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## STOCK EXCHANGE ANNOUNCEMENT

23 January 2007

# GINDALBIE ESTABLISHES INITIAL 14 MT HEMATITE RESOURCE FOR KARARA IRON ORE PROJECT

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### HIGHLIGHTS

- **Initial hematite resource of 14.1 million tonnes at 60.6% Fe announced for Karara Iron Ore Project, contained within nine deposits.**
- **In-fill drilling to continue into the June Quarter of 2007 to upgrade the initial hematite resource to Measured and Indicated status as the basis for Ore Reserve estimation.**
- **Mine design and optimisation work to commence in the March 2007 Quarter for the 3mt/annum Stage 1 Karara Hematite Project.**
- **Ongoing drilling continues to return encouraging results not incorporated in the initial resource.**

### Summary

The Board of Gindalbie Metals Ltd (ASX Code: GBG) is pleased to announce on behalf of the Karara Iron Ore Joint Venture an initial hematite resource estimate for the Stage 1 direct shipping ore (DSO) phase of its **Karara Iron Ore Project** in Western Australia's Mid West region.

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

The initial hematite resource further strengthens Gindalbie's iron ore resource inventory following the significant upgrade to its magnetite resource announced in November last year to 1.29 billion tonnes grading 36.3% Fe.

The hematite resource will form the basis for the development of the proposed 3mt/annum DSO business being developed by Gindalbie and its partner AnSteel at Karara. The Definitive Feasibility Study on the Stage 1 hematite project is well advanced, with mine design and optimisation work scheduled to commence in the March 2007 Quarter. Gindalbie is targeting commencement of hematite mining in the fourth quarter of 2007 and exports through the Port of Geraldton in the second quarter of 2008.

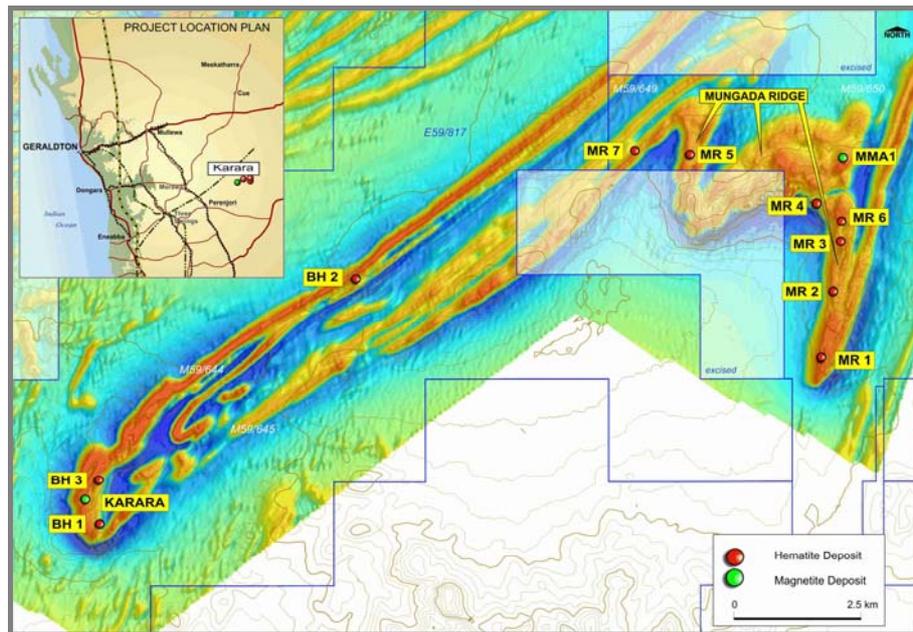


Figure 1:  
Karara Iron Ore Project Aeromagnetic Image Showing Hematite Deposit Locations BH1-3 and MR1-6

### Karara Hematite Project Mineral Resources

The initial Resource Statement for the Karara Hematite Project only incorporates the results of in-fill and step-out drilling carried out along strike extensions for all of the nine initial mineralised zones up to September 2006.

A summary of estimated Resources for each hematite deposit is shown in Table 1. Resource estimation is limited to approximately 120 metres below surface.

Deposit	Inferred Resources Cut-off Grade – 57% Fe						
	Tonnes (000)	Fe %	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P %	S %	LOI %
MR1	1,990	61.3	6.4	1.0	0.17	0.01	4.4
MR2	3,189	59.8	8.5	1.3	0.08	0.04	3.0
MR6	1,112	61.4	6.6	1.9	0.06	0.01	2.4
MR3	2,540	61.3	9.7	0.8	0.08	0.07	1.7
MR4	1,328	60.0	4.7	1.3	0.28	0.23	5.1
MR5	567	60.1	6.1	2.1	0.08	0.03	5.7
BH2	2,627	60.9	8.6	0.9	0.10	0.01	2.1
BH1	415	60.3	8.0	1.7	0.16	0.26	3.6
BH3	291	59.8	8.3	1.2	0.06	0.04	5.0
	<b>14,058</b>	<b>60.6</b>	<b>7.8</b>	<b>1.2</b>	<b>0.11</b>	<b>0.06</b>	<b>3.1</b>

Table 1: Resource Summary

Drilling at several of these deposits has continued between October and December 2006 with approximately 10,000 metres drilled (RC and diamond) during this period aimed at extending the mineralisation and increasing the drill density sufficiently to define Measured and Indicated Resources. This infill drilling will continue during the first half of 2007. The results of the drilling since September 2006 has not been incorporated into the initial resource estimation announced today.

Results received from this recent drilling include:

- BH1 Deposit – **13 metres @ 65.8% Fe** from surface in Hole MKC275
- MR5 Deposit – **34 metres @ 64.0% Fe** from 48 metres in Hole MGC210  
**27 metres @ 63.1% Fe** from 92 metres in Hole MGC242

## Geology and Mineralisation

The Karara Iron Ore Project contains the Windanning Banded Iron Formation (BIF), which also hosts the adjacent Karara Magnetite Deposit (resource of 1.29 billion tonnes at 36.3% Fe). The BIF is typically uprightly folded and steeply dipping and is shown in cross section in Figures 2 and 3.

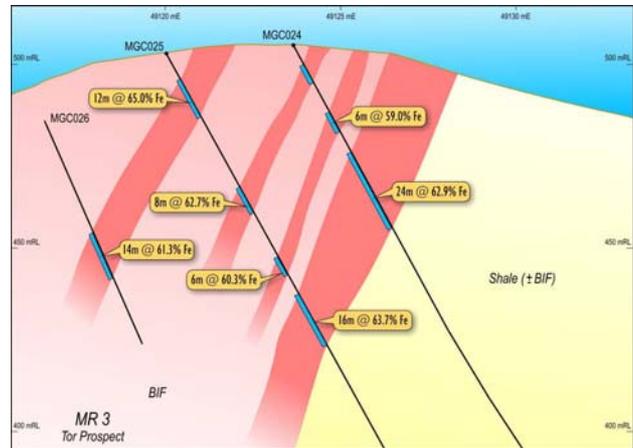
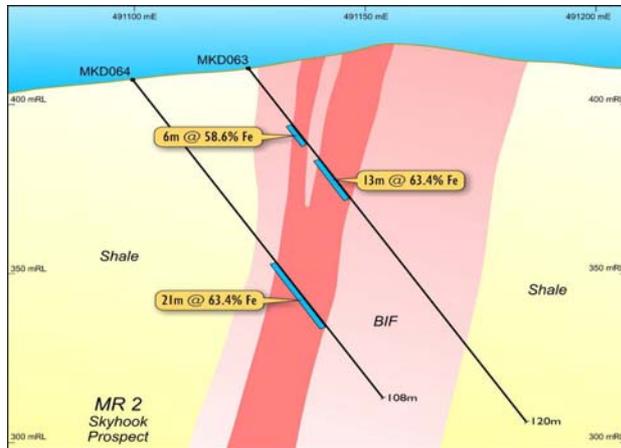


Figure 2: Cross section 6772075N of MR2 – Skyhook

Figure 3: Cross section 6776520N of MR3 - Tor

High grade (+57% Fe) hematite deposits in the area are usually between 5 and 20 metre true width, strataform and steeply dipping, with a strike extent between 150 and 700 metres. Several horizons within the BIF may be mineralised, such as at the MR3 Deposit (see Figure 3), or a single horizon may be mineralised such as at the MR2 Deposit (see Figure 2).

## Further Exploration Programs

Further in-fill drilling programs to upgrade the initial resource estimate to Measured and Indicated status have commenced at all nine deposits and will continue into the June Quarter of 2007. These programs will form the basis for Ore Reserve estimation and mine design and optimisation work, which is scheduled to commence in the March 2007 Quarter.

In addition, drilling programs at additional hematite discoveries at Karara such as the MR7 Prospect (see Figure 1) are planned for 2007. Recent sampling of historic RAB drilling at the MR7 Prospect returned an intersection of 20 metres @ 62.3% Fe, 0.02% P from 30 metres in Hole WD179. This result, in conjunction with the regional geology, highlights the potential of the area to host additional hematite resources.

## Regional Iron Ore Exploration Update

In addition to the ongoing exploration activities being undertaken on the joint venture ground at Karara, the Company is planning a first pass exploration program over the Lodestone Prospect in the March 2007 Quarter. The Lodestone Prospect lies approximately 50 kilometres south-east of the Karara Project. The prospect is 6 kilometres long and up to 0.8 kilometres wide and is similar in character and style to Mt Gibson's Extension Hill Deposit, 10 kilometres to the south.

The Company is confident that additional hematite resources can be identified at Lodestone. Significant potential also exists at Lodestone for a large magnetite deposit similar to that already outlined at Karara.

## Summary

The initial hematite resource estimate for the Karara Project represents a further important milestone in the Company's progress towards becoming a significant mid-tier iron ore producer in Western Australia's Mid West region through its joint venture with AnSteel. The initial hematite resource supports Gindalbie's objective of developing the Karara Hematite Project, with exports targeted to commence at an initial rate of 3mt/annum from early 2008.

This will enable Gindalbie to take advantage of the current strength of demand for high-quality, high-grade hematite iron ore in world markets and generate early cash flow to support its broader objective of developing the 8mt/annum Karara Magnetite Project, which is targeted to commence production by late 2009.

### **Background - AnSteel**

AnSteel is currently one of China's largest steel producers and is the major producer in the north-east region of China, with crude steel production of 13 million tonnes, annual sales revenues in excess of US\$11 billion and a profit of approximately US\$1.5 billion in 2005.

Under current Chinese central government policies, AnSteel is considered to be one of the country's key growth companies and has strong support in securing new sources of long-term iron ore supply through international investment.

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

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### **Competent Person Compliance Statement**

*The information in the report to which this statement is attached that relates to the Mineral Resource is based on information compiled by Felicity Hughes and Andrew Munckton who are Members of the Australasian Institute of Mining and Metallurgy. Andrew Munckton is employed by Gindalbie Metals Ltd. Felicity Hughes is an independent Geological Consultant.*

*Felicity Hughes and Andrew Munckton have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Reserves". Felicity Hughes and Andrew Munckton consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.*