

Gindalbie Metals Chairman writes to all Shareholders regarding the proposed Resource Super Profits Tax (RSPT)

Dear Shareholder,

I'm sure all of you will be well aware of the current debate in Australia regarding the Federal Government's so-called "super profits" tax. I would like to make some comments about this tax in general and its specific impact on your Company and our Karara Iron Ore Project.

Karara Project

The Karara Project is the single-biggest resource development currently underway in the Mid West of WA and will deliver major economic benefits for the region, the State and Australia. It will generate some 1,500 construction jobs and approximately 600 direct and indirect long-term jobs. More than half of the \$2 billion capital cost will be invested in building or improving common-user infrastructure such as railway lines, power lines, roads and port facilities.

Based on long-term iron ore price forecasts (not much higher current price) Karara will initially generate around A\$1 billion in annual export revenues, building to A\$3 billion annually as the project grows. Under the existing arrangements Karara will generate approximately \$55 million a year in Government royalties at its start-up rate, rising to \$165 million annually with expansion. These specific royalty payments are in addition to the corporate and other taxes that Gindalbie is also obliged to pay.

While the Karara project is economically robust we do not view the returns as "super profits" – they are merely an acceptable return for the high risk incurred by investors who have backed this project and its development over the past four years.

Proposed Resource Super Profits Tax

Gindalbie supports well thought out reform to our tax system. As a principle, however, any reform proposal should apply only to new investments, not to existing projects or projects such as Karara which are under construction and were committed to under the expectations of the existing system.

Specifically, Karara is caught "mid-stream" by the proposed tax. It will have an additional tax impost but fails to receive any real benefits through accelerated depreciation, Government-provided infrastructure or the exploration subsidy.

The notion that a return above the long term bond rate, currently about 5.7% is a “super profit” defies all investment logic, particularly in the high-risk resources sector. Debt providers understandably want to see returns well above the company’s cost of capital which is more like 12%. In addition, we are making substantial investments in regional, common-user infrastructure. This infrastructure will be available for generations to come and does not have to be built by the Government, yet Gindalbie and its investors receive no rebate, relief or recognition for this investment.

Notwithstanding this likely additional impost, the Karara Project is going ahead with the full support of our Chinese partner Ansteel who needs the Karara concentrates for its steel mills. However the proposed tax changes will have a significant impact, as they will reduce the returns for the project and put planned and possible expansions at risk.

We are fortunate that Karara is such an exceptional long term project. There are many others which may not proceed under the new tax arrangements.

New Iron Ore Industry

Karara is a new-generation project in Australia creating a new market for our natural resources. We are taking what was previously considered a low value and unsaleable iron ore and through considerable investment and value-adding we are producing a premium product. We believe that this is the longer term future of Australia’s iron ore industry as the high grade ores are depleted.

The Australian iron ore industry, including our new magnetite industry, must remain globally competitive. If Australia’s tax regime is inequitable we will be encouraging the development of large overseas projects, such as in Africa, in direct competition with our own projects.

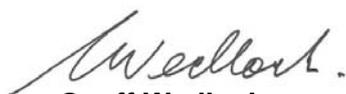
Next Steps

We believe that the Federal Government’s assumed outcomes from the imposition of the RSPT are unjustified and unproven. Further, the Government’s arguments presented in support of the RSPT are misleading and subjective. Already reputational damage has been done to the certainty of business conditions that overseas investors in the Australian resources industry have relied upon. Shareholders can be assured that the Board and management is actively engaged with both Federal and State Governments and Federal Treasury to ensure they understand the potentially damaging impact of the RSPT on Australia’s resources industry.

As one of 14,000 Gindalbie shareholders your voice should also be heard and I would encourage you to make the Government aware of the impact this tax will have on you and your investment.

We look forward to your ongoing support as we continue to have constructive input into this debate with the aim of ensuring an equitable outcome for Gindalbie, its stakeholders and the ongoing prosperity of the Australian economy.

Yours sincerely,



Geoff Wedlock
Chairman