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There has been a lot of news recently about projects slowing, stopping and even company failures in the resources sector. How is Gindalbie Metals Limited (ASX Code: GBG) faring at the moment with the development of the Karara Iron Ore Project in Western Australia?

Chairman George Jones

There is no doubt there has been a lot more bad news than good news in recent times coming out of the resources sector. One of the major challenges facing companies in this environment is the ability to secure financing, and we've also seen a number of companies carrying significant amounts of debt receive a lot of negative attention in the market.

Fortunately for Gindalbie, we have AnSteel, China's biggest iron ore producer and second-biggest steel maker, as our project partner and a supportive big shareholder in Gindalbie. It is through this relationship with AnSteel that we have project debt financing and equity financing solutions in place. It is also this relationship – which encompasses all the key elements of product off-take, financing support and project development – that differentiates Gindalbie in the current market environment.

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As you mentioned, Gindalbie has secured from AnSteel A\$162 million in financing toward the final payment of its equity share in Karara. Gindalbie's individual cash position following the capital raising will be approximately A\$40 million with no debt. In the current economic environment, is this a prudent use of the company's balance sheet? Where do you see the opportunities to build value for shareholders?

Chairman George Jones

The Board believes that having a solid cash position and no debt in the current corporate environment is extremely prudent. As I mentioned, there have been numerous examples in recent times, both within the resource sector and elsewhere, where high corporate debt levels have caused considerable pain for companies and their shareholders. This is not the sort of risk profile that Gindalbie is prepared to carry. For that reason I strongly urge all shareholders to vote in support of the placement to AnSteel at the shareholder meeting that is likely to be in late January.

As well as Gindalbie's own cash reserves, the joint venture company, Karara Mining Limited (KML), will have approximately \$450 million in cash following the final equity contributions. We see building Karara as quickly and as efficiently as possible as being the best way to generate value for our shareholders. Getting Karara into production should be, and is, our number one priority.

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In exchange for this funding commitment, AnSteel's equity stake in GBG has lifted to 36%. Do you believe this transaction limits GBG's investor appeal?

Chairman George Jones

Having AnSteel as both a major shareholder and a direct partner in Karara means they are fully aligned with the interests of all Gindalbie shareholders. This relationship has been further strengthened by the placement, which clearly demonstrates that AnSteel is seriously committed to developing both the project and the Company. Following this transaction AnSteel will have invested close to \$600 million in Gindalbie and the Project. AnSteel recognises Gindalbie's strength in identifying and developing projects and has made it clear they want to help us develop into a major resources group focused on the carbon steel materials sector.

Having a single big shareholder does not preclude a company growing into a major business and generating significant returns for shareholders. Prime examples in the Australian market are Leighton Holdings, which has Hochtief as a 55% shareholder and Woodside Petroleum, which is 35% owned by Royal Dutch Shell.

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Can you update us on the timetable and status of securing environmental approvals over the Karara project? Why is it taking so long? What milestones remain ahead of first production in Q4 2009?

Managing Director Garret Dixon

We have only recently received some very encouraging updates from the WA Environmental Protection Authority indicating that the end of the process is in sight. The EPA has taken an approach to consider the cumulative impact of both hematite and magnetite mining in the area. This has meant the approvals timing of both projects has come together. Hopefully we will have more news on this in early 2009 but, needless to say, we remain extremely confident of our ability to secure all the necessary Government approvals required for us to be on site in the first half of 2009. This keeps us on track for first hematite production in the second half of 2009 and magnetite production in late 2010.

It is worth remembering that the previous State Government formally said it was “pre-disposed” to approve the development of Karara and the new administration has shown similar, if not more, enthusiasm for this project to go ahead. Gaining approvals does take a long time and the new WA State Government is very mindful of this and is doing what it can to try to streamline the process.

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In a recent address, Reserve Bank of Australia Governor Glenn Stevens said "China's economy has slowed much more quickly than anyone had forecast". There have also been demands from Chinese steel mills to their suppliers to reduce shipments of iron ore in the near-term. Does the health of China's domestic economy and their demand for raw materials have any impact on the Gindalbie-AnSteel alliance and the JV's projected output from Karara?

Chairman George Jones

What we have witness in recent months has been a severe downturn and correction in the commodities market. But what we have also seen along with the downturn in steel demand has been the big iron ore producers reacting positively and very sensibly in moving to cut production. This rapid reaction will help bring stability to the supply-demand equation much quicker than has been witnessed in other downturns. In the longer term we see the growth in China as continuing to underpin strong commodities demand.

China is limited in the amount of quality domestic iron ore production and this is one reason why you are seeing major new steel mills being built near coastal ports to take imported ore feed. AnSteel's new Bayuquan Steel Mill is a case in point. Bayuquan has been built at Yingkou Port because AnSteel does not have sufficient internal ore supplies, and Karara has been earmarked as its major feed source. Bayuquan is AnSteel's newest and most efficient steel mill and they are keen to expand it – something that can only be achieved with expanded Karara output.

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In a weaker Chinese economy, is there any risk to the final A\$1.25 billion project debt financing being sought by the Karara JV partners from the China Development Bank? Are you confident they can underwrite the full amount required to fund development of the Karara project?

Chairman George Jones

We are very confident that, together with AnSteel, KML will be able to lock in the project funding in the first half of next year. The China Development Bank has completed its due diligence and is now looking at syndication and progressing discussions to resolve key terms and conditions for the debt funding.

The requirement for AnSteel to arrange and stand behind the project debt remains a key part of the Joint Venture agreement. Early next year, KML will have cash reserves of approximately \$450 million so we don't see the need to draw down on the project debt for at least another 12 months and possibly longer.

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With the Australian dollar falling more than 30% against the US dollar since July this year, are you considering the possibility of hedging part of your hematite and/or magnetite production? What are the risks of sustained low iron ore prices and a low Australian dollar to the project economics of Karara?

Chairman George Jones

Our Bankable Feasibility Study on Karara was conducted at 2007 iron ore prices – which are a similar level to where a lot of forecasters see the long term iron ore price. At those prices our project is extremely economically robust. You have to remember that there was an 85% price increase from 2007 to 2008. The other important issue that impacts the project is the exchange rate and our BFS was conducted assuming an exchange rate of US75c. Lower exchange rates are positive for Australian exporters and any exchange rate below that level would help cushion the affect of lower iron ore prices. The Board is currently considering all options regarding hedging. Our project loan, however, will be denominated in US dollars; so that when we sell iron ore (also in US dollars) there will be a natural hedge.

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The WA Government has indicated it will take a role in developing the Oakajee Port near Geraldton and will draw on State funding to finance part of the common-user infrastructure. How important is this project in establishing Gindalbie as a Mid-West-based ‘world-class’ iron ore producer?

Chairman George Jones

The WA State Government is taking a proactive approach to Oakajee Port and we support that move. Oakajee is an essential piece of infrastructure that will help open up the Mid West region and provide export opportunities for decades to come. Gindalbie is very supportive of Oakajee and its development timetable fits well with our future expansion plans. To that end, we are prepared to commit up to 15Mtpa of throughput for Oakajee, which would be enough to underwrite half an initial berth development. What is important for investors to remember is that Gindalbie is not reliant on Oakajee, as we have plans in place to ship up to 14Mtpa through Geraldton Port and will be a long term user of that facility.

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As global demand for iron ore slows and expansion plans are delayed amongst the major producers, what do you see as the future for iron ore juniors like Gindalbie? Have you all ‘missed the cycle’?

Chairman George Jones

To paraphrase Mark Twain, reports of the death of the entire junior iron ore sector are greatly exaggerated. While there is some pain being experienced in the iron ore sector at the moment, we see it as a healthy correction that will eventually be seen as a good thing for the industry.

As I mentioned earlier, the fundamentals that will drive iron ore demand long term are still sound and the world’s major steel mills are still keen to see the development of alternative sources of supply to complement supplies from the big three producers.

What we will see is a flight to quality. Karara will produce a magnetite concentrate grading 68.2% Fe and with extremely low impurities that is ideally suited to AnSteel's Bayuquan Steel Mill. It is also a long term, and very cost effective, supply source for them given they own 50% of the project directly and will benefit from its profitability. What the current market does mean is that only a few projects and a few companies will blossom, and Gindalbie will be one of those few.

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How is GBG different from its sector peers?

Chairman George Jones

What we will see is a focus back on fundamentals such as resource, partner, off-take, financing and infrastructure. We have a world-class resource, a fully committed project and off-take partner which is a major steel maker, not a commodities trader, and we have financing and infrastructure solutions in place.

As we make even more progress through 2009, highlighting these fundamentals will be where Gindalbie can clearly differentiate itself from the other 60-80 iron ore development companies that have emerged over the past few years.

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Thank you George & Garret.

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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