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GINDALBIE
METALS LTD



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Gindalbie Metals Limited (ASX Code: GBG) recently placed 65 million shares (A\$39 million) with your Karara Project joint venture partner, Anshan Iron & Steel Group Corporation (AnSteel). This will bring available cash to more than A\$60 million and position AnSteel as Gindalbie's second largest shareholder (12.94%). Why has AnSteel chosen to take this placement and what implications does it have for Gindalbie?

CEO Garret Dixon

I'll firstly explain how the placement came about. We've had a joint venture arrangement in place with AnSteel for over 18 months and we've found them to be a great joint venture partner to work with. We've grown closer over that period of time in working together toward delivering our bankable feasibility study for the Karara Project. By taking up the shares, AnSteel saw the opportunity of both supporting Gindalbie and making a strategic investment. We see it as complementing and enhancing the existing joint venture and, of course, further strengthening our share register.

I think the placement also sends a strong message about Ansteel's level of comfort with Gindalbie's management team, assets and corporate development as a new iron ore player. This includes not just the potential of our flagship asset at Karara – which they obviously understand well – but also the growth opportunities available to the Company from the rest of our portfolio of iron ore assets in the Mid West region of Western Australia. We're developing these assets at a number of levels.

AnSteel is one of the four leading steel producers in China but, most importantly, it's also by far the largest iron ore miner in China and therefore, by default, one of the largest iron ore miners in the world. Our joint venture relationship with AnSteel is about providing a long term resource to them – it's not about dealing with a trading company. They're very focused on assisting in developing this project for the benefit of both Gindalbie and AnSteel, and they want to see it developed as quickly as we possibly can. They bring more than 70 years of magnetite experience, with excellent financial resources, so they're a real asset to the joint venture partnership.

Ansteel have set quite ambitious growth targets for themselves, including significantly increasing production over the next few years and Karara is very strategic to their ambitions. Iron products from Karara will in fact provide the bulk of the feed to their new state-of-the-art steel mill located near BaYuQuan Port in north-east China. Construction of this facility, which started around the time the Karara joint venture was signed in April 2006, is already about 50% complete.

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What are your expenditure priorities over the next 12-18 months?

CEO Garret Dixon

Given our focus on getting Karara into production as rapidly as possible, our first priority is completing the bankable feasibility study for both the Karara Magnetite and the Mungada Hematite projects. That's well on track to be completed by the end of August and we remain well within budget.

To date the Joint Venture has spent in the vicinity of A\$45 million on exploration and feasibility work at Karara. Of that, Ansteel has contributed approximately A\$22.5 million under joint venture cash calls since April 2006. This level of expenditure really highlights the scale and significance of this project. Subject to securing final project approvals we have effectively pushed the 'Go' button with iron ore production targeted for commencement in late 2008.

With our stronger cash position, we're also looking to develop our other projects in the area, including prospective exploration targets both within the Joint Venture and in areas where we hold 100% of the iron ore rights. Some cash will be spent on regional exploration work for the future development of Gindalbie – in particular, we've started about A\$5 million worth of drilling, including work at Lodestone, a project about 50 kilometres from Karara.

With A\$60 million in the bank after completion of the Ansteel placement, we should be adequately funded through to securing the equity component of the overall project development cost for the Karara magnetite project. We really don't see any need to be raising capital until such time as a development decision is made.

The final funding strategy for both the Mungada Hematite and Karara Magnetite Projects will obviously be determined once we have completed the bankable feasibility study; however it's important to reiterate that this funding strategy, whatever final form it takes, will effectively be underwritten by Ansteel – which really puts us in a very strong position. In other words, while Gindalbie is really a junior company, this partnership means we can approach the funding process with maximum flexibility, as if we were part of a major multi-billion dollar global corporation.

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Shares on issue will total more than 500 million (506,178,850) following completion of the Ansteel Project. As the Karara Project moves through the development phase and into production, how will you manage your capital requirements (debt & equity) going forward? What are your options?

CEO Garret Dixon

The funds we've secured now will see us through to the completion of all the feasibility study work. At the time of the development decision we'll assess whether we should be funding the project by debt or equity means and that may include hybrids such as convertible notes. There is a strong desire to keep the amount of equity limited to minimise dilution of existing shareholders. For this reason, it is likely that we will look to secure project finance for the development of the hematite project, as a project debt or quasi-debt facility will be easily supported by the strong cash flows that the hematite project will generate.

As we move toward development of the magnetite project it will be necessary, under the existing funding structure, to undertake an equity raising for our share of the equity financing component of the project. We see a large portion of that project equity funding coming from Australia and the US. We had a very strong response from investors during our recent North American roadshow.

In terms of the debt funding component of the magnetite project, we expect that the necessary funds can be sourced from Chinese banks with this portion of the funding underwritten by Ansteel and its strong balance sheet. The underwriting was agreed with Ansteel as part of the Feasibility Study Joint Venture Agreement. Our preferred alternative to project debt funding sourced in China is the bond market in the US.

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The Bankable Feasibility Study for the Karara Project is scheduled for delivery in August 2007. Phase I of the project is development of the Mungada Hematite Resource. What are the key milestones toward achieving first production? What is your development timetable?

CEO Garret Dixon

While the Karara magnetite project is our cornerstone project, the Mungada hematite project is an excellent project by itself. The recently announced 62% increase in resources at Mungada to 22.8 million tonnes @ 61.9% Fe really underpins our development proposal of starting production at 2-3 million tonnes per annum.

We now have enough resources to make sure that this initial production level is certainly workable over an initial five or six year mine life.

At the same time, we are actively exploring for more hematite in the area with at least 12 other strong prospects that we've already identified. We'll continue drilling into the future and we're very confident that we will steadily build our hematite resource inventory - which in turn will enable us to further increase hematite production. However, our priority is clearly to get the project into production as soon as possible.

The next key milestone is the completion of the bankable feasibility study in August, and then the receipt of the environmental mining approvals for our projects. Further on from that, we'll be looking at our various financing decisions and then starting work, hopefully with construction commencing towards the end of this year or early in 2008.

The Mungada Hematite Project is overall a pretty straightforward project and we are still on target for our first shipment through the Geraldton Port later in 2008.

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Phase II is development of the Magnetite resource at Karara. In a recent presentation you referred to this as an "equivalent hematite" mine. Can you explain what this means? How does development of a magnetite resource compare with that of hematite? What are the key points of difference with each?

CEO Garret Dixon

In Australia, we've been lucky to have a large and abundant resource of hematite available. Across much of the rest of the world, magnetite has often been the dominant source of iron ore developments, particularly in China and North America.

Australia has been a bit sheltered from that and the fundamental differences between magnetite and hematite orebodies are probably not that well understood, which is why it's useful to come back to a common denominator. Any iron ore project is really about the iron units you're delivering and the cost of delivering them. Where these iron units come from is not the main issue. Regardless of whether it's a magnetite or hematite project, the size of the resource, its quality and the cost required to deliver it are the main drivers of any project.

With a current JORC compliant resource tonnage over 1.4 billion tonnes, excellent potential to increase the resource above 2 billion tonnes and an extremely low waste to ore strip ratio of 0.5 to 1.0, the Karara Magnetite resource is, I believe, the best magnetite resource in Australia. What we have done to create a better understanding of the project metrics is to consider it as an equivalent hematite operation.

What we did was to compare the cost of concentrating magnetite ore and transporting it, offset by the benefits of having a very low strip ratio, against the cost of producing the equivalent amount of material from a hematite mine, which is more familiar to Australian investors.

What this exercise really revealed was that, in equivalent terms, the Karara Magnetite resource is comparable to a very large hematite resource of more than 550 million tonnes with an average grade of 68-69% Fe at a waste to ore ratio of about 2.7 to 1.0. This makes Karara equivalent to some of the very best iron ore mines in Australia. It is truly a world-class deposit. The extra processing translates to an 'equivalent hematite' mine distance to port of around 500-600 kilometres. Karara is located just 250 kilometres from the port at Geraldton.

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Can you explain your overall approach to the development of the hematite and magnetite projects? What are the main differences between the projects from a development perspective?

CEO Garret Dixon

Both are excellent standalone projects. We can develop our hematite resource very quickly and get that to market by late 2008. Having two separate development teams available allows us to develop these projects concurrently – so developing one won't be detrimental to the progress of the other. The main difference is that the magnetite project requires a lot more infrastructure, taking about two years to develop, with first production scheduled in 2010. At the same time, because of the close physical proximity of the projects, we will clearly take advantage of any logistical or technical advantages arising from sharing certain items of infrastructure, services or equipment. At the end of the day, while the projects will be developed by separate teams, they are both part of the broader joint venture.

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Where does the current Karara Project sit in relation to your broader regional tenement footprint? What opportunities exist in the area beyond Karara? What are your longer-term plans and what potential production growth scenarios do you see in the future?

CEO Garret Dixon

In relative terms, Karara is a small part of our overall land footprint in that we hold some 1,900 square kilometres of iron ore rights over the surrounding area. The joint venture tenure is important to us and the magnetite project is a cornerstone project, but it's not only what Gindalbie's about. As I mentioned, we are spending in the order of A\$5 million this year on an extensive regional exploration program, to better assess targets we've identified, both north and south of the existing joint venture tenements.

One of those areas, some 50 kilometres to the south-east of Karara, is the Lodestone project I mentioned previously. This is a magnetite target of a comparable size to Karara, both in terms of tonnage and physical size, with the deposit being around 5 kilometres long and up to 800 metres wide. We've recently started drilling at Lodestone to determine the deposit's extent and quality of ore. Results are expected to be available in the September quarter.

To the north of Karara, there are several other hematite targets which we'll be pursuing in our own right. We see these targets as having huge potential to deliver Gindalbie further hematite outside the joint venture boundary, and this could provide the company with 100% exposure to additional potential future revenue streams these targets may produce.

Stepping back for a moment, our feasibility study base case numbers see us producing initially 8 million tonnes per annum of iron products from the Karara magnetite project and 2 million tonnes per annum from the Mungada hematite project. Based on the fantastic size of the magnetite resource, we see Karara production being significantly increased once the Oakajee Port is available. Also, as I've mentioned, we see hematite production very quickly ramping up above 2 million tonnes per annum with ongoing exploration success.

Based on the likelihood that the Karara magnetite deposit will grow beyond 2 billion tonnes and the broader exploration potential of our tenements including Lodestone, we see the potential for both magnetite and hematite production to triple by the middle of next decade. Any increase in production at our producing mines will of course represent the next cheapest source of iron ore for the Karara Joint Venture.

We see the longer-term production potential more in the 35-40 million tonnes per annum range, which would potentially rank us alongside the production levels of some of the larger Australian operations. Of course, there's lots of work still to do before we get there, but that is what we will be aiming for.

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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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