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Can you outline the core elements of Gindalbie's iron ore development strategy and the progress towards achieving that strategy over the past 12 months?

Chairman George Jones

The strategy I outlined at our last Annual General Meeting was based on a two-stage integrated development of our core asset, the Karara Iron Ore Project in Western Australia's Mid West region.

The goals we set included: divesting our non-core gold and base metal assets, focusing our resources on the iron ore strategy, putting in place a quality management team with the right skills and experience for the task ahead, commencing a feasibility study on development of the Karara Iron Ore Project and, if possible, attracting a quality joint venture partner.

It is pleasing to say that all these goals – and more – have been achieved over the past 12 months. Intensive drilling programs have been ongoing throughout the year at both the magnetite and hematite deposits. We have announced a substantial initial magnetite resource of 737 million tonnes at 37.1% Fe for the Karara magnetite deposit. In April, we signed a landmark 50:50 joint venture with AnSteel, China's second largest steel producer, which really underpins the overall project in terms of funding, technical assistance, off-take, sales and marketing. We are well advanced with the Feasibility Study on a 2-stage development of the Karara Iron Ore Project. The sale of 100% of the Minjar gold and base metal

assets for A\$10 million was concluded on 30 June 2006. We have successfully raised some A\$35 million in equity capital to fund our development.

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Can you outline the scope of the project, including the development of both the magnetite and the hematite projects?

Chairman George Jones

The Karara Iron Ore Project will be developed in two stages, with the Stage 1 hematite project scheduled to commence production in 2008 at an initial targeted rate of 2 million tonnes per annum (mtpa). I believe that the Stage 2 Concentrate/Pellet Project can commence in 2009, ahead of our original schedule following our recently announced plans to locate the pellet plant in China.

The Stage 1 project will involve the development of multiple open pit hematite operation utilising a multi-pit blending strategy suitable for meeting customer requirements. At this stage, the average iron grade of the nine currently identified Karara hematite deposits is approximately 62% Fe, with our target to delineate an initial resource by December 2006 on schedule.

Our two year goal is to establish hematite resources of 40 Mt from the existing nine deposits and from new targets to underpin our production scale-up from the rate of 2 mtpa in 2008 to 4 mtpa from 2010.

The development of the Stage 2 Concentrate/Pellet Project is based on the economics of the large-scale Karara magnetite resource where the low-stripping ratio of 0.5 to 1.0 allows the Company to plan for low mining costs for the 25mt/annum bulk mining operations. The low mining costs will be complemented in the processing plant, where the exceptional uniformity of the mineralisation and high weight recoveries (41%) together with the use of High Pressure Grinding Rolls (HPGR) will combine to provide a very efficient and cost competitive beneficiation plant on a world scale. The 8 mtpa of magnetite concentrate, grading 68.9% Fe will be transported to the Port of Geraldton via a 225km slurry pipeline. The preferred route for the 225km slurry pipeline route from Karara to the Port of Geraldton has already been settled and landholders have been consulted.

From Geraldton, 8 mtpa of concentrate will be loaded onto Panamax ships with 4 mtpa of concentrate to be sold FOB at Geraldton to AnSteel and 4 mtpa will be transported by the joint venture to the jointly owned Karara Pellet Plant, to be located in northern China.

It is intended that 100% of this production of 8 mtpa will be underpinned by off-take agreements with AnSteel. At 8 mtpa, the Karara Iron Ore Project will be the largest seaborne magnetite concentrate project in the world. With a shipped magnetite concentrate grade of 68.9% Fe, it will also be one of the highest grade iron ore projects in Australia.

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What is the significance of the decision to locate the Karara Pellet Plant in China? What were the key factors in arriving at this decision?

Chairman George Jones

We see this as possibly the most important strategic decision we have made since entering the joint venture with AnSteel. We have really de-risked the project and, in my view, greatly enhanced the robustness of the overall project economics. AnSteel has estimated that the 4 mtpa pellet plant can be built at a site adjacent to a major new steel mill being constructed in the port of Yingkou, China for A\$180m. That represents a 50% cost saving on the equivalent cost of building the plant in WA.

The Joint Venture will have access to competitive power sources and excellent infrastructure, as well as a low-cost labour force – all of which means we should be able to bring forward the completion date for the pellet plant to 2009 and avoid most of the construction risks inherent within the Australian mining industry.

The strategic and technical advantages of locating the pellet plant in close proximity to its ultimate end-user, AnSteel's new 5 mtpa integrated steel-making facility at the regional port of Yingkou, creates a model for the development of magnetite deposits in Australia.

It should also be remembered that, while A\$180m of the overall project investment will be going to China, the balance of the approximately A\$1 billion capital cost for the Stage 2 project will be directed into the Mid-West region, generating significant benefits and a large number of long-term jobs in the region.

Karara is an integrated project being developed in close collaboration with a major Chinese steel company and its successful development will involve bilateral investment with positive spin-offs for both countries for decades.

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Can you outline the broad terms of the agreement with AnSteel? How important is it to have a working relationship with AnSteel?

Chairman George Jones

The AnSteel joint venture is managed by Karara Management Services Pty Ltd (KMS), a wholly owned subsidiary of Gindalbie. Operating joint venture agreements, sales and marketing agreements for all the expected output, and all necessary financing arrangements are currently being put in place in preparation for a decision to mine being made early in calendar 2007.

The unique arrangements with AnSteel potentially address 100% of the financing requirements for the overall Karara Iron Ore Project, and really demonstrate the strength and value that a major joint venture partner such as AnSteel brings to the table. The key benefit of this structure is that it enables Gindalbie to retain a significant equity stake (50%) in a long term cashflow from a world-class iron concentrate/pellet project with strong margins while limiting its exposure to the capital requirements as a result of the unique financing arrangements which we have put in place with AnSteel.

It was 12 years ago in my former role as Chairman of Portman Limited that I first came in contact with President Liu of AnSteel. It is very pleasing to be able to continue the association in this new venture. AnSteel has grown significantly since my Portman days, and is really leading the new generation of Chinese steel groups. They have expertise in all facets of the business from mining, pelletising and steelmaking, and they bring a depth of experience to the venture.

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Can you give some detail about AnSteel?

Chairman George Jones

AnSteel is the major steel producer in the north-east region of China, with current crude steel production growing to 16 mtpa from its operations based in Liaoning Province.

Under current Chinese Central Government policies, AnSteel - with a 2005 annual turnover of \$US 13 billion - is considered to be one of the country's key growth companies and has strong Chinese Government support in securing new sources of long-term iron ore supply through international investment.

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What are the major capital items and total infrastructure required for the Karara Iron Ore Project to proceed? What capital does the joint venture have to fund and what infrastructure will be provided by third parties?

Chairman George Jones

While infrastructure development is generally a significant component of any bulk commodity project, it is important to emphasise that no major new common-user infrastructure is required for the integrated development of Stages 1 and 2 of the project.

Karara is a historical iron ore mining centre, hence the required logistics chain for the Stage 1 hematite project is already in place and was previously operated by WMC in the 1960's to supplement iron ore mining from the nearby Koolanooka iron ore mining operations.

The Stage 1 Project has the significant advantage of being located adjacent to an existing 85km haul road (in good standing) and 200km rail network, which will both be utilised to transport our Stage 1 hematite product to the Port of Geraldton. The existing rail infrastructure and the expanding port of Geraldton both have the capacity to accommodate our initial Karara hematite production at 2 mtpa without major capital upgrades other than what will be required for increased throughput through the rail unloader and our storage and out loading facilities at the Geraldton Port.

The new shiploader at Berth 5 at Geraldton is scheduled for commissioning in the 4th Quarter of 2007 and will be funded by the Geraldton Port Authority as common-user infrastructure, taking the total investment in Port infrastructure improvement to some \$235m over the past 3 years.

The Stage 2 Concentrate/Pellet Project involves several major capital items which will be funded by Gindalbie and AnSteel as part of the overall project development.

Subject to the Feasibility Study process, these major capital items include: the on-site magnetite concentrator and associated infrastructure; pre-strip and mining equipment, 225km slurry pipeline; the pellet plant in China; and construction of shiploading facilities and ancillary infrastructure at the Port of Geraldton.

Under a Memorandum of Understanding signed recently with the Geraldton Port Authority, the Stage 2 Concentrate/Pellet Project will utilise the new Berth 7 development at the Port, which will have an anticipated capacity of 10 mtpa.

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Can you explain the nature of the Karara Alliance with Thiess Pty Ltd? How does this Alliance benefit the project?

Chairman George Jones

This is a Project Alliance Agreement with Thiess Pty Ltd, one of the world's leading integrated engineering and services groups, covering both the Stage 1 and Stage 2 projects and operating through a dedicated project office in Perth. Most importantly from our perspective, Thiess has recent experience in the development of magnetite deposits as a result of its involvement in Project Magnet in South Australia for OneSteel. Thiess also owns 50% of Promet Engineers, our consulting process engineers to the Karara Iron Ore Project.

The Project Alliance Agreement provides for a collaborative approach to the management and completion of all studies. The key benefit of this approach is that it will facilitate a seamless transition from design to construction, helping to mitigate against industry-wide cost pressures.

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What will be the cost of the Stage 1 hematite development? Under what terms can AnSteel become involved in this component of the project?

Chairman George Jones

We have not yet finalised the capital cost for the Stage 1 hematite project. We will finalise our feasibility study and reserve drilling in December 2006. I am very confident that the Company is on target to deliver sufficient initial hematite resources by December 2006 to form the basis for a solid DSO business generating early cash flow which will help to underpin our longer term growth objectives. To answer your question, AnSteel can become involved in the hematite project upon a decision to commence development of the magnetite project.

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What are the current JORC resources for both the Stage 2 magnetite and the Stage 1 hematite projects? What are your current estimates for the size and quality of the resources required to make the projects viable?

Chairman George Jones

We announced an initial Inferred Resource for the Karara magnetite deposit earlier this year of 737 Mt @ 37.1% Fe, which was independently estimated by RSG Global Consulting Group. This initial resource exceeded by 84% our pre-feasibility study target for the Karara magnetite deposit of 400 Mt. The size and quality of the Karara magnetite deposit will form the basis for a substantial, long-term, iron ore business. When I say long term, I mean 40 years or more.

The initial magnetite resource was based on approximately 1.8km of strike length of the Karara magnetite deposit over widths of 500 metres and to a depth of 300 metres below surface. However, the Banded Iron Formation (BIF) which contains the deposit has a total strike extent in excess of 4km, with significant potential for additions to the resource along strike and at depth with ongoing drilling. We are currently continuing in-fill and step-out drilling programs with a view to achieving a substantial further increase in the Karara magnetite resource to in excess of 1 billion tonnes by December 2006.

As I mentioned previously, our target is to delineate an initial JORC compliant hematite resource by December 2006. Drilling to date of the nine initial Karara hematite prospects, MR1 to MR6 and BH1 to BH3 has returned outstanding results. We are very pleased with how the Karara hematite project is shaping up. These initial nine hematite deposits all outcrop and represented the obvious priority targets from our prospecting activities over the past 18 months. However, they cover only a small portion of the prospective Karara BIF's. Our initial success in these areas highlights the significant exploration upside for additional hematite discoveries at Karara.

Our medium term exploration target for hematite exploration over the next two years is to increase the resource base from existing and new hematite prospects to in excess of 40 million tonnes from within the Karara Joint Venture tenements. We have only just started to scratch the surface in terms of the hematite potential in the Karara area. In the past few months alone, we have discovered several new hematite outcrops at Karara which we aim to drill test by the end of 2006.

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Earlier this year, Gindalbie announced the sale of its Minjar Gold and Base Metal project for A\$10m. What is Gindalbie's current balance sheet situation? What will it cost Gindalbie to complete the Karara Definitive Feasibility Studies?

Chairman George Jones

Currently, we have approximately A\$31m in cash reserves and liquid investments, plus there is a further A\$7.0m still to be received from the sale of our gold assets.

With this strong balance sheet position and the backing of our joint venture partner, AnSteel – which is funding 50% of the feasibility studies – we are fully funded for the next 12 months. This will take us through to completion of the Karara Definitive Feasibility Studies (for both the Stage 1 and Stage 2 projects) in February 2007 and to completion of financing arrangements for the overall project in conjunction with AnSteel.

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Can you outline the major objectives and investment milestones for Gindalbie over the next 12 months?

Chairman George Jones

We expect to announce an upgrade in the Karara magnetite resource during November 2006, updates on our hematite drilling and resource work, results of new exploration programs following the recent discovery of several new hematite outcrops at Karara and the results of the ongoing review of our regional iron ore prospects.

We are on track for the completion of the Definitive Feasibility Study of the Karara Concentrate/Pellet Project in February 2007, together with finalisation of operating joint venture agreements with AnSteel and completion of sales and marketing off-take agreements by June 2007.

We also hope to have all our environmental approvals and financing for the hematite project finalised during the first half of calendar 2007, clearing the way for construction of this project to commence in the September quarter.

The next 12 months will be a pivotal time for Gindalbie and, towards the end of this period, we anticipate being well on our way towards becoming a leading diversified Australian iron ore producer and exporter.

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Thank you George.

For further information on Gindalbie Metals Limited visit www.gindalbie.com.au or call George Jones or David McSweeney on +61 8 9480 8700.

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