

UPDATED KARARA PROJECT CONSTRUCTION COST ESTIMATE

Key Points

- ***Review of the Karara Project construction cost estimate is reaching advanced stages of assessment and is expected to be completed by mid year, as previously announced***
- ***Scope expansions relating to port and power line are expected to account for \$125 million of the increase in forecast capital cost, which sets the project up for its first expansion phase***
- ***In addition, current indications suggest the total Karara Project construction cost estimate is expected to increase in the region of 30%***
- ***Increase reflects higher cost of materials, labour and fuel, and increases in quantities of materials used for construction of the magnetite concentrator***

Gindalbie Metals Limited (ASX: **GBG** – “Gindalbie”) advises that industry-wide cost pressures currently affecting construction and infrastructure projects in Western Australia have resulted in a review of the construction cost estimate of the Karara Iron Ore Project.

The ongoing review process is reaching advanced stages of assessment and is expected to be completed by mid year, as previously announced, together with an update of the operating costs and development schedule.

A portion of the overall construction cost includes investment in the provision of additional infrastructure capacity for an ultimately larger project at Karara. This up-front investment in infrastructure is expected to result in substantial cost savings over the long term as the Project increases production from an initial 8Mtpa of concentrate to its long-term potential of +30Mtpa.

At this stage, in addition to this scope expansion, it is anticipated that the Karara construction cost is likely to increase in the region of 30 per cent. Once finalised this revised cost estimate will be announced to the market together with an appropriate funding arrangement.

These increases are emerging as the detailed design work nears completion and implementation contracts are awarded. Some of these increases in material quantities stem from Gindalbie’s strategic decision to undertake part of the final detailed design work in parallel with the on-site development of Karara, which commenced in late 2009 as soon as final environmental approvals were received. Gindalbie believes this approach will result in substantial benefits, with first production of magnetite scheduled about two years earlier than would have been the case had Gindalbie slowed the pace of development at Karara pending final design of the concentrator.

As a result, Gindalbie and its Karara Project partner Ansteel stand to benefit significantly from the extremely strong demand for magnetite, which has seen prices rise to about \$220 a tonne for Karara’s premium-quality 68% magnetite concentrate ensuring the Project will enjoy robust cash margins.

“All projects in Western Australia are currently subject to significant cost escalations and this situation is almost certainly going to get worse as the resources boom strengthens, pushing up the price of both labour and materials,” Gindalbie Chairman George Jones said.

“I have no doubt that despite the need to increase some quantity estimates for construction of the concentrator, our decision to expedite the development of Karara by proceeding with approvals and site works at the same time as carrying out the design work will ultimately deliver substantial benefits for the Project and for our shareholders.

“This decision will see Karara shipping magnetite two years earlier than would otherwise have been the case had we waited until final design of the concentrator was completed. This will enable Ansteel and Gindalbie to capitalise on buoyant demand and prices for our product.

“It will also mean that the Karara Project will largely avoid what will almost certainly be an even far more damaging inflationary environment for construction projects as the West Australian resources boom gathers momentum. Karara will, I believe, be spared the worst of this costly environment while at the same time generating strong revenues and profit margins.”

“Ansteel remains supportive of the Karara project and is working closely with the Karara Project team and Gindalbie and gives the company its fullest support,” said Mr Yu Wanyuan, Gindalbie Director, and the Chief Financial Officer of Ansteel.

ENDS

Released by :

Nicholas Read / Paul Armstrong
Read Corporate
Telephone: (+61-8) 9388 1474
Mobile: (+61) 419 929 046

On behalf of:

Mr George Jones
Chairman

Mr Michael Weir
Investor Relations Manager
Telephone: (+61-8) 9480 8700
www.gindalbie.com.au

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