | 2008 | 280,671 | - | 49,994 | 714,274 | - | 2,071 | 1,047,010 | 68.2% |
| | 2007 | 224,817 | 25,000 | 40,719 | 74,805 | - | 2,242 | 367,583 | 20.4% |
| Mr PE Freund (General Manager Magnetite) | 2008 | 257,279 | - | 102,721 | 58,845 | - | 2,071 | 420,916 | 14.0% |
| | 2007 | 222,100 | - | 104,900 | 114,285 | - | 2,242 | 443,527 | 25.8% |
| Mr DJ Stokes (General Counsel & Company Secretary) | 2008 | 172,669 | - | 37,331 | 68,718 | - | 2,071 | 280,789 | 24.5% |
| | 2007 | 110,988 | - | 13,621 | 111,006 | - | 1,121 | 236,736 | 46.9% |
| Mr B Conrick (Contracts & Infrastructure Manager) (appointed 22 August 2007) | 2008 | 259,231 | - | 23,331 | 500,391 | - | 1,776 | 784,729 | 63.8% |
| Mr PJ McBain (General Manager Project Development) (appointed 1 May 2008) | 2008 | 55,422 | - | 4,988 | 98,608 | - | 346 | 159,364 | 61.9% |
| Mr DC Southam (Chief Financial Officer) (e) (appointed 19 May 2008) | 2008 | 58,522 | - | 3,017 | 70,872 | - | 240 | 132,651 | 53.4% |
| Mr DP Gordon (Chief Financial Officer) (resigned 16 May 2008) | 2008 | 182,529 | - | 49,752 | 64,955 | 99,292 | 1,816 | 398,344 | 16.3% |
| | 2007 | 229,358 | 25,000 | 20,642 | 149,610 | - | 2,242 | 426,852 | 35.0% |
| Total, all executives | 2008 | 1,266,323 | - | 271,134 | 1,576,663 | 99,292 | 10,391 | 3,223,803 | |
| | 2007 | 787,263 | 50,000 | 179,882 | 449,706 | - | 7,847 | 1,474,698 | |
| Total, all key management personnel | 2008 | 2,341,990 | 100,000 | 322,621 | 3,770,928 | 99,292 | 22,688 | 6,657,519 | |
| | 2007 | 1,683,631 | 230,000 | 222,723 | 1,086,657 | 763,743 | 19,057 | 4,005,811 | |

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12. REMUNERATION REPORT (Continued)

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

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

(a) Each option entitles the holder to purchase one ordinary share in the Company. The options are unlisted and cannot be transferred. The fair value of the options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period. In valuing the options market conditions have been taken into account.

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

| Grant Date | Expiry Date | Fair value per option | Exercise price | Price of shares on grant date | Expected volatility | Risk free interest rate |
|-------------|-------------|-----------------------|----------------|-------------------------------|---------------------|-------------------------|
| 25 Sep 2006 | 30 Sep 2010 | \$0.2114 | \$0.55 | \$0.420 | 70% | 5.890% |
| 22 Nov 2006 | 30 Sep 2010 | \$0.2828 | \$0.55 | \$0.519 | 70% | 5.890% |
| 26 Sep 2007 | 6 Nov 2011 | \$1.2360 | \$0.60 | \$1.565 | 75% | 6.389% |
| 20 Sep 2007 | 1 Aug 2012 | \$1.1695 | \$1.31 | \$1.665 | 75% | 6.302% |
| 23 Nov 2007 | 1 Aug 2012 | \$0.8278 | \$1.31 | \$1.290 | 75% | 6.207% |
| 30 Apr 2008 | 30 Sep 2012 | \$0.4923 | \$0.95 | \$0.830 | 75% | 6.256% |
| 12 May 2008 | 1 Aug 2012 | \$0.8068 | \$0.90 | \$1.200 | 75% | 6.077% |

- (b) The Company pays insurance premiums that cover key management personnel. The premium is split between the Company key management personnel only. The average premium per person has been included in remuneration.
- (c) A bonus of \$100,000 was paid in the year ended 30 June 2008 to Mr Dixon representing a discretionary payment approved by the Board as a result of project targets being met.
- (d) Mr George Jones reverted from his position of Executive Chairman to Non-Executive Chairman on 28 November 2007.
- (e) Mr David Southam received a relocation allowance of \$25,000 upon commencement of employment with the Company. This figure is included in short term salary and fees.

12.4.1 Analysis of bonuses included in remuneration - audited

A Discretionary bonus approved by the Board and totalling \$100,000 was included in remuneration for the financial year and represents an amount paid to the Managing Director as a result of achievement of key project targets. No amounts were forfeited due to targets not being met and no amounts vest in future financial years.

12.5 Equity instruments - audited

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

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12. REMUNERATION REPORT (Continued)

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

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

| | Number of options granted during 2008 | Grant Date | Number of options vested during 2008 | Fair value per option at grant date (\$) | Exercise Price per option (\$) | Expiry Date |
|-------------------|---------------------------------------|-------------|--------------------------------------|--|--------------------------------|-------------|
| 2008 | | | | | | |
| Directors | | | | | | |
| Mr GJ Dixon | 500,000 | 26 Sep 2007 | 500,000 | 1.2360 | 0.60 | 6 Nov 2011 |
| | 1,000,000 | 26 Sep 2007 | - | 1.2360 | 0.60 | 6 Nov 2011 |
| | 1,500,000 | 26 Sep 2007 | - | 1.2360 | 0.60 | 6 Nov 2011 |
| Mr GF Jones | - | - | 2,000,000 | - | - | - |
| Mr DM Murcia | - | - | 300,000 | - | - | - |
| Mr TYBT Abdullah | - | - | 300,000 | - | - | - |
| Mr MJ O'Neill | - | - | 300,000 | - | - | - |
| Executives | | | | | | |
| Mr AT Munckton | - | - | 500,000 | - | - | - |
| | 300,000 | 20 Sep 2007 | 300,000 | 1.1695 | 1.31 | 1 Aug 2012 |
| | 300,000 | 20 Sep 2007 | - | 1.1695 | 1.31 | 1 Aug 2012 |
| | 400,000 | 20 Sep 2007 | - | 1.1695 | 1.31 | 1 Aug 2012 |
| Mr DJ Stokes | - | - | 250,000 | - | - | - |
| Mr B Conrick | 400,000 | 23 Nov 2007 | 400,000 | 0.8278 | 1.31 | 1 Aug 2012 |
| | 200,000 | 23 Nov 2007 | - | 0.8278 | 1.31 | 1 Aug 2012 |
| | 400,000 | 23 Nov 2007 | - | 0.8278 | 1.31 | 1 Aug 2012 |
| Mr PJ McBain | 400,000 | 12 May 2008 | - | 0.8068 | 0.90 | 1 Aug 2012 |
| | 400,000 | 12 May 2008 | - | 0.8068 | 0.90 | 1 Aug 2012 |
| | 400,000 | 12 May 2008 | - | 0.8068 | 0.90 | 1 Aug 2012 |
| Mr DC Southam | 500,000 | 30 Apr 2008 | - | 0.4923 | 0.95 | 30 Sep 2012 |
| | 500,000 | 30 Apr 2008 | - | 0.4923 | 0.95 | 30 Sep 2012 |
| | 500,000 | 30 Apr 2008 | - | 0.4923 | 0.95 | 30 Sep 2012 |
| Mr DP Gordon | - | - | 1,000,000 | - | - | - |

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

All options granted during the year expire on the earlier of their expiry date or within 3 or 6 months of termination of the individual's employment. The options are exercisable at any time from their vesting date. Further details, including grant dates and exercise dates regarding options granted to executives are disclosed in Note 27 to the financial statements.

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

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

12.8 Exercise of options granted as compensation - audited

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

| 2008 | Number of Shares | Amount paid on each share |
|-------------------|------------------|---------------------------|
| Directors | | |
| Mr GJ Dixon | 500,000 | \$0.60 |
| Mr DM Murcia | 150,000 | \$0.12 |
| | 150,000 | \$0.16 |
| Mr TYBT Abdullah | 150,000 | \$0.12 |
| | 150,000 | \$0.16 |
| | 300,000 | \$0.25 |
| Executives | | |
| Mr AT Munckton | 250,000 | \$0.16 |
| Mr PE Freund | 1,000,000 | \$0.35 |
| Mr DP Gordon | 500,000 | \$0.12 |
| | 500,000 | \$0.16 |

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

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
 DIRECTORS' REPORT
 For the year ended 30 June 2008

12. REMUNERATION REPORT (Continued)

12.9 Analysis of movements in options - audited

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

| | Granted in year \$(a) | Value of Options exercised in year \$(b) | Value of Options lapsed in year \$(c) |
|------------------|--------------------------|--|---|
| Mr GJ Dixon | 3,708,113 | 70,000 | - |
| Mr GF Jones | - | - | - |
| Mr DM Murcia | - | 430,500 | - |
| Mr TYBT Abdullah | - | 741,000 | - |
| Mr MJ O'Neill | - | - | - |
| Mr W Heng | - | - | - |
| Mr GLW Wedlock | - | - | - |
| Mr AT Munckton | 1,169,541 | 311,250 | - |
| Mr PE Freund | - | 1,330,000 | - |
| Mr DJ Stokes | - | - | - |
| Mr B Conrick | 827,828 | - | - |
| Mr PJ McBain | 968,149 | - | - |
| Mr DC Southam | 738,511 | - | - |
| Mr DP Gordon | - | 1,320,000 | - |

- (a) The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the relevant vesting period.
- (b) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Stock Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (c) The value of the options that lapsed during the year represents the benefit foregone and is calculated at the date the option lapsed using a Black-Scholes model. No options lapsed in the year.

13. SHARE OPTIONS

Unissued shares under option

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

| Expiry date | Exercise Price | Number of Options |
|-------------------|----------------|-------------------|
| 30 September 2010 | \$0.12 | 1,000,000 |
| 30 September 2010 | \$0.16 | 1,000,000 |
| 30 September 2010 | \$0.25 | 2,800,000 |
| 31 December 2008 | \$0.34 | 50,000 |
| 30 September 2010 | \$0.35 | 1,000,000 |
| 30 September 2010 | \$0.55 | 1,600,000 |
| 30 September 2010 | \$0.65 | 300,000 |
| 6 November 2011 | \$0.60 | 2,500,000 |
| 1 August 2012 | \$0.90 | 1,200,000 |
| 1 August 2012 | \$0.94 | 1,500,000 |
| 1 August 2012 | \$1.04 | 200,000 |
| 1 August 2012 | \$1.31 | 2,000,000 |
| 30 September 2012 | \$0.95 | 1,500,000 |
| | | <u>16,650,000</u> |

All options are employee options and expire on the earlier of their expiry date or three or six months after the termination of the employee's employment unless extended by the directors of the Company.

The above options do not entitle the holder to participate in any potential share issue of the Company.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
DIRECTORS' REPORT
For the year ended 30 June 2008

13. SHARE OPTIONS (Continued)

Shares issued on exercise of options

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

| Number of Shares | Amount paid on each share |
|-------------------------|----------------------------------|
| 800,000 | \$0.12 |
| 200,000 | \$0.14 |
| 250,000 | \$0.15 |
| 1,050,000 | \$0.16 |
| 200,000 | \$0.20 |
| 100,000 | \$0.22 |
| 1,300,000 | \$0.25 |
| 1,000,000 | \$0.35 |
| 300,000 | \$0.45 |
| 2,000,000 | \$0.50 |
| 500,000 | \$0.60 |
| 400,000 | \$0.63 |

Included in the 1,300,000 shares issued at \$0.25 is 1,000,000 shares issued since the end of the financial year.

14. DIRECTORS' INTERESTS

The relevant interest of each director in the share capital of the companies within the Consolidated entity, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

| Gindalbie Metals Ltd Director | Ordinary shares | Options over ordinary shares |
|--|------------------------|-------------------------------------|
| Mr GJ Dixon | 710,000 | 2,500,000 |
| Mr GF Jones | 13,000,000 | 4,000,000 |
| Mr DM Murcia | 668,000 | 300,000 |
| Mr TYBT Abdullah** | 600,000 | - |
| Mr MJ O'Neill | 1,000,000 | 600,000 |
| Mr W Heng | - | - |
| Mr GLW Wedlock | 50,000 | - |

** Mr Tunku Ya'acob Bin Tunku Abdullah is the Managing Director of Melewar Steel Ventures Limited, a company which is 100% owned by Melewar Industrial Group Berhad of which Mr Abdullah is also a director. Melewar Steel Ventures Limited and its associated entities are the second largest shareholder in Gindalbie Metals Limited holding 39,000,000 shares. The Company has no evidence to indicate that Mr Abdullah has a relevant interest in Melewar's shareholding in Gindalbie Metals Limited.

15. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 15 and forms part of the Directors Report for the year ended 30 June 2008.

16. 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.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
DIRECTORS' REPORT
For the year ended 30 June 2008

17. INDEMNIFYING OFFICER OR AUDITOR


The Company, during the financial year, in respect of any person who is or has been an officer or auditor of the Company:

- has not indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer or auditor.
- paid a premium of \$22,688 for a policy of insurance to cover legal liability and expenses for the directors and executive officers in the event of any legal action against them arising from their actions as officers of the Company.

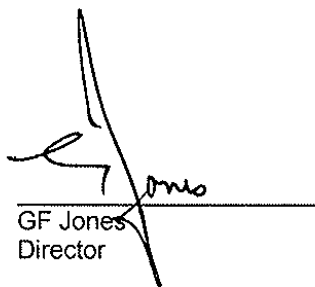
The insurance policy does not contain details of the premiums paid in respect of individual officers of the Company.

Signed in accordance with a resolution of directors at Perth, WA on 9th September 2008.

GJ Dixon
Director



GF Jones
Director





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

To: the directors of Gindalbie Metals Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

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


KPMG
T R Hart
Partner

Perth
9 September 2008



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

Report on the financial report

We have audited the accompanying financial report of Gindalbie Metals Limited (the Company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Auditor's opinion

In our opinion:

- (a) the financial report of Gindalbie Metals Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in paragraph 12 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Gindalbie Metals Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

T R Hart
Partner

Perth
9 September 2008

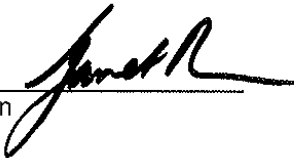
GINDALBIE METALS LTD AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION
For the year ended 30 June 2008

1. In the opinion of the directors of Gindalbie Metals Ltd ("the Company"):
 - (a) the financial statements and notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 19 to 48 are in accordance with the Corporations Act 2001, including;
 - (i) giving a true and fair view of the financial position of the Company and Consolidated entity as at 30 June 2008 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a);
 - (c) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001; and
 - (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2008.

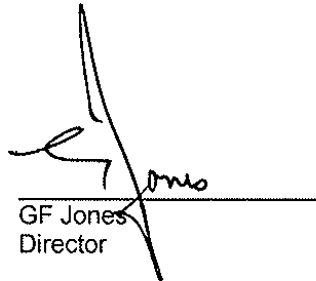
Dated at Perth this 9th day of September 2008.

Signed in accordance with a resolution of the directors.

GJ Dixon
Director



GF Jones
Director



GINDALBIE METALS LTD AND CONTROLLED ENTITIES
 INCOME STATEMENTS
 For the year ended 30 June 2008

| | Notes | Consolidated | | Company | |
|--|-------|----------------|----------------|-----------------|----------------|
| | | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Other income | 6(a) | 57,675 | 2,295 | 17,084 | 6,170 |
| Administration expenses | 6(b) | (6,112) | (5,859) | (6,105) | (5,853) |
| Other expenses | 6(c) | <u>(4,283)</u> | <u>(1,424)</u> | <u>(18,162)</u> | <u>(1,426)</u> |
| Profit/(Loss) from operating activities | | <u>47,280</u> | <u>(4,988)</u> | <u>(7,183)</u> | <u>(1,109)</u> |
| Financial income | 6(d) | 4,987 | 2,110 | 5,193 | 3,876 |
| Financial expenses | 6(d) | - | - | - | - |
| Net financing income | | <u>4,987</u> | <u>2,110</u> | <u>5,193</u> | <u>3,876</u> |
| Profit/(Loss) before tax | | 52,267 | (2,878) | (1,990) | 2,767 |
| Income tax expense | 7 | <u>(7,746)</u> | - | - | - |
| Profit/(Loss) for the period | 18 | <u>44,521</u> | <u>(2,878)</u> | <u>(1,990)</u> | <u>2,767</u> |
| Basic earnings per share - cents | 24 | 8.92 | (0.66) | | |
| Diluted earnings per share - cents | 24 | 8.76 | (0.66) | | |

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 23 to 48.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
 STATEMENTS OF CHANGES IN EQUITY
 For the year ended 30 June 2008

| | Issued capital \$'000 | Consolidated Retained earnings/ (Accumulated Losses) \$'000 | Reserves \$'000 | Total \$'000 | Issued capital \$'000 | Company Accumulated losses \$'000 | Reserves \$'000 | Total \$'000 |
|---|-----------------------------|--|--------------------|-----------------|-----------------------------|--|--------------------|-----------------|
| Year ended 30 June 2008 | | | | | | | | |
| Opening balance at 1 July 2007 | 77,880 | (25,746) | 2,718 | 54,852 | 77,880 | (19,774) | 2,718 | 60,824 |
| Equity settled share based payment transactions | - | - | 4,008 | 4,008 | - | - | 4,008 | 4,008 |
| Shares issued | | | | | | | | |
| - Share placement | 39,000 | - | - | 39,000 | 39,000 | - | - | 39,000 |
| - Exercise of options | 2,503 | - | - | 2,503 | 2,503 | - | - | 2,503 |
| - Transfer on exercise of employee options | 1,997 | - | (1,997) | - | 1,997 | - | (1,997) | - |
| Transaction costs of share issues | (47) | - | - | (47) | (47) | - | - | (47) |
| Net profit/(loss) for the period (recognised income and expenses) | - | 44,521 | - | 44,521 | - | (1,990) | - | (1,990) |
| Closing balance at 30 June 2008 | 121,333 | 18,775 | 4,729 | 144,837 | 121,333 | (21,764) | 4,729 | 104,298 |
| Year ended 30 June 2007 | | | | | | | | |
| Opening balance at 1 July 2006 | 72,777 | (22,868) | 2,092 | 52,001 | 72,777 | (22,541) | 2,092 | 52,328 |
| Equity settled share based payment transactions | - | - | 2,623 | 2,623 | - | - | 2,623 | 2,623 |
| Shares issued | | | | | | | | |
| - Exercise of options | 3,114 | - | - | 3,114 | 3,114 | - | - | 3,114 |
| - Transfer on exercise of employee options | 1,997 | - | (1,997) | - | 1,997 | - | (1,997) | - |
| Transaction costs of share issues | (8) | - | - | (8) | (8) | - | - | (8) |
| Net profit/(loss) for the period (recognised income and expenses) | - | (2,878) | - | (2,878) | - | 2,767 | - | 2,767 |
| Closing balance at 30 June 2007 | 77,880 | (25,746) | 2,718 | 54,852 | 77,880 | (19,774) | 2,718 | 60,824 |

Amounts are stated net of tax, where applicable. Further details of issued capital and reserves are disclosed in Note 19.

The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 23 to 48.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
BALANCE SHEETS
As at 30 June 2008

| | Notes | Consolidated | | Company | |
|--|-------|----------------|----------------|----------------|----------------|
| | | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 9 | 102,650 | 16,099 | 46,897 | 15,976 |
| Other receivables | 10 | 1,929 | 13,668 | 2,090 | 6,523 |
| Prepayments | | 54 | 69 | 48 | 69 |
| Inventories | 11 | 84 | 12 | 34 | - |
| TOTAL CURRENT ASSETS | | <u>104,717</u> | <u>29,848</u> | <u>49,069</u> | <u>22,568</u> |
| NON CURRENT ASSETS | | | | | |
| Other receivables | 10 | 1,718 | - | 1,718 | 40,942 |
| Investments in jointly controlled entities | 17 | - | - | 47,275 | - |
| Property, plant and equipment | 13 | 49,430 | 2,600 | 3,470 | 765 |
| Exploration and evaluation assets | 14 | 5,501 | 29,761 | 5,243 | 382 |
| TOTAL NON CURRENT ASSETS | | <u>56,649</u> | <u>32,361</u> | <u>57,706</u> | <u>42,089</u> |
| TOTAL ASSETS | | <u>161,366</u> | <u>62,209</u> | <u>106,775</u> | <u>64,657</u> |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 15 | 8,326 | 6,912 | 2,020 | 3,388 |
| Employee benefits | 27 | 434 | 420 | 434 | 420 |
| TOTAL CURRENT LIABILITIES | | <u>8,760</u> | <u>7,332</u> | <u>2,454</u> | <u>3,808</u> |
| NON CURRENT LIABILITIES | | | | | |
| Deferred tax liabilities | 7 | 7,746 | - | - | - |
| Employee benefits | 27 | 23 | 25 | 23 | 25 |
| TOTAL NON CURRENT LIABILITIES | | <u>7,769</u> | <u>25</u> | <u>23</u> | <u>25</u> |
| TOTAL LIABILITIES | | <u>16,529</u> | <u>7,357</u> | <u>2,477</u> | <u>3,833</u> |
| NET ASSETS | | <u>144,837</u> | <u>54,852</u> | <u>104,298</u> | <u>60,824</u> |
| EQUITY | | | | | |
| Issued capital | 19(a) | 121,333 | 77,880 | 121,333 | 77,880 |
| Reserves | 19(b) | 4,729 | 2,718 | 4,729 | 2,718 |
| Retained earnings/(Accumulated losses) | 18 | 18,775 | (25,746) | (21,764) | (19,774) |
| TOTAL EQUITY | | <u>144,837</u> | <u>54,852</u> | <u>104,298</u> | <u>60,824</u> |

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 23 to 48.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
 STATEMENTS OF CASH FLOWS
 For the year ended 30 June 2008

| | Note | Consolidated | | Company | |
|--|------|----------------|-----------------|----------------|-----------------|
| | | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Cash flows from operating activities | | | | | |
| Cash receipts from customers | | 990 | 1,342 | 2,225 | 2,611 |
| Cash payments to suppliers and employees | | (6,136) | (6,090) | (6,124) | (6,076) |
| Interest received | | <u>4,313</u> | <u>1,784</u> | <u>5,092</u> | <u>3,551</u> |
| Net cash from/(used in) operating activities | 26 | <u>(833)</u> | <u>(2,964)</u> | <u>1,193</u> | <u>86</u> |
| Cash flows from investing activities | | | | | |
| Proceeds on sale of non-current assets | | - | 17 | - | 17 |
| Development expenditure | | (7,979) | - | - | - |
| Exploration and evaluation expenditure | | (14,517) | (23,574) | (1,871) | (672) |
| Payment for purchase of prospect | | (1,835) | - | (1,835) | - |
| Proceeds on dilution of investment | | 71,429 | - | - | - |
| Acquisition of property, plant and equipment | | (4,760) | (2,192) | (1,672) | (571) |
| Purchase of shares in listed companies | | - | (6,440) | - | - |
| Sale of shares in listed companies | | 309 | 7,843 | 309 | 1,167 |
| Proceeds from sale of gold assets | | <u>5,000</u> | <u>4,138</u> | <u>5,000</u> | <u>4,138</u> |
| Net cash from/(used in) investing activities | | <u>47,647</u> | <u>(20,208)</u> | <u>(69)</u> | <u>4,079</u> |
| Cash flows from financing activities | | | | | |
| Loans advanced to controlled entities | | - | - | (9,940) | (23,205) |
| Proceeds from the issue of shares | | 41,503 | 3,114 | 41,503 | 3,114 |
| Payment of capital raising costs | | (47) | (8) | (47) | (8) |
| Payments for cash backing of performance bonds | | <u>(1,719)</u> | <u>-</u> | <u>(1,719)</u> | <u>-</u> |
| Net cash from/(used in) financing activities | | <u>39,737</u> | <u>3,106</u> | <u>29,797</u> | <u>(20,099)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 86,551 | (20,066) | 30,921 | (15,934) |
| Cash and cash equivalents at 1 July | | <u>16,099</u> | <u>36,165</u> | <u>15,976</u> | <u>31,910</u> |
| Cash and cash equivalents at 30 June | 9 | <u>102,650</u> | <u>16,099</u> | <u>46,897</u> | <u>15,976</u> |

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 23 to 48.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

1. REPORTING ENTITY

Gindalbie Metals Ltd (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Level 9, 216 St Georges Terrace, Perth. The consolidated financial statements of the Company as at and for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the "Consolidated entity"). The Consolidated entity primarily is involved in iron ore exploration and development activities.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The financial reports of the Consolidated entity and the Company also comply with the standards issued and interpretations adopted by the International Accounting Standards Board (IFRSs).

The financial statements were authorised for issue by the directors on 9th September 2008.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company and Consolidated entity's functional currency. 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, all financial information has been rounded to the nearest thousand dollars, unless otherwise stated.

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 14 – Exploration and Evaluation Assets
- Note 25 – Financial Instruments
- Note 27(b) – Share-Based Payments
- Note 29 – Contingent Liabilities

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Consolidated entity.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power 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 are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(ii) Joint ventures

Gindalbie undertakes a number of business activities through joint ventures. Joint ventures are those entities over whose activities the Consolidated entity has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Gindalbie joint ventures are of two types:

Jointly controlled entities

A jointly controlled entity is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses. Interests in jointly controlled entities are accounted for using the proportionate consolidation method. The share of jointly controlled entities' assets, liabilities, income and expenses are recognised from the date that joint control commences until the date at which it ceases.

Jointly controlled operations and assets

Gindalbie has certain contractual arrangements with other participants to engage in joint activities that do not give rise to a jointly controlled entity. These arrangements involve the joint ownership of assets dedicated to the purposes of each joint venture but do not create a jointly controlled entity as the venturers directly derive the benefits of operation of their jointly owned assets, rather than deriving returns from an interest in a separate entity.

The financial report of Gindalbie includes its share of the assets in such joint ventures, together with the liabilities, revenues and expenses arising jointly or otherwise from those operations. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to Gindalbie's interest in the jointly controlled assets.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Consolidated entity's contractual rights to the cash flows from the financial assets expire or if the Consolidated entity transfers the financial asset to another party without retaining control of substantially all of the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expenses is discussed in note 3(i).

Available-for-sale financial assets

The Consolidated entity's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(e)), are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Consolidated entity manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Consolidated entity's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (Continued)

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

Derivatives, including those embedded in other contractual arrangements but separated for accounting purposes are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss on remeasurement depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The measurement of fair value is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated.

Derivatives embedded within other contractual arrangements do not qualify for hedge accounting.

(iii) Share Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. All such assets, except freehold land, are depreciated over their estimated useful lives on a straight line or production output basis, as considered appropriate, commencing from the time the asset is held ready for use.

(i) Useful lives

Mine assets are depreciated or amortised over the lower of their estimated useful lives and the estimated remaining life of the mine. The estimated remaining life of the mine is based upon geological resources. Assets not linked to the mining operation are depreciated over their estimated useful lives.

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

- buildings 14 years
- plant and equipment 3 - 14 years
- mine infrastructure 4 years
- mine properties units of production

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

(ii) Mine properties and development

Mine property assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable and subsequent costs to develop the mine to the production phase. These include expenditures incurred by the Consolidated entity in the current and previous reporting periods. A review is undertaken at each reporting date for each mine property area of interest to determine the appropriateness of continuing to carry forward values in relation to that area. When expenditures incurred no longer contribute to the Consolidated entity's ability to successfully exploit an area of interest, such costs are written off in the financial period the decision is made.

(iii) Amortisation

Amortisation is charged to the income statement, except to the extent that it is included in the carrying amount of another asset as an allocation of production overheads. Mine properties in production are amortised on a units of production basis over economically recoverable resources. Amortisation is not charged on costs carried forward in respect of interest in the development phase until commercial production commences.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. 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.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Consolidated entity's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

(f) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(ii) Other long-term employee benefits

The Consolidated entity's net obligation in respect of long-term employee benefits, is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus on-costs; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on AA credit-rated (Commonwealth Government) bonds that have maturity dates approximating the terms of the Consolidated entity's obligations.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Consolidated entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

(iv) Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are 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.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Employee benefits (Continued)

(v) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period during which the employees become unconditionally entitled to the options. 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.

(g) Provisions

A provision is recognised if, as a result of a past event, the Consolidated entity has a present legal or constructive obligation that can be estimated reliably, 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, the risks specific to the liability.

(i) Mine rehabilitation

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cash flows. The estimated cost of rehabilitation includes the current cost of re-contouring, topsoiling and revegetation, employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation. The amount of the provision relating to rehabilitation of mine infrastructure and dismantling obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset included in property, plant and equipment.

At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates and timing or amount of costs to be incurred. Changes in the liability relating to rehabilitation of mine infrastructure and dismantling obligations are added to or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost in the income statement as it occurs. If the change in liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written down to nil and the excess is recognised immediately in the income statement.

If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the write down recognised in the income statement in the period in which it occurs. The amount of the provision relating to rehabilitation of environmental disturbance caused by ongoing production and extraction activities is recognised in the income statement as incurred. Changes in the liability are charged to the income statement as rehabilitation expense, other than the unwinding of the discount which is recognised as a finance cost.

(h) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

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

(i) Finance income and expenses

Finance income comprises interest income on funds invested, and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise bank charges and performance bond facility fees.

(j) Income Tax

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

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

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income Tax (Continued)

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Tax consolidation

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

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

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

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

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

(k) 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 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.

(l) Earnings per share

The Consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(m) Intangible assets

Exploration and evaluation assets

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

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Intangible assets (Continued)

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

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

Exploration and evaluation assets are assessed for impairment if :

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

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

(n) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

- AASB 8 *Operating Segments* introduces the 'management approach' to segment reporting. AASB 8, which becomes mandatory for the Consolidated entity's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Consolidated entity's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Consolidated entity operates in one business segment and one geographical segment. Under the management approach, the Consolidated entity may present segment information differently. The Consolidated entity has not yet determined the potential effect of the revised standard on the Consolidated entity's disclosures.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly 'primary statement') the 'statement of comprehensive income'. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Consolidated entity's 30 June 2010 financial statements. The Consolidated entity has not yet determined the potential effect of the revised standard on the Consolidated entity's disclosures.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Consolidated entity's 30 June 2010 financial statements and will constitute a change in accounting policy for the Consolidated entity. In accordance with the transitional provisions the Consolidated entity will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Consolidated entity has not yet determined the potential effect of the revised standard on future earnings.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Consolidated entity's 30 June 2010 financial statements. The Consolidated entity has not yet determined the potential effect of the revised standard on the Consolidated entity's financial report.

4. DETERMINATION OF FAIR VALUES

A number of the Consolidated entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Investments in equity securities

The fair value of equity securities is determined by reference to their quoted bid price at reporting date.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

4. DETERMINATION OF FAIR VALUES (Continued)

(ii) Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), expected life of the option, expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the option are not taken into account in determining fair value.

5. FINANCIAL RISK MANAGEMENT

(a) Overview

The Company and Consolidated entity have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's and Consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Compliance and Sustainability Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Company and Consolidated entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Consolidated entity's activities. The Company and Consolidated entity, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Consolidated entity's Audit Committee oversees how management monitors compliance with the Company's and Consolidated entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Consolidated entity.

(b) Credit risk

Credit risk is the risk of financial loss to the Company or the Consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company and the Consolidated entity's receivables from customers and investment securities.

(c) Investments

The Company and Consolidated entity limit their exposure to credit risk by only investing in liquid securities and only with counterparties that have credit ratings of between A2 and A1+ from Standard & Poor's and A from Moody's, with more weighting given to investments in the higher credit ratings. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations. The Company has formed a Treasury Committee that considers and implements appropriate investment strategies and ensures investment policies are adhered to.

(d) Guarantees

The Company's and Consolidated entity's policy is to provide financial guarantees only to wholly-owned subsidiaries. There are no outstanding guarantees at balance date.

(e) Liquidity risk

Liquidity risk is the risk that the Company and Consolidated entity will not be able to meet its financial obligations as they fall due. The Company's and Consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's and Consolidated entity's reputations.

Typically the Company and Consolidated entity ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 30 June 2008

5. FINANCIAL RISK MANAGEMENT (Continued)

(f) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's and Consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company and Consolidated entity engages external treasury consultants in order to manage market risks. All transactions are carried out within Treasury Policy guidelines, and these are considered and monitored by the Treasury Committee.

(g) Currency risk

The Company and Consolidated entity will in future reporting periods be exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Consolidated entity or its subsidiaries, namely the Australian dollar (AUD). The currencies in which these transactions primarily are denominated are USD and Euro.

At any point in time the Company and Consolidated entity may hedge its estimated foreign currency exposure in respect of forecast sales and purchases over the following months. The Company and Consolidated entity may also hedge a percentage of all trade receivables and trade payables denominated in a foreign currency. The Company and Consolidated entity may use forward exchange contracts to hedge its currency risk.

(h) Interest rate risk

The Company and Consolidated entity at reporting date did not have any borrowings and as such was not exposed to any interest rate risk.

(i) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Company's and Consolidated entity's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

| | Note | Consolidated | | Company | |
|--|------|----------------|----------------|----------------|----------------|
| | | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

6. REVENUE AND EXPENSES

(a) Other income

| | | | | | |
|---|--------|---------------|--------------|---------------|--------------|
| Gain on loss of control and further dilution of interest in Karara Mining Ltd | (i),17 | 56,376 | - | - | - |
| Net gain on disposal of listed company shares | | 59 | 952 | 59 | 717 |
| Profit on sale of subsidiary | (ii) | - | - | 14,500 | - |
| Joint venture management fees | | 705 | 1,270 | 1,940 | 2,540 |
| Joint venture transaction fee received in shares | | 250 | - | 250 | - |
| Reversal of impairment of loan to controlled entities | 10 | - | - | 50 | 2,841 |
| Other income | | <u>285</u> | <u>73</u> | <u>285</u> | <u>72</u> |
| Total other income | | <u>57,675</u> | <u>2,295</u> | <u>17,084</u> | <u>6,170</u> |

(i) During 2008 Anshan Iron & Steel Group Corporation ('Ansteel') contributed two tranches of cash totalling \$105m pursuant to a shareholders agreement to develop the Karara Iron Ore Project. This gain represents the gain on disposal by dilution of 33.33% of the Company's interest in Karara Mining Ltd together with the net assets acquired within the joint venture during the year to which the Consolidated entity was not required to contribute funding amounts.

(b) Administration expenses

| | | | | |
|--------------------------------|----------------|----------------|----------------|----------------|
| Salary and on costs expenses | (2,592) | (3,330) | (2,592) | (3,330) |
| Corporate and consultant costs | (1,515) | (944) | (1,508) | (939) |
| Office and marketing costs | (1,150) | (895) | (1,150) | (895) |
| Other administration costs | <u>(855)</u> | <u>(690)</u> | <u>(855)</u> | <u>(689)</u> |
| Total administration expenses | <u>(6,112)</u> | <u>(5,859)</u> | <u>(6,105)</u> | <u>(5,853)</u> |

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 30 June 2008

| | Note | Consolidated | | Company | |
|---|------|----------------|----------------|-----------------|----------------|
| | | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| 6. REVENUE AND EXPENSES (Continued) | | | | | |
| (c) Other expenses | | | | | |
| Operating lease rental expense | | (42) | (66) | (42) | (66) |
| Net loss on disposal of property, plant and equipment | | - | (6) | - | (6) |
| <i>Depreciation</i> | | | | | |
| Property, plant & equipment | | (534) | (388) | (522) | (196) |
| Less capitalised to E&E | | 377 | 264 | 365 | 72 |
| Employee option expense | | (4,008) | (1,222) | (4,008) | (1,222) |
| Exploration & evaluation expenditure written off | | (76) | (6) | (76) | (6) |
| Impairment in value of investments | | - | - | - | - |
| Impairment of loan to controlled entities | (ii) | - | - | (13,879) | (2) |
| Total other expenses | | <u>(4,283)</u> | <u>(1,424)</u> | <u>(18,162)</u> | <u>(1,426)</u> |

(ii) During 2008 the Company sold its shares in DSO Ventures Pty Ltd ('DSO') to Karara Management Services Pty Ltd ('KMS') in exchange for KMS paying consideration of \$14,500,000 to the Company. The value of the loan owing from DSO to the Company for \$13,878,668 which was assigned to Karara Mining Ltd for nil consideration as part of the Gindalbie Group restructure has been fully impaired.

(d) Net financing income

| | | | | | |
|---|--|--------------|--------------|--------------|--------------|
| Interest income | | | | | |
| Related parties | | 1,652 | - | 1,858 | 1,848 |
| Bank deposits | | 3,335 | 1,482 | 3,335 | 1,400 |
| Imputed interest on gold asset sale | | - | 510 | - | 510 |
| Interest on gold asset sale instalments | | - | 118 | - | 118 |
| Financial Income | | <u>4,987</u> | <u>2,110</u> | <u>5,193</u> | <u>3,876</u> |
| Interest expense | | | | | |
| Other parties | | - | - | - | - |
| Financial expenses | | - | - | - | - |
| Net financing income | | <u>4,987</u> | <u>2,110</u> | <u>5,193</u> | <u>3,876</u> |

(e) Personnel expenses

| | | | | | |
|--|--|----------------|----------------|----------------|----------------|
| Wages and salaries | | (1,341) | (1,160) | (1,341) | (1,160) |
| Other associated personnel expenses | | (188) | (482) | (188) | (482) |
| Contributions to defined contribution superannuation funds | | (180) | (229) | (180) | (229) |
| Increase in liability for annual leave | | (123) | (104) | (123) | (104) |
| Increase in liability for long service leave | | (9) | (14) | (9) | (14) |
| Termination benefit | | - | (640) | - | (640) |
| Equity-settled share-based payment transactions | | <u>(4,008)</u> | <u>(1,222)</u> | <u>(4,008)</u> | <u>(1,222)</u> |
| | | <u>(5,849)</u> | <u>(3,851)</u> | <u>(5,849)</u> | <u>(3,851)</u> |

7. INCOME TAX EXPENSE

Recognised in the income statement

Current tax expense

| | | | | | |
|--------------|--|---|---|---|---|
| Current year | | - | - | - | - |
| | | - | - | - | - |

Deferred tax expense

| | | | | | |
|---|--|--------------|---|---|---|
| Origination and reversal of temporary differences | | - | - | - | - |
| Initial temporary difference in relation to KML tax deconsolidation – 66.67% brought into the Consolidated entity | | 7,746 | - | - | - |
| Benefit of tax losses and other deferred tax benefits recognised | | - | - | - | - |
| Total income tax expense in income statement | | <u>7,746</u> | - | - | - |

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
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| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| 7. INCOME TAX EXPENSE (Continued) | | | | |
| Numerical reconciliation between current tax expense and pre-tax net profit/(loss) | | | | |
| Profit/(Loss) before tax | <u>52,267</u> | <u>(2,878)</u> | <u>(1,990)</u> | <u>2,767</u> |
| Income tax using the domestic corporation tax rate of 30% (2007: 30%) | 15,680 | (863) | (597) | 830 |
| Increase in income tax expense due to: | | | | |
| Non-deductible expenses/assessable income | 1,372 | 370 | 5,370 | 370 |
| Assessable capital gain on deconsolidation of KML | 4,162 | - | 4,162 | - |
| Decrease in income tax expense due to: | | | | |
| Non-assessable income | (17,620) | - | (4,365) | - |
| Exploration incurred prior to KML deconsolidation | (5,878) | - | - | - |
| Exploration expenditure of jointly controlled entities – not deductible | 7,746 | - | - | - |
| Losses (recognised)/not recognised | <u>2,284</u> | <u>493</u> | <u>(4,570)</u> | <u>(1,200)</u> |
| Total income tax expense in income statement | <u>7,746</u> | <u>-</u> | <u>-</u> | <u>-</u> |

The Gindalbie Metals Ltd tax consolidated group has estimated unrecouped tax losses of \$70,613,841 (\$21,184,152 at 30%) available to be offset against future taxable income. The net deferred tax asset for the Group has not been recognised by the Group on the basis that it is not probable that there will be future taxable income available against which the tax losses can be utilised. The deferred tax liability from the Company's 66.67% ownership of the Karara Mining Ltd group is not able to be offset by the Company's carry forward tax losses and has therefore been recognised.

Tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Consolidated Liabilities | | Net | |
|------------------------------|----------------|----------------|--------------------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Accrued interest | - | - | 53 | 23 | 53 | 23 |
| Property, plant & equipment | - | - | 1,666 | 547 | 1,666 | 547 |
| Exploration expenditure | - | - | 14,286 | 9,366 | 14,286 | 9,366 |
| Capital raising costs | (280) | (454) | - | - | (280) | (454) |
| Provisions | (137) | (133) | - | - | (137) | (133) |
| Tax loss carry forwards | <u>(7,842)</u> | <u>(9,349)</u> | - | - | <u>(7,842)</u> | <u>(9,349)</u> |
| Tax (assets)/liabilities | <u>(8,259)</u> | <u>(9,936)</u> | <u>16,005</u> | <u>9,936</u> | <u>7,746</u> | <u>-</u> |
| Set off of tax | <u>8,259</u> | <u>9,936</u> | <u>(8,259)</u> | <u>(9,936)</u> | <u>-</u> | <u>-</u> |
| Net tax (assets)/liabilities | <u>-</u> | <u>-</u> | <u>7,746</u> | <u>-</u> | <u>7,746</u> | <u>-</u> |

| | Assets | | Company Liabilities | | Net | |
|------------------------------|-----------------|----------------|---------------------|----------------|-----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Accrued interest | - | - | 53 | 23 | 53 | 23 |
| Investment in JV | - | - | 13,020 | - | 13,020 | - |
| Property, plant & equipment | - | - | 514 | 547 | 514 | 547 |
| Exploration expenditure | - | - | 1,573 | 114 | 1,573 | 114 |
| Capital raising costs | (280) | (454) | - | - | (280) | (454) |
| Provisions | (137) | (133) | - | - | (137) | (133) |
| Tax loss carry forwards | <u>(14,743)</u> | <u>(97)</u> | - | - | <u>(14,743)</u> | <u>(97)</u> |
| Tax (assets)/liabilities | <u>(15,160)</u> | <u>(684)</u> | <u>15,160</u> | <u>684</u> | <u>-</u> | <u>-</u> |
| Set off of tax | <u>15,160</u> | <u>684</u> | <u>(15,160)</u> | <u>(684)</u> | <u>-</u> | <u>-</u> |
| Net tax (assets)/liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
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7. INCOME TAX EXPENSE (Continued)

Unrecognised deferred tax assets and liabilities

Deferred tax assets and liabilities have not been recognised in respect of the following items:

| | Consolidated | | Company | |
|------------|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Tax losses | <u>13,342</u> | <u>7,729</u> | <u>6,441</u> | <u>7,729</u> |

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

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2008 \$ | 2007 \$ | 2008 \$ | 2007 \$ |
| 8. AUDITOR'S REMUNERATION | | | | |
| Audit services: | | | | |
| Auditors of the Company – <i>KPMG Australia</i> | | | | |
| - audit and review of financial reports | <u>75,918</u> | <u>51,983</u> | <u>57,250</u> | <u>51,983</u> |
| Other services: | | | | |
| Auditors of the Company – <i>KPMG Australia</i> | | | | |
| - taxation services | 96,079 | 230,092 | 96,079 | 227,254 |
| - valuation advice | 32,167 | - | 25,500 | - |
| - restructuring advice | <u>123,000</u> | - | <u>123,000</u> | - |
| | <u>251,246</u> | <u>230,092</u> | <u>244,579</u> | <u>227,254</u> |

| | Consolidated | | Company | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| 9. CASH AND CASH EQUIVALENTS | | | | |
| Bank balances | 89 | 130 | 54 | 7 |
| Call deposits | <u>102,561</u> | <u>15,969</u> | <u>46,843</u> | <u>15,969</u> |
| Cash and cash equivalents | <u>102,650</u> | <u>16,099</u> | <u>46,897</u> | <u>15,976</u> |

10. OTHER RECEIVABLES

Current

| | | | | |
|--|--------------|---------------|--------------|--------------|
| Interest receivable | 674 | 76 | 177 | 76 |
| Receivable due from sale of discontinued operation | (i) - | 5,000 | - | 5,000 |
| Joint venture receivable due | (ii) - | 7,122 | - | - |
| Other receivables | <u>1,255</u> | <u>1,470</u> | <u>1,913</u> | <u>1,447</u> |
| | <u>1,929</u> | <u>13,668</u> | <u>2,090</u> | <u>6,523</u> |

Non-current

| | | | | |
|------------------------------------|--------------|---|--------------|---------------|
| Loans to controlled entities | (iii) - | - | - | 40,942 |
| Cash backing for performance bonds | <u>1,718</u> | - | <u>1,718</u> | - |
| | <u>1,718</u> | - | <u>1,718</u> | <u>40,942</u> |

(i) In June 2006 the Company finalised the sale of its Minjar Gold Project to Monarch Gold Mining Company Limited for total consideration of \$10 million. The final instalment proceeds of \$5 million in cash were received in July 2007.

(ii) The joint venture receivable, representing the Consolidated entity's share of cash calls due by the Karara Joint Venture participants, was received in July 2007.

(iii) The ultimate recoverability of intercompany receivables is dependent upon the future exploration success of the controlled entities. Intercompany receivables are repayable on demand. Loans to controlled entities are shown net of impairment losses of \$8,482 (2007: \$1,838).

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| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| 11. INVENTORIES | | | | |
| Current | | | | |
| Raw materials and consumables | <u>84</u> | <u>12</u> | <u>34</u> | <u>-</u> |
| 12. INVESTMENTS | | | | |
| Non-current | | | | |
| Investments in controlled entities: | | | | |
| Unlisted shares at cost | - | - | - | 50 |
| Provision for impairment | <u>-</u> | <u>-</u> | <u>-</u> | <u>(50)</u> |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 13. PROPERTY, PLANT AND EQUIPMENT | | | | |
| <i>Land & buildings</i> | | | | |
| At cost | 2,117 | 928 | 1,854 | - |
| Accumulated depreciation | <u>(128)</u> | <u>(57)</u> | <u>(127)</u> | <u>-</u> |
| | <u>1,989</u> | <u>871</u> | <u>1,727</u> | <u>-</u> |
| <i>Plant and equipment</i> | | | | |
| At cost | 3,055 | 2,111 | 2,557 | 1,319 |
| Accumulated depreciation | <u>(1,070)</u> | <u>(665)</u> | <u>(1,059)</u> | <u>(554)</u> |
| | <u>1,985</u> | <u>1,446</u> | <u>1,498</u> | <u>765</u> |
| <i>Capital work in progress</i> | | | | |
| At cost | 3,090 | - | - | - |
| Accumulated depreciation | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>3,090</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Mine infrastructure</i> | | | | |
| At cost | 354 | 334 | 354 | - |
| Accumulated depreciation | <u>(109)</u> | <u>(51)</u> | <u>(109)</u> | <u>-</u> |
| | <u>245</u> | <u>283</u> | <u>245</u> | <u>-</u> |
| <i>Mine properties & development</i> | | | | |
| At cost | 42,121 | - | - | - |
| Accumulated amortisation | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>42,121</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total property, plant and equipment | <u>49,430</u> | <u>2,600</u> | <u>3,470</u> | <u>765</u> |

Reconciliations

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

| | | | | |
|--------------------------------------|--------------|--------------|--------------|--------------|
| <i>Land & buildings</i> | | | | |
| Carrying amount at beginning of year | 871 | 79 | - | - |
| Additions | 1,189 | 844 | 926 | - |
| Transferred in from subsidiary | - | - | 871 | - |
| Depreciation | <u>(71)</u> | <u>(52)</u> | <u>(70)</u> | <u>-</u> |
| Carrying amount at end of year | <u>1,989</u> | <u>871</u> | <u>1,727</u> | <u>-</u> |
| <i>Plant and equipment</i> | | | | |
| Carrying amount at beginning of year | 1,446 | 949 | 765 | 798 |
| Additions | 944 | 787 | 446 | 161 |
| Transferred in from subsidiary | - | - | 681 | - |
| Depreciation | <u>(405)</u> | <u>(267)</u> | <u>(394)</u> | <u>(171)</u> |
| Disposals | <u>-</u> | <u>(23)</u> | <u>-</u> | <u>(23)</u> |
| Carrying amount at end of year | <u>1,985</u> | <u>1,446</u> | <u>1,498</u> | <u>765</u> |
| <i>Capital work in progress</i> | | | | |
| Carrying amount at beginning of year | - | - | - | - |
| Additions | 3,090 | - | - | - |
| Depreciation | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Carrying amount at end of year | <u>3,090</u> | <u>-</u> | <u>-</u> | <u>-</u> |

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| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| 13. PROPERTY, PLANT AND EQUIPMENT (Continued) | | | | |
| <i>Mine Infrastructure</i> | | | | |
| Carrying amount at beginning of year | 283 | 170 | - | - |
| Additions | 20 | 157 | 20 | - |
| Transferred in from subsidiary | - | - | 283 | - |
| Depreciation | (58) | (44) | (58) | - |
| Carrying amount at end of year | <u>245</u> | <u>283</u> | <u>245</u> | <u>-</u> |
| <i>Mine properties & development</i> | | | | |
| Carrying amount at beginning of year | - | - | - | - |
| Additions | 12,690 | - | - | - |
| Transferred in from exploration & evaluation | 29,431 | - | - | - |
| Amortisation | - | - | - | - |
| Carrying amount at end of year | <u>42,121</u> | <u>-</u> | <u>-</u> | <u>-</u> |

14. EXPLORATION AND EVALUATION ASSETS

Costs carried forward in respect of areas of interest in:

Exploration and evaluation assets

| | | | | |
|---|--------------|---------------|--------------|------------|
| Carrying amount at beginning of year | 29,761 | 9,673 | 382 | - |
| Adjustment due to loss of control of subsidiaries | (10,323) | - | - | - |
| Additions | 15,570 | 20,094 | 4,937 | 388 |
| Expenditure written off | (76) | (6) | (76) | (6) |
| Transferred out to mine properties & development | (29,431) | - | - | - |
| | <u>5,501</u> | <u>29,761</u> | <u>5,243</u> | <u>382</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.

15. TRADE AND OTHER PAYABLES

Current

| | | | | |
|------------------------------|--------------|--------------|--------------|--------------|
| Trade creditors | 3,487 | 2,546 | 1,458 | 683 |
| Other creditors and accruals | 4,839 | 1,946 | 562 | 285 |
| Cash call payable to JV | - | 2,420 | - | 2,420 |
| | <u>8,326</u> | <u>6,912</u> | <u>2,020</u> | <u>3,388</u> |

16. CONSOLIDATED ENTITIES

| | Ownership Interest | |
|--|--------------------|-----------|
| | 2008 % | 2007 % |
| Parent entity | | |
| Gindalbie Metals Ltd | | |
| Subsidiaries | | |
| Karara Energy Pty Ltd | 100 | 100 |
| Karara Pellet Plant Ltd | 100 | - |
| Karara Rail Pty Ltd | 100 | - |
| Gindalbie (Anketell) Ltd | 100 | 100 |
| Karara Mining Ltd (previously Lotus Minerals Ltd)* | - | 100 |
| Karara Management Services Pty Ltd* | - | 100 |
| DSO Ventures Pty Ltd* | - | 100 |
| Karara Infrastructure Pty Ltd* | - | 100 |

*During the year the Consolidated entity was restructured such that Karara Management Services Pty Ltd, DSO Ventures Pty Ltd and Karara Infrastructure Pty Ltd became subsidiaries of Karara Mining Ltd. On 29 February 2008 the Company lost control of these entities upon the issue of shares in Karara Mining Ltd to Anshan Iron & Steel Group Corporation ("Ansteel"). Details of the loss of control are disclosed at Note 17.

In the financial statements of the Company, investments in controlled entities are measured at cost. Joint venture operations are disclosed at Note 22.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
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17. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

All entities included below are subject to joint control as a result of governing contractual arrangements.

| Major shareholdings in jointly controlled entities | Country of incorporation | Principal activities | Reporting date | Ownership interest | | Carrying value of investment | |
|--|--------------------------|----------------------|----------------|--------------------|-----------|------------------------------|----------------|
| | | | | 2008 % | 2007 % | 2008 \$'000 | 2007 \$'000 |
| Karara Mining Ltd | Australia | Iron ore development | 30 June | 66.67 | 100 | 32,775 | - |
| Karara Management Services Pty Ltd | Australia | Iron ore development | 30 June | 66.67 | 100 | - | - |
| DSO Ventures Pty Ltd | Australia | Iron ore development | 30 June | 66.67 | 100 | 14,500 | - |
| Karara Infrastructure Pty Ltd | Australia | Iron ore development | 30 June | 66.67 | 100 | - | - |
| | | | | | | <u>47,275</u> | <u>-</u> |

While Gindalbie Metals Ltd legally holds a 66.67% interest in the Karara Group (comprising the above four entities) as at balance date, the entities are subject to joint control as the Shareholders Agreement states that at all times the shareholders (Gindalbie Metals Ltd and Anshan Iron & Steel Group Corporation ("Ansteel")) have equal voting rights without regard to the number of shares held by each. Accordingly Gindalbie Metals Ltd does not have the ability to unilaterally control, and therefore consolidate the investment in accordance with AASB 127 'Consolidated and Separate Financial Statements'.

Joint control commenced on 29 February 2008 upon the issue of shares in Karara Mining Ltd to Ansteel after payment of the first subscription instalment. The subscription instalment schedule and change in ownership interest is as follows:

| | Ansteel Contribution \$'000 | The Company Contribution \$'000 | The Company ownership interest before contribution % | The Company ownership interest after contribution % |
|---|--------------------------------|---------------------------------------|---|--|
| February 2008 | 50,000 | - | 100.00 | 80.77 |
| April 2008 | 55,000 | - | 80.77 | 66.67 |
| July 2008 | 123,380 | 18,380 | 66.67 | 50.00 |
| October 2008 | 143,680 | 143,680 | 50.00 | 50.00 |
| | | | In aggregate | The Company share |
| | | | 2008 \$'000 | 2007 \$'000 |
| Net assets of jointly controlled entities | | | | |
| Current assets | | | 85,372 | - |
| Non-current assets | | | 73,568 | - |
| Current liabilities | | | (11,361) | - |
| Non-current liabilities | | | <u>(11,619)</u> | <u>-</u> |
| Net assets | | | <u>135,960</u> | <u>90,645</u> |
| Share of jointly controlled entities' profit | | | | |
| Revenue | | | 2,216 | - |
| Net operating costs | | | <u>(1)</u> | <u>-</u> |
| Operating profit | | | 2,215 | - |
| Net finance costs | | | (1,858) | - |
| Income tax expense | | | <u>(11,619)</u> | <u>(7,746)</u> |
| Loss after taxation | | | <u>(11,262)</u> | <u>(6,270)</u> |
| Share of contingent liabilities and expenditure commitments of jointly controlled entities | | | | |
| Capital commitments | | | 84,643 | - |
| Other commitments | | | <u>950</u> | <u>633</u> |
| | | | <u>85,593</u> | <u>57,064</u> |

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| | Consolidated | | Company | |
|--|----------------|-----------------|-----------------|-----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| 18. RETAINED EARNINGS/(ACCUMULATED LOSSES) | | | | |
| Accumulated losses at beginning of year | (25,746) | (22,868) | (19,774) | (22,541) |
| Net profit/(loss) attributable to members of the parent entity | <u>44,521</u> | <u>(2,878)</u> | <u>(1,990)</u> | <u>2,767</u> |
| Retained earnings/(Accumulated losses) at end of year | <u>18,775</u> | <u>(25,746)</u> | <u>(21,764)</u> | <u>(19,774)</u> |
| 19. CAPITAL AND RESERVES | | | | |
| (a) Issued Capital | | | | |
| 512,978,850 (2007: 440,878,850) | | | | |
| Ordinary shares, fully paid | <u>121,333</u> | <u>77,880</u> | <u>121,333</u> | <u>77,880</u> |
| Ordinary shares | | | | |
| Movements during the year | | | | |
| Balance at beginning of year | 77,880 | 72,777 | 77,880 | 72,777 |
| Shares issued | | | | |
| - Rights issue | - | - | - | - |
| - Share placement | 39,000 | - | 39,000 | - |
| - Exercise of employee options | 1,503 | 1,501 | 1,503 | 1,501 |
| - Exercise of consultant options | 1,000 | 1,613 | 1,000 | 1,613 |
| - Transfer from share based payments reserve | 1,997 | 1,997 | 1,997 | 1,997 |
| Transaction costs of share issues | <u>(47)</u> | <u>(8)</u> | <u>(47)</u> | <u>(8)</u> |
| Balance at end of year | <u>121,333</u> | <u>77,880</u> | <u>121,333</u> | <u>77,880</u> |

During the year the Company:

- issued 800,000 shares at 12 cents, 200,000 shares at 14 cents, 250,000 shares at 15 cents, 1,050,000 shares at 16 cents, 200,000 shares at 20 cents, 100,000 shares at 22 cents, 300,000 shares at 25 cents, 1,000,000 shares at 35 cents, 300,000 shares at 45 cents, 500,000 shares at 60 cents and 400,000 shares at 63 cents upon exercise of employee options raising \$1,503,500.
- issued 65,000,000 shares at 60 cents to Ansteel raising \$39,000,000.
- issued 2,000,000 shares at 50 cents to Southern Cross Equities raising \$1,000,000 upon exercise of options.

During the comparative year the Company:

- issued 450,000 shares at 12 cents, 200,000 shares at 14 cents, 2,150,000 shares at 15 cents, 1,000,000 shares at 16 cents, 150,000 shares at 18 cents, 50,000 shares at 20 cents, 300,000 shares at 25 cents, 200,000 shares at 32 cents, 890,000 shares at 35 cents, 200,000 shares at 40 cents and 820,000 shares at 45 cents upon exercise of employee options raising \$1,501,000.
- issued 3,584,444 options to Thiess Pty Ltd with an exercise price of 45 cents and an expiry date of 22 January 2009. This issue was made under the Interim Project Alliance Agreement between the Company and Thiess and was ratified by shareholders on 13 April 2006. The options were exercised by Thiess in June 2007 and 3,584,444 shares were issued raising \$1,613,000.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation. Note 27 provides details of shares issued on exercise of options.

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

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| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 19. CAPITAL AND RESERVES (Continued) | | | | |
| (b) Equity Settled Share Based Payments Reserve | | | | |
| Balance at beginning of year | 2,718 | 2,092 | 2,718 | 2,092 |
| Equity settled share based payments | 4,008 | 2,623 | 4,008 | 2,623 |
| Transfer to issued capital on exercise | <u>(1,997)</u> | <u>(1,997)</u> | <u>(1,997)</u> | <u>(1,997)</u> |
| Balance at end of year | <u>4,729</u> | <u>2,718</u> | <u>4,729</u> | <u>2,718</u> |

The equity settled share based payments reserve comprises the value of options granted in the year calculated at grant date using a Black-Scholes model. For options with a future vesting period the option value is brought to account progressively over the term of the vesting period.

20. CAPITAL AND OTHER COMMITMENTS

Capital expenditure commitments

Plant and equipment

Contracted but not provided for and payable:

| | | | | |
|--|---------------|----------|----------|----------|
| Within one year | 29,386 | - | - | - |
| One year or later and no later than five years | <u>27,045</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>56,431</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Operating expenditure commitment

A power supply contract of \$26.28m (2007: nil) per annum for 15 years, beginning no earlier than September 2009 and no later than April 2011 has been entered into by the Consolidated entity.

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report and are payable:

No later than one year

| | | | | |
|--|--------------|--------------|------------|------------|
| Commitment on tenements held by the Company or Consolidated entity | 1,319 | 919 | 370 | 362 |
| Commitment to be met by JV partners | <u>(316)</u> | <u>(278)</u> | <u>-</u> | <u>-</u> |
| Commitment to be met by the Company or Consolidated entity | <u>1,003</u> | <u>641</u> | <u>370</u> | <u>362</u> |

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

21. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

| | | | | |
|----------------------------|---------------|--------------|---------------|--------------|
| Less than one year | 1,342 | 329 | 1,342 | 329 |
| Between one and five years | 6,839 | 1,354 | 6,839 | 1,354 |
| More than five years | <u>5,645</u> | <u>782</u> | <u>5,645</u> | <u>782</u> |
| | <u>13,826</u> | <u>2,465</u> | <u>13,826</u> | <u>2,465</u> |

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

22. INTERESTS IN JOINT VENTURE OPERATIONS

The Consolidated entity has interests in the following joint ventures:

| Tenement Area | Note | Equity Interest | | Activities |
|---------------------------|------|-----------------|------|--------------------|
| | | 2008 | 2007 | |
| | | % | % | |
| Karara Magnetite Project | (a) | - | 100 | Iron Ore-Magnetite |
| Mungada Hematite Project | (a) | - | 100 | Iron Ore-Hematite |
| Mt Mulgine | (b) | 30 | 100 | Tungsten |
| Warriedar Iron Ore Rights | (c) | 60 | 60 | Iron Ore |

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
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22. INTERESTS IN JOINT VENTURE OPERATIONS (Continued)

Notes:

- (a) In the comparative year the Consolidated entity held a 100% interest in the tenements that comprise the Mungada Hematite Project and the Karara Magnetite Project. Ansteel were contributing to a 50/50 unincorporated joint venture on both the Hematite and Magnetite Projects.

On 29 February 2008 the Company lost control of the entities that hold these tenements upon the issue of shares in Karara Mining Ltd to Ansteel. Details of the loss of control are disclosed at Note 17. The Company now accounts for its share in these projects under the proportionate consolidation method.

- (b) Vital Metals Ltd earned a 70% interest in this project over the period.
- (c) The terms of the Warriedar JV with Royal Resources in respect to iron ore required Gindalbie to spend \$1,000,000 over 3 years to earn a 60% interest. This interest was attained during the period.

23. SEGMENT INFORMATION

The Consolidated entity operates in one business segment and one geographical segment, namely iron ore exploration and development 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 statements.

24. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2008 was based on the profit attributable to ordinary shareholders of \$44,520,606 (2007: loss \$2,877,544) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2008 of 499,205,899 (2007: 434,024,850), calculated as follows:

| | Consolidated | |
|--|--------------------|--------------------|
| | 2008 | 2007 |
| | \$'000 | \$'000 |
| Profit/(Loss) attributable to ordinary shareholders | <u>44,521</u> | <u>(2,878)</u> |
| Weighted average number of ordinary shares | 2008 | 2007 |
| | No of shares | No of shares |
| Issued ordinary shares at 1 July | 440,878,850 | 430,884,406 |
| Effect of share placement | 53,101,093 | - |
| Effect of shares issued on exercise of share options | <u>5,225,956</u> | <u>3,140,444</u> |
| Weighted average number of ordinary shares at 30 June | <u>499,205,899</u> | <u>434,024,850</u> |

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2008 was based on profit attributable to ordinary shareholders of \$44,520,606 (2007: loss \$2,877,544) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 508,042,757 (2007: 442,609,618) calculated as follows:

| | | Consolidated | |
|--|------|--------------------|--------------------|
| | Note | 2008 | 2007 |
| | | \$'000 | \$'000 |
| Profit/(Loss) attributable to ordinary shareholders (diluted) | | <u>44,521</u> | <u>(2,878)</u> |
| Weighted average number of ordinary shares | | 2008 | 2007 |
| | | No of shares | No of shares |
| Weighted average number of ordinary shares (basic) | | 499,205,899 | 434,024,850 |
| Effect of share options on issue | 27 | <u>8,836,858</u> | <u>8,584,768</u> |
| Weighted average number of ordinary shares (diluted) at 30 June | | <u>508,042,757</u> | <u>442,609,618</u> |

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
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25. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to credit risk

The carrying amount of the Consolidated entity's financial assets represents the maximum credit exposure. The Consolidated entity's maximum exposure to credit risk at the reporting date was:

| | Consolidated | | Company | |
|---------------------------|--------------|--------|---------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Other receivables | 3,647 | 13,668 | 3,808 | 47,465 |
| Cash and cash equivalents | 102,650 | 16,099 | 46,897 | 15,976 |

The Consolidated entity's most significant receivable accounts for \$608,852 of the trade receivables carrying amount at 30 June 2008 (2007: \$137,400). Jointly controlled entities account for \$1,904,005 (2007: \$nil) of the Company's receivables carrying amount.

Impairment losses

None of the Company's or Consolidated entity's receivables are past due (2007: nil).

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| | Carrying amount \$'000 | Consolidated 2008 | | | Consolidated 2007 | | |
|---|---------------------------|---------------------------------|--------------------------|--------------------------|---------------------------------|--------------------------|--------------------------|
| | | Contractual cashflows \$'000 | 6 mths or less \$'000 | 6 mths or less \$'000 | Contractual cashflows \$'000 | 6 mths or less \$'000 | 6 mths or less \$'000 |
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | <u>8,326</u> | <u>8,326</u> | <u>8,326</u> | <u>6,912</u> | <u>6,912</u> | <u>6,912</u> | |
| | <u>8,326</u> | <u>8,326</u> | <u>8,326</u> | <u>6,912</u> | <u>6,912</u> | <u>6,912</u> | |

| | Carrying amount \$'000 | Company 2008 | | | Company 2007 | | |
|---|---------------------------|---------------------------------|--------------------------|--------------------------|---------------------------------|--------------------------|--------------------------|
| | | Contractual cashflows \$'000 | 6 mths or less \$'000 | 6 mths or less \$'000 | Contractual cashflows \$'000 | 6 mths or less \$'000 | 6 mths or less \$'000 |
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | <u>2,020</u> | <u>2,020</u> | <u>2,020</u> | <u>3,388</u> | <u>3,388</u> | <u>3,388</u> | |
| | <u>2,020</u> | <u>2,020</u> | <u>2,020</u> | <u>3,388</u> | <u>3,388</u> | <u>3,388</u> | |

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

| | Consolidated 2008 | | Consolidated 2007 | |
|---------------------------|---------------------------|----------------------|---------------------------|----------------------|
| | Carrying amount \$'000 | Fair value \$'000 | Carrying amount \$'000 | Fair value \$'000 |
| Other receivables | 3,647 | 3,647 | 13,668 | 13,668 |
| Cash and cash equivalents | 102,650 | 102,650 | 16,099 | 16,099 |
| Trade and other payables | <u>(8,326)</u> | <u>(8,326)</u> | <u>(6,912)</u> | <u>(6,912)</u> |
| | <u>97,971</u> | <u>97,971</u> | <u>22,855</u> | <u>22,855</u> |

| | Company 2008 | | Company 2007 | |
|--|---------------------------|----------------------|---------------------------|----------------------|
| | Carrying amount \$'000 | Fair value \$'000 | Carrying amount \$'000 | Fair value \$'000 |
| Investments in jointly controlled entities | 47,275 | 47,275 | - | - |
| Other receivables | 3,808 | 3,808 | 47,465 | 47,465 |
| Cash and cash equivalents | 46,897 | 46,897 | 15,976 | 15,976 |
| Trade and other payables | <u>(2,020)</u> | <u>(2,020)</u> | <u>(3,388)</u> | <u>(3,388)</u> |
| | <u>95,960</u> | <u>95,960</u> | <u>60,053</u> | <u>60,053</u> |

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
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| | Consolidated | | Company | |
|---|---------------------|-----------------------|---------------------|------------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| 26. NOTES TO THE STATEMENTS OF CASH FLOWS | | | | |
| Reconciliation of cash flows from operating activities | | | | |
| Profit/(Loss) for the period after income tax | 44,521 | (2,878) | (1,990) | 2,767 |
| Adjustments for: | | | | |
| Loss on sale of property, plant and equipment | - | 6 | - | 6 |
| Depreciation | 157 | 124 | 157 | 124 |
| Write off of carried forward exploration expenditure | 76 | 6 | 76 | 6 |
| Joint Venture transaction fee received in shares | (250) | - | (250) | - |
| Profit on sale of shares in listed companies | (59) | (253) | (59) | (17) |
| Appreciation in investment | - | (700) | - | (700) |
| Imputed interest on gold asset sale | - | (510) | - | (510) |
| Profit on sale of subsidiary | - | - | (14,500) | - |
| Impairment of intercompany loans | - | - | 13,879 | 2 |
| Reversal of impairment on intercompany loan | - | - | (50) | (2,841) |
| Gain on loss of control of subsidiary | (56,376) | - | - | - |
| Employee option expense | 4,008 | 1,222 | 4,008 | 1,222 |
| Operating profit/(loss) before changes in working capital and provisions | (7,923) | (2,983) | 1,271 | 59 |
| Decrease/(increase) in receivables | 18 | (23) | 16 | (20) |
| Decrease/(increase) in other assets | (3,264) | 123 | (149) | 123 |
| Increase/(decrease) in provisions | 10,296 | 65 | 13 | 65 |
| Increase/(decrease) in other creditors | 40 | (146) | 42 | (141) |
| Net cash from operating activities | <u>(833)</u> | <u>(2,964)</u> | <u>1,193</u> | <u>86</u> |

27. EMPLOYEE BENEFITS

Current

| | | | | |
|----------------------------------|------------|------------|------------|------------|
| Liability for long service leave | 30 | 61 | 30 | 61 |
| Liability for annual leave | 404 | 359 | 404 | 359 |
| | <u>434</u> | <u>420</u> | <u>434</u> | <u>420</u> |

Non Current

| | | | | |
|----------------------------------|------------|------------|------------|------------|
| Liability for long service leave | 23 | 25 | 23 | 25 |
| | <u>23</u> | <u>25</u> | <u>23</u> | <u>25</u> |
| | <u>457</u> | <u>445</u> | <u>457</u> | <u>445</u> |

(a) Defined contribution superannuation funds

The Company makes contributions to several defined contribution superannuation funds. The Company has a legally enforceable obligation to contribute to these plans and contributes at the statutory rate of 9% of gross earnings. The amount recognised as expense was \$645,021 for the financial year ended 30 June 2008 (2007: \$402,658).

(b) Share based payments

The Company has an employee share option plan which was approved at the 2006 Annual General Meeting held on 22 November 2006.

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

All employee options expire on the earlier of their expiry date or three or six months after the termination of the employee's employment. Option issues generally contain a vesting period and exercise is solely at the discretion of the holder. All options are unlisted and cannot be sold or transferred.

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

Summary of options over unissued ordinary shares

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

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27. EMPLOYEE BENEFITS (Continued)

(b) Share based payments

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

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

| | Note | Consolidated | | Company | |
|-------------------------------|------|--------------|--------------|--------------|--------------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | \$'000 | \$'000 | \$'000 | \$'000 |
| Issued ordinary share capital | 19 | <u>2,503</u> | <u>3,114</u> | <u>2,503</u> | <u>3,114</u> |

| Expiry Date | Exercise Price \$ | Number of options at beginning of year | Options granted | Options lapsed | Options exercised | Number of options on issue at end of year | | Proceeds received \$ | Number of shares issued | Weighted average share price at date of exercise |
|--------------------------------------|-------------------|--|------------------|--------------------|-------------------|---|------------------|----------------------|-------------------------|--|
| | | | | | | Vested | Unvested | | | |
| Consolidated and Company 2008 | | | | | | | | | | |
| 30 Apr 2008 | \$0.15 | 250,000 | - | - | 250,000 | - | - | 37,500 | 250,000 | 1.25 |
| 30 Sept 2008 | \$0.14 | 200,000 | - | - | 200,000 | - | - | 28,000 | 200,000 | 1.68 |
| 30 Sept 2008 | \$0.20 | 200,000 | - | - | 200,000 | - | - | 40,000 | 200,000 | 1.49 |
| 30 Sept 2008 | \$0.22 | 100,000 | - | - | 100,000 | - | - | 22,000 | 100,000 | 1.49 |
| 30 Sept 2008 | \$0.45 | 300,000 | - | - | 300,000 | - | - | 135,000 | 300,000 | 1.43 |
| 31 Dec 2008 | \$0.34 | 50,000 | - | - | - | 50,000 | - | - | - | - |
| 30 Sept 2010 | \$0.12 | 1,800,000 | - | - | 800,000 | 1,000,000 | - | 96,000 | 800,000 | 1.47 |
| 30 Sept 2010 | \$0.16 | 2,050,000 | - | - | 1,050,000 | 1,000,000 | - | 168,000 | 1,050,000 | 1.46 |
| 30 Sept 2010 | \$0.25 | 4,100,000 | - | - | 300,000 | 3,800,000 | - | 75,000 | 300,000 | 1.44 |
| 30 Sept 2010 | \$0.35 | 2,000,000 | - | - | 1,000,000 | - | 1,000,000 | 350,000 | 1,000,000 | 1.68 |
| 30 Sept 2010 | \$0.55 | 600,000 | - | - | - | 600,000 | - | - | - | - |
| 30 Sept 2010 | \$0.55 | 1,000,000 | - | - | - | 500,000 | 500,000 | - | - | - |
| 30 Sept 2010 | \$0.63 | 600,000 | - | (200,000) | 400,000 | - | - | 252,000 | 400,000 | 1.68 |
| 30 Sept 2010 | \$0.65 | 300,000 | - | - | - | 300,000 | - | - | - | - |
| 6 Nov 2011 | \$0.60 | - | 3,000,000 | - | 500,000 | - | 2,500,000 | 300,000 | 500,000 | 0.74 |
| 1 Aug 2012 | \$0.90 | - | 1,200,000 | - | - | - | 1,200,000 | - | - | - |
| 1 Aug 2012 | \$0.94 | - | 1,500,000 | - | - | 400,000 | 1,100,000 | - | - | - |
| 1 Aug 2012 | \$1.04 | - | 200,000 | - | - | - | 200,000 | - | - | - |
| 1 Aug 2012 | \$1.31 | - | 2,000,000 | - | - | 700,000 | 1,300,000 | - | - | - |
| 30 Sep 2012* | \$0.95 | - | 1,500,000 | - | - | - | 1,500,000 | - | - | - |
| | | <u>13,550,000</u> | <u>9,400,000</u> | <u>(200,000)</u> | <u>5,100,000</u> | <u>8,350,000</u> | <u>9,300,000</u> | <u>1,503,500</u> | <u>5,100,000</u> | |
| Consolidated and Company 2007 | | | | | | | | | | |
| 30 Nov 2006 | \$0.12 | 50,000 | - | - | 50,000 | - | - | 6,000 | 50,000 | 0.57 |
| 30 Nov 2006 | \$0.18 | 150,000 | - | - | 150,000 | - | - | 27,000 | 150,000 | 0.53 |
| 30 Nov 2006 | \$0.20 | 50,000 | - | - | 50,000 | - | - | 10,000 | 50,000 | 0.53 |
| 30 Nov 2006 | \$0.25 | 300,000 | - | - | 300,000 | - | - | 75,000 | 300,000 | 0.54 |
| 30 Nov 2006 | \$0.32 | 200,000 | - | - | 200,000 | - | - | 64,000 | 200,000 | 0.53 |
| 30 Nov 2006 | \$0.35 | 890,000 | - | - | 890,000 | - | - | 311,500 | 890,000 | 0.56 |
| 30 Nov 2006 | \$0.40 | 200,000 | - | - | 200,000 | - | - | 80,000 | 200,000 | 0.53 |
| 30 Nov 2006 | \$0.45 | 890,000 | - | (70,000) | 820,000 | - | - | 369,000 | 820,000 | 0.57 |
| 30 Nov 2006 | \$0.55 | 890,000 | - | (890,000) | - | - | - | - | - | - |
| 31 Dec 2006 | \$0.15 | 2,150,000 | - | - | 2,150,000 | - | - | 322,500 | 2,150,000 | 0.70 |
| 30 Apr 2008 | \$0.15 | 250,000 | - | - | - | 250,000 | - | - | - | - |
| 30 Sept 2008 | \$0.14 | 400,000 | - | - | 200,000 | 200,000 | - | 28,000 | 200,000 | 0.73 |
| 30 Sept 2008 | \$0.20 | 400,000 | - | (200,000) | - | 200,000 | - | - | - | - |
| 30 Sept 2008 | \$0.22 | 100,000 | - | - | - | 100,000 | - | - | - | - |
| 30 Sept 2008 | \$0.45 | 300,000 | - | - | - | 300,000 | - | - | - | - |
| 31 Dec 2008 | \$0.34 | - | 50,000 | - | - | 50,000 | - | - | - | - |
| 30 Sept 2010 | \$0.12 | 2,200,000 | - | - | 400,000 | 1,800,000 | - | 48,000 | 400,000 | 0.67 |
| 30 Sept 2010 | \$0.16 | 3,050,000 | - | - | 1,000,000 | 2,050,000 | - | 160,000 | 1,000,000 | 0.62 |
| 30 Sept 2010 | \$0.25 | 6,100,000 | - | (2,000,000) | - | - | 4,100,000 | - | - | - |
| 30 Sept 2010 | \$0.35 | 2,000,000 | - | - | - | 1,000,000 | 1,000,000 | - | - | - |
| 30 Sept 2010 | \$0.55 | - | 600,000 | - | - | 300,000 | 300,000 | - | - | - |
| 30 Sept 2010 | \$0.55 | - | 1,000,000 | - | - | 250,000 | 750,000 | - | - | - |
| 30 Sept 2010 | \$0.63 | - | 600,000 | - | - | 400,000 | 200,000 | - | - | - |
| 30 Sept 2010 | \$0.65 | - | 300,000 | - | - | 150,000 | 150,000 | - | - | - |
| | | <u>20,570,000</u> | <u>2,550,000</u> | <u>(3,160,000)</u> | <u>6,410,000</u> | <u>7,050,000</u> | <u>6,500,000</u> | <u>1,501,000</u> | <u>6,410,000</u> | |

The market value of shares under these options at 30 June 2008 was \$1.445 (30 June 2007: \$1.02).

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27. EMPLOYEE BENEFITS (Continued)

(b) Share based payments

Fair value of share options and assumptions

| 2008 | | | | | | | | |
|--|---------------|---------------|--------------|--------------|-------------|-------------|--------------|--------------|
| Grant date | 20/9/07 | 26/9/07 | 23/11/07 | 23/2/08 | 10/4/08 | 10/4/08 | 30/4/08 | 12/5/08 |
| Fair value at measurement date (cents) | 116.95 | 123.60 | 82.78 | 31.99 | 44.0 | 44.0 | 49.23 | 80.68 |
| Share price at grant date (cents) | 166.50 | 156.50 | 129.0 | 61.50 | 76.50 | 76.50 | 83.0 | 120.0 |
| Exercise price (cents) | 131 | 60 | 131 | 104 | 94 | 94 | 95 | 90 |
| Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes formula) (%) | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 |
| Option life (expressed as weighted average life used in the modelling under the Black Scholes formula) (years) | 5 | 4.17 | 4.75 | 4.44 | 4.31 | 4.31 | 4.33 | 4.22 |
| Expected dividends | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Risk-free interest rate (based on national government bonds) (%) | 6.302 | 6.389 | 6.207 | 6.731 | 6.071 | 6.071 | 6.256 | 6.077 |

Fair value of share options and assumptions

| 2007 | | | | | |
|--|--------------|---------------|---------------|---------------|--------------|
| Grant date | 12/7/06 | 25/9/06 | 25/9/06 | 25/9/06 | 22/11/06 |
| Fair value at measurement date (cents) | 33.78 | 21.14* | 22.35* | 19.95* | 28.28 |
| Share price at grant date (cents) | 56.2 | 41.8 | 41.8 | 41.8 | 51.9 |
| Exercise price (cents) | 63 | 55 | 34 | 65 | 55 |
| Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes formula) (%) | 78 | 70 | 70 | 70 | 70 |
| Option life (expressed as weighted average life used in the modelling under the Black Scholes formula) (years) | 4.25 | 4 | 2.67 | 4.17 | 3.8 |
| Expected dividends | Nil | Nil | Nil | Nil | Nil |
| Risk-free interest rate (based on national government bonds) (%) | 5.315 | 5.89 | 5.89 | 5.89 | 5.89 |

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.

*These options were issued subsequent to year end under the terms of various employment contracts entered into prior to 30 June. These options have been valued as at the grant date and have been expensed as at the grant date and over the vesting period, if applicable.

28. RELATED PARTIES DISCLOSURES

Key management personnel disclosures

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

Executive directors

Mr GJ Dixon (Managing Director & CEO)

Non-executive directors

Mr GF Jones (Non Executive Chairman) (reverted from Executive Chairman on 28 November 2007)

Mr DM Murcia

Mr TYBT Abdullah

Mr MJ O'Neill

Mr W Heng (appointed 28 November 2007)

Mr GLW Wedlock (appointed 22 February 2008)

Executives

Mr AT Munckton (General Manager Operations)

Mr PE Freund (General Manager Magnetite)

Mr DJ Stokes (General Counsel & Company Secretary)

Mr B Conrick (Contracts & Infrastructure Manager) (appointed 22 August 2007)

Mr PJ McBain (General Manager Project Development) (appointed 1 May 2008)

Mr DC Southam (Chief Financial Officer) (appointed 19 May 2008)

Mr DP Gordon (Chief Financial Officer) (resigned 16 May 2008)

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28. RELATED PARTIES DISCLOSURES (Continued)

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see Note 6(e)) or capitalised under exploration and evaluation assets per accounting policy Note 3(m) are as follows:

| | Consolidated | | Company | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Short-term employee benefits | 2,441,991 | 1,946,707 | 2,441,991 | 1,946,707 |
| Post-employment benefits | 322,621 | 225,699 | 322,621 | 225,699 |
| Termination benefits | 99,292 | 763,743 | 99,292 | 763,743 |
| Equity compensation benefits | <u>3,770,928</u> | <u>1,086,657</u> | <u>3,770,928</u> | <u>1,086,657</u> |
| | <u>6,634,832</u> | <u>4,022,806</u> | <u>6,634,832</u> | <u>4,022,806</u> |

Equity holdings and transactions

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

| | Held at 1 July 2007 | Purchases or held at date of employment | Received on exercise of options | Sales | Less balance held upon resignation | Held at 30 June 2008 |
|-------------------|------------------------|---|---------------------------------------|-----------|--|----------------------------|
| Directors | | | | | | |
| Mr GJ Dixon | 150,000 | 60,000 | 500,000 | - | - | 710,000 |
| Mr GF Jones | 11,500,000 | 1,500,000 | - | - | - | 13,000,000 |
| Mr DM Murcia | 368,000 | - | 300,000 | - | - | 668,000 |
| Mr TYBT Abdullah* | - | - | 600,000 | - | - | 600,000 |
| Mr MJ O'Neill | 1,000,000 | - | - | - | - | 1,000,000 |
| Mr W Heng | - | - | - | - | - | - |
| Mr GLW Wedlock | - | 50,000 | - | - | - | 50,000 |
| Executives | | | | | | |
| Mr AT Munckton | 1,000,000 | - | 250,000 | 100,000 | - | 1,150,000 |
| Mr PE Freund | 90,000 | 6,000 | 1,000,000 | 230,000 | - | 866,000 |
| Mr PJ McBain | - | 10,000 | - | - | - | 10,000 |
| Mr DC Southam | - | 8,000 | - | - | - | 8,000 |
| Mr DP Gordon | 3,000,000 | - | - | - | 3,000,000 | - |
| | Held at 1 July 2006 | Purchases or held at date of employment | Received on exercise of options | Sales | Less balance held upon resignation | Held at 30 June 2007 |
| Directors | | | | | | |
| Mr GJ Dixon | - | 150,000 | - | - | - | 150,000 |
| Mr GF Jones | 11,500,000 | - | - | - | - | 11,500,000 |
| Mr DM Murcia | 228,000 | - | 140,000 | - | - | 368,000 |
| Mr TYBT Abdullah* | - | - | - | - | - | - |
| Mr MJ O'Neill | 1,000,000 | - | - | - | - | 1,000,000 |
| Mr DL McSweeney | 7,222,494 | - | 2,000,000 | 7,000,000 | 2,222,494 | - |
| Executives | | | | | | |
| Mr DP Gordon | 2,750,000 | - | 1,250,000 | 1,000,000 | - | 3,000,000 |
| Mr AT Munckton | - | - | 1,750,000 | 750,000 | - | 1,000,000 |
| Mr PE Freund | 90,000 | - | - | - | - | 90,000 |

* Mr Tunku Ya'acob Bin Tunku Abdullah is the Managing Director of Melewar Steel Ventures Limited, a company which is 100% owned by Melewar Industrial Group Berhad of which Mr Abdullah is also a director. Melewar Steel Ventures Limited and its associated entities are the second largest shareholder in Gindalbie Metals Limited holding 39,000,000 shares of the Company's issued capital at 30 June 2008.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 30 June 2008

28. RELATED PARTIES DISCLOSURES (Continued)

Options and rights over equity instruments

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

| | Held at 1 July 2007 | Granted as remuneration | Exercised | Other Changes** | Held at 30 June 2008 | Vested during the year | Vested and exercisable at 30 June 2008 |
|---|---------------------------|----------------------------|-----------|--------------------|----------------------------|------------------------------|---|
| Directors | | | | | | | |
| Mr GJ Dixon | - | 3,000,000 | 500,000 | - | 2,500,000 | 500,000 | - |
| Mr GF Jones | 4,000,000 | - | - | - | 4,000,000 | 2,000,000 | 4,000,000 |
| Mr DM Murcia | 600,000 | - | 300,000 | - | 300,000 | 300,000 | 300,000 |
| Mr TYBT Abdullah | 600,000 | - | 600,000 | - | - | 300,000 | - |
| Mr MJ O'Neill | 600,000 | - | - | - | 600,000 | 300,000 | 600,000 |
| Executives | | | | | | | |
| Mr AT Munckton | 750,000 | 1,000,000 | 250,000 | - | 1,500,000 | 800,000 | 800,000 |
| Mr PE Freund | 2,000,000 | - | 1,000,000 | - | 1,000,000 | - | - |
| Mr DJ Stokes | 1,000,000 | - | - | - | 1,000,000 | 250,000 | 500,000 |
| Mr B Conrick | - | 1,000,000 | - | - | 1,000,000 | 400,000 | 400,000 |
| Mr PJ McBain | - | 1,200,000 | - | - | 1,200,000 | - | - |
| Mr DC Southam | - | 1,500,000 | - | - | 1,500,000 | - | - |
| Mr DP Gordon | 2,000,000 | - | 1,000,000 | (1,000,000) | - | 1,000,000 | - |
| | Held at 1 July 2006 | Granted as remuneration | Exercised | Other Changes** | Held at 30 June 2007 | Vested during the year | Vested and exercisable at 30 June 2007 |
| Directors | | | | | | | |
| Mr GJ Dixon* | - | - | - | - | - | - | - |
| Mr GF Jones | 4,000,000 | - | - | - | 4,000,000 | 1,000,000 | 2,000,000 |
| Mr DM Murcia | 810,000 | - | 140,000 | (70,000) | 600,000 | 150,000 | 300,000 |
| Mr TYBT Abdullah | 600,000 | - | - | - | 600,000 | 150,000 | 300,000 |
| Mr MJ O'Neill | - | 600,000 | - | - | 600,000 | 300,000 | 300,000 |
| Mr DL McSweeney (resigned 8 December 2006) | 4,500,000 | - | 2,000,000 | (2,500,000) | - | 1,000,000 | - |
| Executives | | | | | | | |
| Mr DP Gordon | 3,500,000 | - | 1,250,000 | (250,000) | 2,000,000 | 500,000 | 1,000,000 |
| Mr AT Munckton | 2,500,000 | - | 1,750,000 | - | 750,000 | 250,000 | 250,000 |
| Mr PE Freund | 2,000,000 | - | - | - | 2,000,000 | 500,000 | 1,000,000 |
| Mr DJ Stokes | - | 1,000,000 | - | - | 1,000,000 | 250,000 | 250,000 |

* Mr Garret Dixon's service contract included 3,000,000 employee options exercisable at 60 cents, expiring on 6 November 2011 and with vesting dates of 4 June 2007 (500,000), 4 December 2008 (1,000,000) and 4 December 2009 (1,500,000). The issue of these options was subject to shareholder approval which was subsequently received on 26 September 2007.

** Other changes in 2008 represent options that were vested and exercisable upon resignation but were not exercised until after resignation. Other changes in 2007 represent options that lapsed upon resignation or non-exercise.

No options held by key management personnel are vested but not exercisable as at 30 June 2008.

Individual directors and executives compensation disclosures

Information regarding individual directors and executive's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

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

Other transactions with key management personnel

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

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

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
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28. RELATED PARTIES DISCLOSURES (Continued)

Other transactions with key management personnel

The aggregate amounts recognised as expenses during the year relating to key management personnel and their personally-related entities were \$92,331 (2007: \$44,390). Details of the transactions are as follows:

| | Note | Consolidated | | Company | |
|------------------|------|--------------|------------|------------|------------|
| | | 2008 \$ | 2007 \$ | 2008 \$ | 2007 \$ |
| Directors | | | | | |
| Mr DM Murcia | (a) | 39,448 | 44,390 | 27,694 | 38,458 |
| Mr GLW Wedlock | (b) | 52,883 | - | 52,883 | - |

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

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

Liabilities arising from the above transactions

| | | | | | |
|------------------|--|---------------|--------------|---------------|--------------|
| Current payables | | | | | |
| Trade creditors | | <u>13,522</u> | <u>4,391</u> | <u>11,417</u> | <u>4,391</u> |

There were no loans made to key management personnel.

All additional required key management personnel disclosures are contained in the Remuneration Report section of the Directors' Report.

Other related party transactions

Subsidiaries

Details of the loss of control over Karara Mining Ltd, Karara Management Services Pty Ltd, DSO Ventures Pty Ltd and Karara Infrastructure Pty Ltd are disclosed at Note 17.

Loans are made by the Company to its wholly owned subsidiaries. During the financial year ended 30 June 2008, such loans to subsidiaries totalled \$8,481 (2007: \$40,941,984). These loans have been recognised as non current receivables.

Loans to subsidiaries are currently non-interest bearing. In the comparative year loans made by the Company to its subsidiaries, Lotus Minerals Ltd and DSO Ventures Pty Ltd, were charged interest at 8% pa and were repayable on demand. At 30 June 2008, the amount owed to the Company was \$nil (2007: \$40,941,984). The total interest income received by the Company was \$1,857,675 (2007: \$1,848,477).

In 2007 a management fee was charged by the Company to the Karara Iron Ore Project Joint Venture totalling \$2,538,600 representing recharge of administrative costs to the project. Of this amount 50% \$1,269,300 related to the Company's wholly owned subsidiaries.

Joint venture

The Karara Joint Venture makes the results of its activities available to the Consolidated entity as well as to the other joint venturer. No amount is paid by any of the venturers. From time to time, to support the activities of the joint venture, the venturers increase their investment in the joint venture.

A management fee was charged by the Company to the Karara Iron Ore Project Joint Venture totalling \$1,939,380 representing recharge of administrative costs to the project. Of this amount \$1,234,076 related to the Company's share in the Joint Venture.

GINDALBIE METALS LTD AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

29. CONTINGENT LIABILITIES

Details of contingent liabilities are set out below.

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

Contingent liabilities considered remote

Performance guarantees

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

The Company has additional performance guarantees in place with the Department of Industry and Resources for \$125,000 (2007: \$41,000) representing security bonds over ground disturbance applications. These guarantees are secured by term deposits.

The Company also has a \$231,000 performance guarantee in place to secure payment of rent under the Company's lease of premises at its office premises at 216 St Georges Terrace, Perth. The guarantee is secured by a term deposit for \$231,000.

On behalf of its wholly owned subsidiary, Karara Energy Pty Ltd, the Company has a \$500,000 performance guarantee in place for security under the Bilateral Trade Agreement between Karara Energy Pty Ltd and Verve Energy and the Confirmation of that Agreement. The guarantee is secured by a term deposit for \$500,000.

30. EVENTS SUBSEQUENT TO REPORTING DATE

On 31 July 2008 the Company made its first equity contribution to the Karara Iron Ore Project Joint Venture totalling \$18,380,000. On the same day Anshan Iron & Steel Group Corporation ("Ansteel") made its third equity contribution in the amount of \$123,380,000 bringing its total contributions to \$228,380,000. These payments reduce the Company's ownership interest in the Joint Venture to 50% from the 66.67% reported as at balance date. A further gain on disposal by dilution of the Company's interest in Karara Mining Ltd of \$29,514,000 will be recognised in August 2008.

Other than the matter discussed above, there have been no events subsequent to reporting date which would have a material effect on the Consolidated entity's financial statements at 30 June 2008.