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Gindalbie Metals Limited and its joint venture partner, AnSteel, have agreed to defer completion and delivery of the final Bankable Feasibility Study for the Karara Iron Ore Project in Western Australia until August 2007. What are the key components of the BFS? Why has it been necessary to extend the delivery date of the study?

**MD Garret Dixon**

Over the next six months, the key components of the BFS we will focus on are the simplification and finalisation of the process flow sheet, ore reserve estimation, detailed mine design and further detailed engineering for all components of the Project. It is only after this that we can complete capital cost estimations together with economic and financial analysis.

Last month we attended some important joint venture meetings with AnSteel in China. The outcomes of those meetings will shape many aspects of the Karara Project's development and will, I think, in hindsight be seen as an important turning point for the Project. The meetings were very positive and reinforced the commitment on both sides to ensure that we meet our objective of delivering first product from the Karara Magnetite Project in the second half of 2009.

One of the key outcomes of the meeting was the recently announced decision to defer completion and delivery of the final Bankable Feasibility Study until August 2007.

This decision really reflects the enlarged scope of the Project following the resource upgrade last year to 1.29 billion tonnes @ 36.3% Fe. It also reflects the detailed discussions we have now had with AnSteel regarding their concentrate off-take specification arrangements as well as the specifics of engineering, construction and development. But I suppose the most important part of our discussions in China centered on simplifying the flowsheet. The pilot plant testwork results that we recently received indicate that less grinding will be required which should have a huge long-term benefit in terms of reduced capital expenditure and reduced power consumption.

The key message from the joint venture meetings with AnSteel was that we are now moving into a practical implementation phase, and our focus is shifting accordingly to the detail of how we optimise the delivery of this major project. There is no question about the level of commitment on both sides – our concern is more about how we make it happen in the fastest and most efficient manner possible. That includes drawing as much as possible on the resources, expertise and skills of AnSteel as a leading magnetite company. Not many people know that they have been mining and using magnetite for over 80 years.

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How confident are you that you will meet the revised deadline?

**MD Garret Dixon**

We are very confident of meeting the August timeframe. I must emphasise that a lot of excellent work has already been done on the BFS, which is progressing extremely well and is advancing on a partnership basis with AnSteel. It is a real joint venture which really sets us apart in the Australian iron ore sector at the moment. We are genuinely sharing costs, risks, ideas and engineering input on all aspects of the project. For a project of this nature, there could be no better group to be working with. While Australia is a world-leader in hematite mining, AnSteel have an exceptional knowledge base and understanding of magnetite concentrating and its practical use and benefits in blast furnaces.

At the same time as completing the BFS, we will progress the environmental approvals process for both the hematite and magnetite projects, and we will finalise our preferred power solution and shipping arrangements for the project. We have several workable options in this regard, we just need to finalise and lock in the best solution.

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You have specifically mentioned power. Is it a problem for your project? What are the issues?

**MD Garret Dixon**

Magnetite projects need a fair bit of power for the grinding section of the concentrator. Overall, Karara needs about 100 megawatts. Whilst a significant proportion of operating costs is a result of power usage, it must be remembered that we achieve a very high grade iron product of 69% Fe concentrate. The power demand ensures we are an excellent base load customer for power generators and transmitters.

Our engineering work last year demonstrated that we need to have a long term power generation solution, which in Western Australia can only come from coal-fired power stations. Remember that our 1.29 billion tonne resource gives us over 40 years of project life. Gas generated power is too costly and pricing is not available for the length of term that we are looking for. Fortunately, due to our location, we have sourced long term coal-fired power generation options for the project and we are currently in the process of finalising the best alternative.

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You've said that the revised completion timetable accommodates the "expanded project scope". Can you be more specific? Will this postponement have any impact on your original forecast project development costs?

**MD Garret Dixon**

The increase in the magnetite resource and the advice we received from AnSteel regarding their off-take requirements, has resulted in some important changes being made to the process flowsheet for the magnetite project. In addition, as a result of all their magnetite experience, AnSteel made a number of important suggestions regarding optimisation of the flowsheet and concentrator design in order to reduce capital costs and enhance overall project economics. For example, their recommendations to eliminate the flotation circuit and reduce the grinding requirement are all positive for the project.

The AnSteel Mining Design Institute has agreed to conduct a detailed engineering and procurement assessment of the project, including consideration of the modularisation of equipment in China for freighting to the project in Australia. We are looking in detail at these and other initiatives, including the involvement of Chinese groups in the construction process, which would reduce the length of time of construction on site at Karara and greatly enhance the overall project.

At this stage, our base case production rate for the Karara Magnetite Project remains unchanged at 8 million tonnes per annum, however the "expanded project scope" really refers to a holistic approach to improving and optimising the project in collaboration with AnSteel, while at the same time accommodating the technical issues in terms of concentrate off-take, resource size and pilot plant testwork.

It is too early to comment on capital cost estimates, as too many important elements remain to be finalised – including port costs, subject to our final decision on shipping arrangements. At this stage, we can say that we are very confident that the capital cost of the Karara Project will be competitive with major new magnetite projects around the world.

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You foresee no change to the original start-up date for the Magnetite project in the second half of 2009. What is the status of the proposed development of the hematite resource? Will you still be on track to commence production in the December quarter 2007?

**MD Garret Dixon**

We had very positive meetings with AnSteel on our hematite project as well, with the key outcome being the decision to complete the Bankable Feasibility Study on both the hematite and magnetite projects in parallel and in an integrated fashion. The hematite project is progressing well, and overall is much simpler than our magnetite project.

We recently lodged the Public Environmental Review (PER) document for the Karara Hematite Project and the approvals process will proceed in parallel with the BFS over the next 6 months or so. I am very keen to get in to production as soon as we can and hematite is the quickest way to meet this goal. After all, this is why I was recruited to Gindalbie Metals. Realistically, first production from this project will occur during 2008.

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You recently outlined an upgrade to the Inferred Hematite Resource at Karara of 14.1 million tonnes grading 60.6% Fe. How does this result compare with your previous expectations? What is the timing toward developing a mineable reserve? When do you expect to upgrade the current Karara Magnetite resource (1.29 billion tonnes at 36.3% Fe)?

**MD Garret Dixon**

The initial hematite resource was at the upper end of our target range of 10-15 million tonnes of +60% Fe for the initial Karara hematite resource. We would of course like more, but it is very early days.

The 14 million tonne resource is sufficient to underpin our targeted start-up production rate of 1.5 million tonne per annum and we are continuing a very aggressive hematite exploration program at Karara to establish a much larger resource inventory. Our medium term objective is to establish a resource base of ~40 million tonnes and, based on the number of prospects and opportunities in the area, we are very confident that this is achievable. It is simply a question of time and drilling.

On the other hand, the Joint Venture has made the decision not to continue resource extension drilling at the Karara Magnetite Project at this stage, as the 1.29 billion tonne resource is already sufficient to underpin a very substantial mine life. The deposit is so consistent, we expect the resource to convert to Reserves at a very high percentage. Even though we restricted the resource to a depth of 300 metres, our drilling program encountered magnetite mineralisation with the same grade and continuity at 600 metres depth. We are confident that future infill drilling below 300 metres will expand the existing resource base substantially. However, these opportunities will be pursued once the project is in production.

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There are a number of iron ore projects being built in the Yilgarn/Mid-West region of Western Australia. What strategic advantages does the Karara Project have over the others?

## **MD Garret Dixon**

There is no doubt in my mind that the Mid West region will be the next major iron ore region in Australia. This is ironic as not many people know that the first iron ore shipment in Western Australia was by the former Western Mining Corporation from the Koolanooka Mine, which is only 65 km from Karara. As you say, there are several other projects in the area that are being developed. In general, they all have support from China but there are major differences. The major advantages that set Karara apart from the other projects are:

- The size of the magnetite deposit and, therefore, the life of the project. We already have 1.29 billion tonnes which gives the project a mine life in excess of 40 years. Alternatively, we could double production and still have a 20 or 30 year project life. Of course, we could also extend our exploration drilling program, which would undoubtedly result in a further increase in resource;
- The high quality and excellent consistency of the magnetite resource;
- Gindalbie's partnership with AnSteel, one of China's largest steel producers – which represents one of the project's greatest assets. All of the magnetite concentrate and pellets will go into AnSteel's new steel mill, which is already under construction in China;
- Importantly, Karara is not reliant on Oakajee Port being built. While we support Oakajee, we have secured sufficient access through the Geraldton Port to enable shipping of 10 million tonnes per annum;

Our relationship with AnSteel, which is a true joint venture with an Australian and a Chinese company joining forces to build assets in both Australia and China. We will share costs equally with revenue being guaranteed from the parent company of our joint venture partner. We need each other – which is the ultimate definition of a true joint venture.

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Thank you Garret.

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For further information on Gindalbie Metals Limited visit [www.gindalbie.com.au](http://www.gindalbie.com.au) or call Garret Dixon on +61 8 9480 8700.

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