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

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The WA Government has deferred allocating budget funds for a proposed 330kv power line upgrade from Pinjar to Geraldton. What impact does this have on the power supply for the Karara Iron Ore Project, which is being developed by Gindalbie Metals Limited (ASX code: GBG) and China's AnSteel?

CEO Garret Dixon

For the start-up of Karara essentially none. Under our power solution for Karara, we have signed a 15-year supply deal with the State Government's power generation arm Verve Energy. This contract will provide power for our initial 10Mtpa start up plus also go a long way towards the first of possible expansions to 16mtpa of iron ore production.

There is an existing network of 132kv power lines all the way to Geraldton that form part of the power grid which services Perth and the South West of WA. Under our original Bankable Feasibility Study we planned to build another 132kv power line from Karara to Eneabba, to connect into that existing power grid. With the Government's previous commitment to upgrade the power line to Geraldton to a 330kv line, the Karara Joint Venture made the decision to upgrade our plans and build our own 330kv line from Karara to Eneabba, which would give us the power infrastructure to expand the project to 30 million tonnes per annum. Our current plans for that 330kv line still remain and we will simply connect into the power grid at Eneabba. The existing power grid should be able to provide all the power we need for our 10Mtpa start-up, although we may need to look at having some temporary additional generation on site to cater for periods of high demand from the power grid.

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Won't this additional generation on site be expensive?

CEO Garret Dixon

We had always planned to install emergency back up power facilities on site to cater for the rare occasions when the power grid or power lines are down. You have to remember that we will have people living in an accommodation facility on site and so need back up power. The actual power generation costs themselves will be higher for the on-site facilities but the extra cost is pretty minimal in the scheme of things for the short period that they will be required.

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Are you confident that the proposed 330kv upgrade to Geraldton will happen, and in a time frame that suits your expansion plans.

CEO Garret Dixon

We are very confident of that outcome. A 330kv power upgrade all the way to Geraldton is a critical piece of infrastructure that will drive the development of the Mid West region. The WA State Government has thrown its full support behind the development of the Karara Project, Oakajee Port, and spoken of its desire for an adjoining industrial park and major industry to support Oakajee. All of these projects are intricately linked – Karara has already stated it is prepared to ship its future expansion tonnages through Oakajee as soon as it is operational – and all these projects require upgraded power infrastructure in the region to reach their full potential. Given the current economic environment we are not surprised at the Government's decision to defer the upgrade, but we are confident it will go ahead and in a timeframe that suits our own plans to expand output from Karara.

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The Karara Joint Venture has received conditional approval recommendations from the Environmental Protection Authority (EPA) of Western Australia for the development of its Karara Iron Ore Project, which includes both a hematite and magnetite phase. The Karara Joint Venture has recently lodged appeals against both of the EPA recommendations. Why have you done this?

CEO Garret Dixon

Firstly, the conditional approval recommendations are a major step forward for the project. We have worked long and hard to get to this point and now the goal of getting the approvals we need to get on site and start building this project is very much in sight. The magnetite and hematite phases, while both part of Karara, were treated as separate projects from an approvals point of view. In terms of Karara, which really is the driving force of this whole project, we were pleased that the EPA report concluded the project could be developed with the implementation of the recommended Ministerial Conditions.

We are appealing, but this really is a standard part of the process. A detailed review of the report highlighted some inconsistencies and ambiguities that we need to sort out. We are also appealing some parts of other minor conditions contained in the report

The other EPA report dealt with the early hematite phase of the project. We had previously removed from assessment the orebodies located on the Mungada Ridge, but pushed ahead with seeking approval for two hematite orebodies located on the Karara Ridge, known as Blue Hills North and Terapod. The EPA report has essentially recommended Blue Hills North, but recommended against the development of Terapod, and this is the key point we are appealing.

For this project a number of Local Governments in the Mid West have indicated to us similar concerns, acknowledging the State's desire to create a conservation reserve in the region, but surprised at the inclusion of yet another orebody into the proposed reserve area, especially when the environmental values appear to be nowhere as comparable as those in the Mungada Ridge area.

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The EPA report shows the Government has proposed to declare a conservation area based around Mungada Ridge. Hasn't the EPA suggested Terapod should be included in that conservation area?

CEO Garret Dixon

The EPA report said that Terapod formed part of the Mungada Ridge, whereas we will appeal on the basis that it is not part of Mungada Ridge when its environmental values are compared with those within the area we have previously withdrawn from assessment. During our discussions with various Government departments through the EPA assessment period, we stated we were prepared to consider relinquishment of the tenement covering the Mungada Ridge, strictly on the basis that the Karara, Blue Hills North and Terapod orebodies and all associated infrastructure were approved for development. Terapod is important to the start-up hematite phase of Karara and we have also identified magnetite mineralisation below the hematite ore that will be important to the main magnetite project, and in fact will be trucked and processed through the Karara processing plant.

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How many other appeals have been received?

CEO Garret Dixon

The number and nature of the appeals are confidential at this stage of the process and we must respect that, however through local contacts and the media we are aware of some of the appeals that have been lodged. The WA Conservation Council lodged an appeal, but we are confident that we have appropriate management strategies in place to address their concerns.

In addition we were very pleased to note that a number of Local Governments have indicated they have appealed on the basis that the extent of the conservation area being proposed is greater than they were expecting and that the inclusion of Terapod seems inconsistent when the environmental values we have described are compared with our Mungada Ridge orebodies that were withdrawn from assessment. The Mid West Shires and Councils have without exception been very supportive of not only the project proposal but the manner in which Gindalbie has approached the conservation and development decision for the Mid West banded iron formations.

Importantly, their concerns reflect the fact that they are keen that the project be allowed to proceed as they understand the significant community impact it will have on their communities as well as the wider region.

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How long will the appeals process take?

CEO Garret Dixon

Now that the appeals have been lodged we have to work through the process with the Appeals Convenor. The Appeals Convenor then makes recommendations on each of the appeals and presents those to the Environment Minister for a decision. From when the appeals were lodged last week, we estimate the process will take about 16 weeks to receive a Ministerial approval for the development to commence.

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Does this appeals process impact your development-to-production timeline for Karara?

CEO Garret Dixon

We have already announced revised site access dates and production start dates based on the previous delays in the approval process. If the time for Ministerial approval sits within the 16-week timeframe we anticipate having site access and being able to start construction in the December Quarter, 2009. That will put us on track for first hematite production in the December half 2010 and first magnetite production in the June half 2011. The other very major news we have received recently that will assist us meeting those targets was Foreign Investment Review Board approval of the share placement to our Karara joint venture partner AnSteel. We are just waiting on approval from Chinese Government authorities and we can complete the A\$162.06 million placement at A\$0.85. The money will allow Gindalbie to make our final A\$143.68 million equity contribution to the project, with the remaining A\$18.38 million added to cash reserves.

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Thank you 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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