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STOCK EXCHANGE ANNOUNCEMENT & MEDIA RELEASE

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GINDALBIE AND ANSTEEL ANNOUNCE LANDMARK AGREEMENT TO LOCATE KARARA PELLET PLANT IN NORTH- EASTERN CHINA

Gindalbie Metals Ltd (**ASX: GBG**) and its joint venture partner, Anshan Iron and Steel Group ('AnSteel'), today announced that they had agreed on a joint proposal to locate the 4mt/annum Pellet Plant for the Karara Iron Ore Project adjacent to a major new steel mill to be constructed by AnSteel in north-eastern China.

AnSteel has earmarked a site for the new Pellet Plant, which would be owned on a 50:50 basis by the joint venture partners, in the port city of Yingkou in north-eastern China, 1km from a major new 5 million tonne per annum steel mill due for completion in 2008. The Karara Joint Venture Pellet Plant will meet a substantial proportion of AnSteel's new steel mill input requirements.

The agreement further enhances the strong relationship between Gindalbie and AnSteel which is underpinned by the joint venture agreement signed on 3 April this year in Canberra for development and financing of the Karara Iron Ore Project in Western Australia's Mid West region. The Karara Project is a major new iron ore development project, with targeted production of 10mt/annum of iron products including hematite, magnetite concentrate and pellets.

Pellet Plant Location

As part of the first phase of the Karara Definitive Feasibility Study, Gindalbie and AnSteel have jointly reviewed the optimal location for the proposed Pellet Plant, with studies comparing the benefits of locating the plant in Geraldton in Western Australia to the proposed location in Yingkou, located in the Liaoning Province of China (*see attached location map*).

This study demonstrated that a 50% capital cost saving could be achieved in constructing the 4mt/annum Pellet Plant in China, where the cost of constructing the plant at the site of AnSteel's new 5mt/annum steel mill are estimated to be in the order of A\$180 million. AnSteel's steel mill location, at the regional port of BaYuQuan, also offers a number of operating cost benefits because of the close proximity to an existing power station, water supply and utilities, and access to competitively priced power and labour. The close proximity of the pellet plant site to AnSteel's new steel mill also offers the potential for close integration of the Karara Project with AnSteel's rapidly growing Chinese steel operations.

On 15 August 2006, AnSteel announced that it had received approval from the National Development and Reform Commission to construct a new 5 million tonne per annum steel mill at a site in BaYuQuan Port in Yingkou. The integrated project will have a combined capacity of 4.93 million tonnes of iron, 5 million tonnes of steel and 4.88 million tonnes of steel products. Major equipment to be installed in the new facility includes two blast furnaces and

auxiliary facilities, one steel mill and ancillary facilities, one 5,500mm heavy plate rolling line, one 1,580mm hot rolling line and one 1,450mm cold rolling line.

The new integrated steel mill represents a key component of AnSteel's growth plans over the next 3-5 years. Already one of China's major steel producers, with current crude steel production capacity of 16mt/annum, AnSteel is completing a merger with Benxi Steel (7mt/annum of crude steel production in 2004), with the merged company, ANBEN STEEL GROUP COMPANY, expected to have total crude steel production capacity of 30mt/annum by 2010.

Under current Chinese Central Government policies, AnSteel is considered to be one of the country's key growth companies and has strong support in securing new sources of long-term iron ore supply through international investment.

Karara Stage 2 Project Infrastructure

As previously outlined, the Stage 2 Karara Concentrate/Pellet Project involves the mining of up to 20mt/annum of raw magnetite ore followed by concentration on site at Karara to produce 8mt/annum of 68.8% magnetite concentrate. This material will be slurried via a 225km pipeline to the Port of Geraldton, from where it will be shipped to the new Pellet Plant at Yingkou in China.

Gindalbie is pleased to advise that it has signed a Memorandum of Understanding (MOU) with the Geraldton Port Authority to facilitate the storage and shipment of both its hematite and magnetite product. Gindalbie's proposal is to export its hematite products through a new shiploader at Berth 5, scheduled for completion within 12 months, and its magnetite products through the development of Berth 7.

The Stage 2 Karara Project is based on the Karara magnetite deposit, for which Gindalbie has announced an initial JORC compliant Inferred Resource of 737 million tonnes at 37.1% Fe. Extension and in-fill drilling is continuing with a target of increasing this resource to in excess of 1 billion tonnes during the second half of 2006.

The Definitive Feasibility Study for the Karara/Concentrate Pellet Project is scheduled for completion by February 2007.

Commenting on the agreement with AnSteel on the Pellet Plant location, Gindalbie's Chairman, Mr George Jones, said: "This important agreement further strengthens the strong bilateral relationship between Gindalbie and AnSteel which will underpin the development of a major integrated iron ore project in the Mid West region of Western Australia."

"The Karara Project continues to benefit from our strong relationship with Ansteel, as demonstrated by the 50% savings in the pellet plant capital costs expected to be achieved by locating the pellet plant in China."

"AnSteel's involvement in the joint venture brings a substantial investment into Western Australia in the development of a new mining and processing operation and new infrastructure," Mr Jones commented. "At the same time, Gindalbie will have the opportunity to secure significant ownership in a major new Pellet Plant located in the heart of one of the world's major steel-making regions in north-eastern China."

"The review completed as part of the Definitive Feasibility Study demonstrated significant capital and operating cost advantages from the location in China. This configuration will not only enhance the overall economics and financial returns from Karara Project but may also lead to an earlier development schedule," he added.

"We look forward to continuing to work closely with AnSteel towards completion of the feasibility studies and implementing this substantial new iron project."

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Proposed location of the Karara Pellet Plant in Yingkou, China (above) and location of the Karara Project in Western Australia (below):

