

## SECURITIES EXCHANGE ANNOUNCEMENT & MEDIA RELEASE

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### LANDMARK POWER SUPPLY CONTRACT FOR KARARA IRON ORE PROJECT

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Gindalbie Metals Ltd (**ASX: GBG**) is pleased to announce that its subsidiary, **Karara Energy Pty Ltd**, has finalized a long-term power purchase contract with Western Australian electricity utility, **Verve Energy**, which will underpin the supply of power to the Karara Iron Ore Project in Western Australia's Mid West region.

The Western Australian Minister for Energy, the Hon Fran Logan, has granted Ministerial Approval for the contract, which represents a key ingredient in the development and future operation of the Karara Project. The Project is being developed through a Joint Venture company (**Karara Joint Venture**) owned equally by Gindalbie and leading Chinese iron and steel company, AnSteel.

The contract provides price certainty for the consumption of up to about one million megawatt-hours (MWh) per annum of base load power over an initial 15-year period. This is sufficient to meet the power requirements of the Karara Iron Ore Project.

Karara Energy is registered with Western Australia's Independent Market Operator. It will operate as a retailer in the Western Australian power market, with its foundation customer being the Karara Joint Venture. A separate agreement is in place between Karara Energy and the Karara Joint Venture to source power for the Karara Project.

Commenting on the announcement, Gindalbie's Managing Director, Mr Garret Dixon, said: "The finalisation of this contract between Karara Energy and Verve Energy represents a further important milestone in the development of the Mid-West's iron ore resources. It locks in a secure and reliable long-term source of power, which will underpin the Karara Iron Ore Project."

"Power is one of the Project's largest operating costs," Mr Dixon continued. "The Gindalbie Board and our Joint Venture partner, AnSteel, are convinced that this power supply agreement with Karara Energy represents by far the best option for this project and delivers significant benefits over the long term. We now have sufficient power at agreed prices for a 15-year period, which gives us a vital cornerstone to proceed with the Project's development."

Verve Energy's MD, Shirley In't Veld, said: "We welcome the completion of this mutually beneficial contract, which will deliver significant benefits for Verve Energy, the Mid-West community and for the State of Western Australia. At the same time, it will underpin the provision of a source of long-term and reliable power to assist in the development of the Mid West region's resources."

Mr Dixon said the Karara Joint Venture was pleased to be working collaboratively with the Western Australian Government in the development of new infrastructure for the Mid-West region.

"The establishment of Karara Energy and the agreement to source power from Verve Energy will guarantee a baseload customer to underpin the new power infrastructure required to service the many projects already underway in the Mid-West region," he continued. Karara Energy is also working closely with Western Power, to secure the transmission infrastructure which will support the Project."

“Our agreement with Verve and the good relationship we have with the Western Australian Government will play a big part in unlocking the value of the Mid-West's mineral resources”.

Gindalbie and AnSteel recently completed a Bankable Feasibility Study (BFS) for the Karara Iron Ore Project, which includes the mining and processing of the 1.43 billion tonne Karara magnetite deposit and mining and transportation of the 27.1 million tonne Mungada Hematite resource. The power supply contract secures a key input to the Karara Iron Ore Project which has an initial production profile of 8mt/annum of high-grade concentrate and pellets together with 3mt/annum of hematite lump and fines.

Upon completion of the BFS, Ansteel and Gindalbie signed the Karara Joint Development Agreement in Sydney in the presence of the President of The Peoples Republic of China, Mr Hu Jintao and the Prime Minister of Australia, Mr John Howard on 6 September 2007. The Agreement provides the framework upon which the Karara Iron Ore Project will be developed.

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### **Background – Gindalbie Metals Ltd**

Gindalbie Metals is a publicly-listed Western Australian iron ore company, focused on the development of the Karara Iron Ore Project in the State's Mid West region in joint venture with AnSteel. Gindalbie's vision is to become a leading integrated supplier of iron products by the end of this decade – delivering high-quality hematite ore, high-grade magnetite concentrate and blast furnace quality pellets to world markets, in particular the rapidly expanding Chinese steel industry.

A well-established Australian mining and resources company which has been listed on the Australian Stock Exchange (ASX Code: GBG) since 1994, Gindalbie has a strong Australian and international institutional and retail shareholder base to support this growth vision. The realisation of this vision is expected to deliver significant returns to Gindalbie shareholders.

### **Background – Verve Energy**

Verve Energy is WA's leading energy producer. Verve Energy owns and operates power stations in the South West Interconnected System (SWIS), which extends from Kalbarri in the north, east to Kalgoorlie, and south to Albany. Verve Energy's power stations in the SWIS have a capacity to produce over 3200MW of electricity.

Verve Energy owns and operates four major power stations – Kwinana, Cockburn, Pinjar and Muja – and owns a fifth at Collie which is operated by a private company. Verve Energy's smaller power stations are situated at Mungarra, West Kalgoorlie, Geraldton, and joint venture power stations are situated at Tiwest at Kwinana, and Worsley near Collie.

Verve Energy's generating portfolio also includes "green" energy. The Group has wind farms at Albany, Esperance, Bremer Bay, Hopetoun, Denham, Exmouth and another is being built at Coral Bay. Verve Energy also operates solar power plants at Kalbarri and Rockingham, and a pilot biomass plant at Narrogin.

Verve Energy employs about 500 staff and competes against privately-owned energy companies to provide a reliable electricity supply to WA's business and residential customers. Owned by the State Government, Verve Energy has its own Board which reports to the Minister for Energy.

### **Background – Karara Iron Ore Project**

The Karara Iron Ore Project is a substantial new integrated iron ore project in the Mid West region of Australia, which will produce some 11Mtpa of iron products from 2010, including an initial 8Mtpa of magnetite concentrate and pellets from the Karara Magnetite Project and an initial 3.0Mtpa of direct shipping ore from the Mungada Hematite Project.

The Project includes a joint venture pellet plant which will be constructed near a major new steel-making facility being developed by Ansteel in north east China, as well as extensive mining, processing and associated infrastructure in the Mid West region of Western Australia.

The development of the Karara Iron Ore Project – which was granted Major Project Facilitation (MPF) status by the Australian Federal Government last year, is expected to generate significant long-term social and economic benefits in the Mid West region.

The recently completed Karara Bankable Feasibility Study concluded that, based on an initial JORC compliant Ore Resource of 1.43 billion tonnes at 36.3% Fe and an initial Ore Reserve defined as part of the study of 497 million tonnes at 36.3% Fe, the Project would generate an initial after tax free cash flow of A\$9.3 billion and an indicative annual cash surplus after tax of A\$360 million. The Project has a Net Present Value (NPV) using a 9% discount rate of A\$2.3 billion and an Internal Rate of Return (IRR) of 24.6%.

The BFS is based on a 20Mtpa mining operation producing on average 8Mtpa of magnetite concentrate grading 68.2% Fe, 4.7% SiO<sub>2</sub> and 0.01% P, with the initial Ore Reserve sufficient to underpin the first 25 years of production at the proposed 'start up' production rate of 8Mtpa.

Magnetite concentrate from Karara will be shipped to China via a process involving transportation on shuttle vessels to a location off Geraldton for loading onto Capesize vessels which will freight the iron ore concentrate to the port of Yingkou in China, for use in the joint venture pellet plant and Ansteel's sintering operation in the new Bayuquan steel mill.

The BFS for the second part of the Karara Iron Ore Project, the Mungada Hematite Project, concluded that based on an initial Product Inventory of 14.3 million tonnes at 61.5% Fe (resource of 27.1 million tonnes at 61.7% Fe), the Project would generate an initial after tax free cash flow of A\$184 million.

The Project has a Net Present Value using a 10% discount rate of A\$79.6 million and IRR of 27.5%. Direct Shipping Ore from Mungada will be exported at an initial rate of 3Mtpa through the Port of Geraldton directly to China.