

ASX ANNOUNCEMENT: 3 June 2010**Managing Director and CEO on Karara
Funding Arrangements**

Open Briefing with Managing Director and CEO
Garret Dixon



Gindalbie Metals Ltd
Level 9, 216 St Georges Terrace
Perth, WA 6000

In this Open Briefing®, Gindalbie Metals MD and CEO Garret Dixon discusses

- The importance of the upcoming EGMs in securing funding for the Karara Project
- The structure, mechanisms and rationale for the Karara Project loan
- The structure of the recent capital raising

Open Briefing interview:**openbriefing.com**

Gindalbie Metals Limited (ASX Code: GBG) is seeking shareholder approval (EGM, June 16) for various security arrangements relating to the US\$1.2 billion Karara Iron Ore Project Loan Facility. Can you explain these?

MD Garret Dixon

The security structure arrangements we are proposing are typical for project financing transactions. The Karara Project is being developed by Karara Mining Limited (KML), the joint venture vehicle owned equally by Gindalbie and Ansteel. As such the Project Loan Facility is in the name of KML. The loan is secured against the project, like any normal project debt facility. For that to be effective Gindalbie and Ansteel, as the two owners of KML, have each put up their shares in KML to provide that further security during the loan period. In a separate role, Ansteel has agreed to stand behind the whole debt facility as effectively a guarantor. It is this Ansteel guarantee that provides KML with access to the 12 year, commercially competitive loan. In recognition for Ansteel's overall guarantee, Gindalbie has agreed for Ansteel to also have a mortgage over its KML shares in respect of its 50% share of the debt.

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Shareholders are also being asked to approve a Cross Charge. What is this?

MD Garret Dixon

A cross charge is a typical arrangement between parties in a joint venture. Basically it ensures that if one party incurs costs on behalf of the joint venture, then the other party has the right to recoup their share from the other party. It also similarly applies if one party defaults under the JV.

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Are these types of security arrangements normal for large-scale and capital intensive projects such as Karara?

MD Garret Dixon

These sorts of arrangements are very standard for any project loan facility. In a way, they are no different to the security a bank takes for a typical home mortgage. Think for a moment of Ansteel and Gindalbie as two people buying a home. They jointly buy a home, jointly borrow the money and the bank takes security over their respective shares in the home. But then Ansteel, as the wealthier person in this analogy, provides a guarantee for the whole loan in the event of a default. Bearing in mind, the security arrangements involving Ansteel are all second-ranking. The primary security, as in any project debt or home mortgage, rests with the bank in the event of any default.

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How are these security arrangements and this debt facility a good deal for shareholders?

MD Garret Dixon

It is because of Ansteel's financial strength, reputation and being the second biggest steelmaker in China, that we have been able to access such a competitive loan facility for Karara. Gindalbie, as a smaller company, would not have been able to do this on its own. Again it is no different to the two people buying a house where one has a very good credit rating and history with the bank and the other doesn't. Without the help of one being guarantor, the other would not get such a good deal, or indeed may not be able to borrow the money at all. In the post-GFC environment the loan facility provided by China Development Bank and Bank of China is a very good deal for Karara, Ansteel, Gindalbie and our shareholders. At the end of the day, it means the project is financed and KML can continue building it as fast as it can.

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Does this mean AnSteel effectively 'controls' 100% of the Karara until the loan is paid?

MD Garret Dixon

Absolutely not. The ownership structure of Karara does not change. KML is 50% owned by Gindalbie and 50% owned by Ansteel. It is run by a Board of Directors which has two representatives from Gindalbie and two representatives from Ansteel. This is a true 50-50 partnership – with no casting votes at board level we must agree on everything. The security measures simply form part of those security arrangements that are only triggered in the event of a loan default.

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You are also seeking some shareholder approvals at a separate EGM (June 28) to finalise the recent capital raising of between \$175M and \$206.4M via various equity placements and an SPP. How are the funds to be spent?

MD Garret Dixon

We were very pleased with the raising as it was oversubscribed at a time when the Resource Super Profits Tax and Europe issues were weighing on the market. The funds are going to put Gindalbie in a very strong financial position during the next 12-18 month construction phase for Karara.

Essentially the money will be used to fund our equity share of the revised construction cost estimate for Karara and our equity share of the working capital requirements.

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Are you concerned about dilution to existing shareholders?

MD Garret Dixon

We always act in the best interests of all our shareholders and have tried to balance the needs of all shareholders and the company's long-term future.

This equity funding strategy will allow Gindalbie to significantly strengthen its shareholder base by adding a number of quality, supportive, long-term investors to its register. We have a large retail shareholder base and recent evidence shows that an equity raising of this size would not have been achievable through a straight share placement to existing shareholders. A company of our size should have a stronger institutional shareholding which is more in line with the company's position as an ASX-200 company.

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You have described the proposed security arrangements and the various funding arrangements as being "interdependent". Could you explain what this means?

MD Garret Dixon

This is a critical part of the whole equation. Basically the share placements, project loan facility and share purchase plan are reliant on all the resolutions being passed at both EGMs. If one part does not get approved, nothing goes ahead, including the SPP. The biggest risk, of course, is that all these aspects need to be approved to secure the Project Loan Facility. If we do not get that loan facility finalised, it places the whole Karara Project at risk. It is easiest to think of the resolutions as the basis for a total financing package for the project.

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Has the recent fall in the Australian dollar changed any of the project funding parameters?

MD Garret Dixon

The recent fall in the A\$ has worked very much in our favour. The capital raising we have undertaken has been based on the exchange rate remaining at US\$0.91 for the next 18 months. Any downward movement from that point just provides us with an additional financial buffer going forward. However as quickly as the Australian dollar may fall against the US dollar, it may also increase. We believe Gindalbie has adopted a prudent approach for the ultimate benefit of shareholders.

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Why has Gindalbie called two shareholder meetings? Wouldn't it be more efficient to call one meeting?

MD Garret Dixon

The Karara Project is moving at a frenetic pace. Most importantly we needed to hold a shareholders' meeting as early as possible in June to consider the project loan security documents. The approval of security is critical in order for the debt funding to be available for drawdown so we do not delay progression of Karara.

The shareholder meeting for the equity placement approvals could not be brought forward to the earlier meeting date. Given that an equity raising cannot be fixed to a certain day (due to market volatility) it was considered more important to lock away the security approval meeting. The cost of delaying the project due to a delay in loan funds is far more expensive than the additional impost of a shareholders meeting and the associated documentation.

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Thank you Garret.

For more information about Gindalbie Metals, visit gindalbie.com.au or call Garret Dixon or Michael Weir on +61 8 9480 8700.

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