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Gindalbie Metals Limited (ASX Code: GBG) recently announced it had executed a Subscription Agreement with project partner Ansteel to finalise the funding structure for the A\$534 million equity component of the Karara Iron Ore Project. Can you briefly summarise the major terms of the Subscription Agreement? How attractive are the terms for the equity component for Gindalbie shareholders? What is the downside risk for your shareholders?

CEO Garret Dixon

The subscription agreement, following on from the joint venture agreement signed with Ansteel in September which effectively represented a decision to mine, is an important further step for the Karara Project. The subscription agreement has mitigated project financing risk because Ansteel has given an undertaking to effectively fund the entire project. We see this as a critical advantage of the Karara Project in the current global credit and equity market environment.

The Karara Project will cost approximately \$1.8 billion to develop, with 70% of that to be financed through debt and 30% to be contributed as equity by the two partners.

As part of Ansteel's buy-in to half of the project, it has agreed to provide 70% of the equity funding. That means Ansteel puts in \$372 million while Gindalbie only contributes \$162 million.

Ansteel last month made an initial \$50 million payment under the subscription agreement, and then in April this year they make a second \$55 million payment, to be followed by a further payment in July of over \$120 million and their final payment due in October of around \$140 million. Gindalbie's first payment of \$18 million is due in July this year. This will be funded from our existing cash reserves of \$50 million.

It's also worth pointing out that Ansteel has agreed to arrange finance for Gindalbie's equity component of the venture. At Gindalbie's election, we have the option to borrow the money from Ansteel to fund our required contribution to the Project. In total we need to raise approximately \$160 million, which we would expect to achieve on attractive commercial terms. In the current market environment, this is a very good option for Gindalbie as it avoids the dilution of existing shareholders at current market prices.

Overall, this funding arrangement is really a very robust model that supports Gindalbie; with Ansteel's size and market strength as one of China's top two steelmakers, there's no downside risk for us under this arrangement. As I have already said, it also sends a very clear positive signal that, despite the general volatility in global credit and equity markets, the Karara Project is strongly supported and proceeding according to plan.

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What will be Gindalbie's equity in the project once the obligations of the Subscription Agreement have been met? Can you explain the funding structure for the entire project?

CEO Garret Dixon

The project will be a 50:50 joint venture and we have always believed that it is very important to retain that level of ownership. An incorporated joint venture has now been formed between Gindalbie and Ansteel under a new operating company called Karara Mining Ltd.

As I mentioned earlier, the Karara Project will cost approximately \$1.8 billion to develop, with 70% of that financed through debt and 30% contributed as equity by the two partners. Ansteel has also agreed to underwrite the project debt of approximately \$1.2 billion. The major part of the debt will be provided by a leading Chinese bank, and we expect that debt to be provided on attractive commercial terms as well.

Finally, it is worth remembering that Ansteel has agreed to take 100% of the project's production under an off-take agreement. All of these key aspects really highlight the strength and strategic nature of our relationship with Ansteel, which is one of the top two steel makers in China.

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What is the current status of development at the Karara project? What are the important milestones ahead?

CEO Garret Dixon

We've been working very hard on the project and it is probably a lot more advanced than many people realise. For a project of this size and scale you obviously need some key ingredients, such as a world-class orebody, a strong financial and off-take partner, access to funding, and infrastructure such as rail, port and power.

We have already ticked all of those boxes.

We have a 1.4 billion tonne resource and while this is already recognised as world-class we think there is a strong likelihood it will be increased further through our current exploration program. I have already spoken at length about Ansteel and what they bring to the table in terms of funding and product off-take.

In addition, as part of the Bankable Feasibility Study completed last year, we have identified feasible infrastructure solutions for rail, port and power and we are quickly locking these away with hard contracts.

As we've announced previously, we have a power generation contract in place and we're finalising the power transmission contract as we speak. We are also finalising the contracts for our rail infrastructure, rail transport and with the Geraldton Port Authority to enable the export of our first product through Geraldton port.

In the longer term, we look forward to also being able to utilise the Oakajee Port, but I should stress that the development of Karara is not dependent on Oakajee proceeding, even though we support it as a vital port for the future growth of the Mid-West region. Under our current agreement, we can get up to 12 million tonnes per year out through Geraldton port, which satisfies the entire scope of Stage 1 of the project. While we're certainly interested in expanding the project at a later stage, it's important to note that the entire Stage 1 production – both hematite and magnetite – can be accommodated by the capacity at Geraldton Port and is not reliant on any development at Oakajee.

The important remaining milestones for the project are environmental approval and securing the terms for the equity and debt components of the project financing. We're confident that these will be progressively finalised this year.

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What progress have you made on gaining environmental approval for Karara? Are there any challenges?

CEO Garret Dixon

We've been working very hard on securing environmental approval. The West Australian Government conducted a strategic review towards the end of last year into the development of iron ore projects in the Mid West region of WA. One of the key conclusions of that review was that the Government was pre-disposed to support the development of iron ore mining on the company's Karara tenements, which host our main magnetite deposit and several smaller hematite deposits.

Our public environmental review document for the Karara magnetite project is in the very final stages of production and we expect it to be completed within the next two months. This is an important process but it is also a lengthy one and we are already seeing delays with some other projects in WA. This has also been recognised as an issue by the WA Government which last week announced a review aimed at streamlining the whole approvals process for mining projects. We are working closely with the Government agencies to ensure the timely delivery of the approvals for Karara and we are still on track for initial production of magnetite concentrate in 2010.

The Karara Iron Ore Project also involves a smaller start-up phase of mining direct shipping ore (DSO) from a series of hematite orebodies on both our Karara and nearby Mungada tenements. That DSO phase has been out to public environmental review for a period of time and has received overwhelming public support. However, in working with the Government agencies it has become apparent that the tenements which cover the Mungada Ridge present significant environmental impact assessment challenges which may have a short-term effect on the DSO phase.

In light of this we are continuing to work with the Government agencies for a positive outcome and remain confident of being able to start producing hematite from the Karara Iron Ore Project in 2009. However, it may be a case of reaching some sort of compromise regarding those hematite deposits contained within the Mungada Ridge, at least while further studies of the biodiversity of the region are conducted.

The initial DSO phase makes up less than 5% of the Karara Iron Ore Project while the magnetite phase, which the Government has already said it is pre-disposed to support, is going to be the company-maker for Gindalbie and deliver significant returns to shareholders.

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The major iron ore producers have recently agreed with customers to a 65% increase in contract iron ore prices. Will this alter the assumptions you are currently using for the Karara Project? What about the financial impact on the Project at higher iron ore prices?

CEO Garret Dixon

We're fortunate that we have major companies like BHP-Billiton, CVRD and Rio Tinto working hard on our behalf secure higher contract prices, which directly supports emerging iron ore producers like Gindalbie. We certainly support them in the same way and hopefully they can lock it (the 65% increase) away or possibly even higher.

As the announcement's only just come through, we haven't yet been able to do a detailed analysis, but it will make the Karara project significantly more attractive. Our BFS was based on 2007 iron ore prices with no allowance for escalation. If we incorporate the sort of price increase being talked about, the expected return on our project has more than doubled. Importantly, the spot iron ore price is still higher than the contract price, so we strongly expect there to be further price increases. This also appears to be supported by numerous forecasts being published by industry experts and bodes well for a strong iron ore business going forward.

For instance, investment bank Citi recently forecast a further 30% rise in the benchmark iron ore price for 2009, predicting that global iron ore markets would remain tight for the next few years.

Gindalbie's buoyant outlook recently received strong endorsement from someone who understands the iron ore business extremely well – our chairman George Jones, who underlined his support last week by investing more than \$1.2 million buying an additional 1.5 million shares in Gindalbie on-market.

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Thank you Garret.

For further information on Gindalbie Metals Limited visit www.gindalbie.com.au or call Garret Dixon on +61 8 9480 8700.

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