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Gindalbie Metals Limited's (ASX Code: GBG) has received an alternative funding proposal from its joint venture partner, AnSteel with regard to its final equity contribution for the Karara Iron Ore Project in Western Australia. What are the details of the proposal?

Chairman George Jones
The Gindalbie Board has unanimously agreed to accept an offer from AnSteel to place 190.7 million shares at 85c each – a 105% premium to the market price – to raise A$162.1 million. The money will be used by Gindalbie to make its final equity contribution to the Karara joint venture of A$143.68 million and also replenishes our cash reserves following our first equity contribution of A$18.4 million made in July of this year.

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Did you consider any other options and can you explain why is this a good deal for existing Gindalbie shareholders?

Chairman George Jones
When you take into account the current market conditions, I believe this is an outstanding achievement which speaks volumes for the strength of our joint venture relationship with AnSteel.

In considering the reasons for this decision, it's important to take a step back to Gindalbie's strategy when the Joint Venture with AnSteel was first established. Our intention had always been to raise equity to meet our contribution to the Karara Project.

However, I structured the Joint Venture agreement with the option for us to request AnSteel to arrange debt finance instead, in case markets were not conducive to an acceptable equity raising. Most shareholders would be aware we had already triggered that right and asked AnSteel to arrange that finance.

What we did not anticipate was that both equity and credit markets would come under such pressure at the same time. The market volatility caused Gindalbie's market capitalisation to fall considerably, making the terms and conditions being offered by the credit markets for a A$162 million loan highly unattractive from a corporate risk perspective.

When AnSteel subsequently offered to provide equity via a placement at a substantial premium to the market price instead of arranging a loan, this was a very attractive option. The Board spent considerable time weighing up all the pros and cons but, in the end, the option of having a company with a debt-free balance sheet in the current market environment was simply too compelling and, above all, we strongly believe that it is in the best interests of shareholders. It really provides a buffer for Gindalbie from any unforeseen future market events and provides an excellent base to develop Karara and capitalise on other opportunities as they arise.

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What are the key milestones ahead of a final decision?

Chairman George Jones
The placement will be put to a shareholder vote and, if approved, Gindalbie will be debt-free at a corporate level with cash reserves of approximately A$40 million. This will also leave the joint venture company, Karara Mining Limited, with in excess of A$450 million in cash reserves. With this proposal, we are extremely confident that shareholders will see the value and opportunity for us in the current market and understand the advantages I've already outlined.

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If this proposal proceeds as planned what will be AnSteel's stake in Gindalbie?

Chairman George Jones
AnSteel will end up with a 36.28% stake in Gindalbie and be our biggest shareholder, and I could not think of a more supportive shareholder. As our partner in the project and with a large stake in Gindalbie, AnSteel is fully aligned with all shareholders.

Following completion of the placement and the final equity contribution AnSteel will have invested close to A$600 million in Gindalbie shares and Karara equity contributions. This is a substantial commitment on AnSteel's part and shows they are serious about getting Karara up and running as quickly as possible. AnSteel has made it clear to me they want to help Gindalbie to develop into a major resources group, focused on the carbon-steel materials sector.

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Does this arrangement impact your existing production off-take arrangements?

Chairman George Jones
No, the off-take arrangements for the Karara production remain unchanged and are a fundamental part of the Joint Venture arrangement. Signing an off-take agreement is a key condition for the joint venture to proceed forward.

It was always part of the joint venture arrangements that the off-take would be at market rates or what is termed, benchmark prices. We are very close to finalising the details which will provide full transparency on pricing for shareholders.

What is certain is that the high iron content and extremely low impurities of the Karara concentrate means that it will be priced on benchmark fines plus attract a premium due to its exceptional quality. As we move forward in this market I see that high quality iron ore products, such as the Karara concentrate, will continue to be highly sought after by steel mills.

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The spot price for iron ore has recently fallen below US$100/tonne. Has this impacted the economics of the Karara project and in particular your Base Case valuation implied from your Bankable Feasibility Study?

Chairman George Jones
Our Bankable Feasibility Study for Karara was based on 2007 iron ore prices and the project was extremely robust using those prices. As most people would be aware, the major producers this year won an average price rise of about 85% over the 2007 prices. That means the iron ore price could fall significantly from its current contract prices and will still be above the levels that formed the basis of our original modelling, which showed the project to be financially highly attractive.

Overall, this demonstrates the ability of the Karara project to generate extremely good returns, but to also be able to weather a period of lower iron ore prices – as unlikely as I believe that to be.

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There has been much discussion recently around a fall in Chinese demand for iron ore. What is your outlook for the industry and what do you see as the major opportunities and advantages that Gindalbie has in this current environment?

Chairman George Jones
It has become clear that events in the global credit markets and the sudden downturn in China will have severe short-term effects. However, I have had discussions in recent weeks with several senior Chinese business leaders and other experienced China analysts and the overwhelming view is that there is a solid “bottom line” of demand for key raw materials that will continue to underpin and sustain quality Australian resource projects.

It is also becoming apparent that some other iron ore projects will not go ahead, while others will be substantially delayed. What this means is that the forecast supply surplus that many predicted would drive down prices in years to come will likely not eventuate. A more balanced supply-demand equation, with underlying growth, will help sustain commodity prices at higher levels.

The current environment has also highlighted the need to have a strong project and off-take partner; preferably one of the major Chinese steel mills and not a commodities trader.

For companies like Gindalbie – being well funded with a strong partner and already in the development phase - the recent slowdown is already having a noticeable impact in freeing up the tight market for equipment, materials and personnel in the WA resources sector. This has the potential to flow through very quickly to help keep a lid on capital costs for new projects and could even lead to lower operating costs.

I believe that the capital cost environment and the current market is moving decisively in favour of large-scale, high quality iron ore projects which have the backing of a major partner such as Karara. There is a flight to quality and I think Gindalbie is exceptionally well placed to benefit from this.

Now that we have this equity financing solution, management can focus on developing Karara as quickly as possible and meeting our target of hematite production in the second half of 2009 and magnetite production in the second half of 2010.

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Thank you George.

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

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