

Key Points

- Maiden iron ore shipment from Karara
- Updated Karara Project Construction Cost Estimate and Expansion Study
- Management and Board Changes
- At 31 March, the Consolidated Entity had cash reserves of A\$240.55 million



Loading Karara hematite

Executive Summary

- The first hematite sales from the Karara Project occurred under the Sinosteel Midwest Corporation sales agreement at the end of March.
- As previously reported, the review of the Karara Project construction and operating costs and commissioning schedule is expected to be completed by mid year.
- Karara Project development spend to date totals \$A855.1 million. Draw down of the \$US1.2 billion Karara Project Loan Facility currently totals \$US484.5 million.
- The detailed design for the Karara magnetite concentrator is 88% complete. On site concrete and earthworks are 62% complete. Structural, mechanical and piping early works contracts are underway. The electrical and instrumentation contract is expected to be awarded in June 2011.
- The dual wagon tipper components are due at Geraldton Port in April and structural steel for the storage facility has arrived in Fremantle. Aerial stringing of the 330kV power line is scheduled for the June Quarter following the assembly of 148 towers and the erection of 86 towers. The rail spur package is 42% complete with progress set to accelerate as track laying activities commence during the June Quarter 2011.
- The Karara Joint Venture is preparing to commence scoping studies on a proposed expansion of the Karara Project from its start-up production level of 10Mtpa to potentially 16Mtpa.
- Mr Tim Netscher has been appointed Managing Director and Chief Executive Officer, replacing Mr Garret Dixon, who leaves the Company at the end of April 2011. Mr Shao An Lin was appointed as a Non-Executive Director. Another Independent Non-Executive Director is expected to be appointed in coming months.
- Mr David Richardson was appointed Gindalbie's new Chief Financial Officer, effective from 21 February 2011.

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KARARA IRON ORE PROJECT (Ansteel 50%)

Overview

Gindalbie is developing the world-class Karara Iron Ore Project, 200km east of Geraldton, in joint venture with Ansteel, China's second-largest steel maker and biggest iron ore producer. The project consists of a smaller-scale hematite operation plus a substantial, long-life, magnetite concentrate operation with the potential to produce +30Mtpa for more than 35 years.

Project Construction Cost Estimate and Schedule

As previously report the Karara Project construction cost and operating cost estimate is under review and is expected to be completed by mid year.

Scope expansions relating to port and power line are expected to account for \$A125 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%.

The increase reflects higher cost of materials, labour and fuel, and increases in quantities of materials used for construction of the magnetite concentrator.

The commissioning and production schedule for the magnetite concentrator is also under review and will be completed by mid year.

Total development spend for the Karara Project reached \$A855.1 million at March 31 2011.

The first hematite sales from the Karara Project occurred under the Sinosteel Midwest Corporation sales agreement at the end of March.



Karara Primary Crusher

Project Funding

Debt

\$US484.5 million of the \$US1.2 billion Karara Project Loan Facility had been drawn down at the end of the Quarter.

Negotiations continued with China Development Bank and Bank of China regarding the provision of a debt facility to support the \$A430 million working capital requirements.

Expansion Study

The Karara Joint Venture has approved the commencement of scoping studies on a proposed expansion of the Karara Project from its start-up production level of 10Mtpa to potentially 16Mtpa. The initial phase will include scoping studies to evaluate options and identify the likely viability for expansion, ahead of moving to further stages of study.

Commencing this study now will allow the execution phase to follow-on closely from the current project. This would enable the Project Development Team for the Stage One construction phase to remain in place for the Stage Two expansion, which would result in significant cost savings in terms of consistency and continuity of knowledge and personnel, mobilization, personnel and logistics. This will benefit the Project in the current environment of increasing labour and cost pressures for construction and infrastructure projects in Western Australia.



The Karara Joint Venture has already made a significant up-front investment in the additional infrastructure capacity required to support the increased production rate as part of the Stage One Project. The increased production can be accommodated by the existing rail, port, water and power capacity being developed as part of the Stage One Karara Project. This includes the port facilities being developed at Geraldton, which means that the expansion is not reliant on the completion of the new port at Oakajee.

Project Development



Karara Magnetite Concentrator Plant

Mine Site and Concentrator

The detailed engineering design is at 88% completion and expected to be complete by June 2011. The fabrication of structural steel for Karara has accelerated with the first package delivered to Fremantle during March 2011.

Concrete work is approximately 46% complete with more than 23,000m³ placed. In combination with the associated earthworks this package is 62% complete.

A second early works structural, mechanical and piping (SMP) contract has been awarded to commence installation of the tower mills, secondary crushers, and high pressure grinding rolls. The initial SMP early works contract to install the four ball mills has progressed well with 37% of the package complete and two of the ball mills in place on their pedestals.

The major electrical and instrumentation package tender was put to the market during the Quarter and is expected to be awarded in June 2011.

Work has continued on foundations with the main focus being on tailings thickeners, conveyors, pipe racks and tailings filters in conjunction with previously reported activities. All major pieces of processing equipment are now on site and available for installation. Approximately 40km of bitumen roads have been constructed across site as well as ancillary roads, hardstands and access ways.

The Karara Airstrip has been receiving multiple 50 seat aircraft to accommodate the increase in site work force.

A total of 1940 rooms have been completed for use across four villages with 1226 rooms currently occupied and leaving sufficient capacity to accommodate the major SMP package.

Port

Work has continued to advance site works at Geraldton Port with services relocation for inloading and storage completed.

The piling work for the dual wagon tipper vault is complete and concrete foundations for the ore storage facility are 75% complete with 1700m³ of 2250m³ placed. Early works for the Berth 7 earth works also commenced.

The ship loader for Berth 7 and dual rail wagon tipper supply is progressing in line with schedule requirements with dual wagon tipper major components scheduled to arrive in April 2011.

Structural steel packages for the storage shed arrived in Fremantle in advance of the commencement of erection.

The Port Services Agreement with Geraldton Port Authority is in the final stages of negotiation and is targeted for completion in the June Quarter 2011.



Foundations and footings for Karara storage facility, Geraldton Port

Water

The raw water required for the Karara Concentrator will be sourced from the Parmelia aquifer located at Yandanooka, near Mingenew. An allocation application has been made and a licence is expected to be granted in the June Quarter 2011. An interim construction water licence of 0.9GI was granted during the Quarter.

More than 55km of 130km of pipeline has been installed. Installation productivity has increased from an average of 190m per day to more than 800m per day during the Quarter.

Power Transmission Line

172 tower foundations and 148 towers have been assembled and 86 towers have been erected. Structural steel for the towers has continued arriving on site and is being delivered in advance of erection.

An early works contract for the Three Springs substation was awarded to Western Power during the period as well as a tender for the associated earthworks. The scope of the transmission line package was increased to include an expanded Three Springs substation as well as the transmission line through to Western Power's Eneabba substation.

All of the conductors and associated jewellery have arrived on site ready for aerial stringing to commence during the June Quarter 2011.

Negotiations continued with Western Power to confirm access into the South West Integrated System.



Karara 330kV power line

Rail

Progress on the rail spur earthworks reached 68% completion. The overall package is 42% complete with progress set to accelerate as track laying activities commence during the June Quarter 2011. All of the rail and sleepers have been received and are stored on site in advance of track laying activities. Crushing of the ballast has also commenced.

Commercial negotiations with above and below rail operators continued during the Quarter. Both of these negotiations are at a very advanced stage with closure expected during the June Quarter 2011.

Contracts and Procurement

AGC Industries Pty Ltd, a subsidiary of AusGroup, has been awarded an early works contract for structural, mechanical and piping installation works at Karara. Mobilisation to site will commence in April 2011.

The Early Works contract involves all mechanical disciplines, scaffolding, rigging and procurement of piping for the main contract which is currently being negotiated.

Mining

Trial Mining

Trial mining at the Karara South and East operation continued during the Quarter. Details of the hematite ore mined and processed is tabled below. Numbers have been rounded to the nearest one thousand tonnes.

	Q4 2010	Q4 2010	Q1 2011	Q1 2011	Total
	Lump	Fines	Lump	Fines	
High Grade	19,000	10,000	135,000	87,000	251,000
Medium Grade	3000	1000	12,000	17,000	33,000
Low Grade	8000	3000	14,000	11,000	36,000
Total	30,000	14,000	161,000	115,000	320,000

Trucking operations commenced during the Quarter using a combined fleet of underutilised grain operators. Iron ore lump and fines product has been stockpiled at Geraldton Port, Tilley rail siding and Karara mine site to support ship loading activities.

The first combined shipment with Sinosteel Midwest Corporation, which was also the maiden iron ore shipment for Karara, was loaded at the end of the Quarter and departed in early April.

The ore sales agreement with SMC is for a total of 480,000 tonnes of high-grade hematite lump and fines ore mined as part of the Trial Mining Project at Karara. The 8-month contract is based on the delivery of hematite mined from the Karara South and Karara East trial open pits to Geraldton using SMC's existing rail facilities (Tilley Siding and ore wagons) and port facilities at Geraldton.



Hematite mining and raiing



DSO Mining

Mining operations at the Blue Hills North deposit were advanced during the Quarter. A mining contract is currently at an advanced stage of negotiations with long lead time equipment ordered. Mining approvals were substantially progressed with mobilisation due to commence during the June Quarter 2011.

Magnetite Mining

Mining operations at the Karara Magnetite deposit were advanced during the Quarter. Finalisation of the mining contract is currently at an advanced stage with long lead time equipment ordered. Mining approvals are in place with mobilisation due to commence later in the year. Prestripping activities have been delayed due to the availability of the Karara South pit as a starter pit for Karara.



Karara's maiden shipment

Karara Project Exploration

The focus of the Karara exploration was on assessment of hematite-goethite deposits close to the Karara infrastructure which is being established.

Activities for the March Quarter included RC drilling over Brak and Hinge prospects and geological mapping and rock chip sampling at Jasper Hill, Hinge and Spider prospects.

Drilling at Hinge aimed to test a 400m strike length of hematite-goethite enrichment of Windaning Formation. A total of 24 holes for 1956m were completed with 20 intersections from 15 holes returning iron mineralisation of greater than 2m at 57% Fe (range between 59% Fe and 64% Fe). Best result was 22m at 62.25% Fe from 3 metres in hole HGC001.

At Brak a total of 17 holes for 1380m were completed in a zone of iron-enriched Banded Iron Formation (BIF). Preliminary interpretation of assay results indicates two broad zones of weak enrichment with six holes returning intersections of 2m at 57% Fe. Best assay result from drilling is 8m at 60.60% Fe from 41m in hole BRC015

GINDALBIE REGIONAL EXPLORATION

Gindalbie commenced regional exploration programs aimed primarily at testing prospects with potential to be developed as stand-alone hematite-goethite ore projects.

The primary activities completed during the March Quarter included regional geological mapping and first-pass RC drill testing of DSO targets at Onga and Aroha North prospects on the Minjar Gold JV. RC drilling also commenced towards the end of the Quarter over the Lodestone magnetite prospect.

Drilling at Onga comprising 22 holes for 1798m intersected a thick sequence of BIF containing narrow zones of iron enrichment within the prospective Windaning Formation. Assays are pending for 50% of the samples collected from Onga with the best result so far comprising 3m at 59.88% Fe from 102 metres in hole ONC005.

At Aroha North 6 holes for 450m were drilled to test 700m of strike length of BIF within the Golconda Formation displaying iron-enrichment from geological mapping. Drilling intersected thin iron ore mineralisation with the best result being 4m at 55.47% Fe from 10m in hole ANC005.

A total of 3 holes for 498m, part of a 6000m program, were completed at Lodestone. Assay results are pending.

CORPORATE

Board and Executive Management

Mr Tim Netscher has been appointed Managing Director and Chief Executive Officer with effect from the end of April, 2011. Mr Netscher replaces Mr Garret Dixon, who leaves the Company at the end of April 2011 after nearly 5 years as Managing Director. During this time, Mr Dixon has overseen development of the Karara Iron Ore Project in Western Australia to the stage where it shipped its first DSO hematite and is poised to deliver its first magnetite in 2012.

Mr Netscher, who has been a Non-Executive Director of Gindalbie since September 2010, was most recently Senior Vice-President for Newmont Mining Corporation's Asia-Pacific region, with responsibility for the operations of six mines in three countries. His employment with Newmont ceased at the end of March 2011.

Mr Netscher is also a Non-Executive Director of mining products and services company Industrea. Mr Netscher's previous positions include Managing Director of Vale Australia (formerly CVRD), Executive Director at QNI Limited when the Company was a publicly-listed subsidiary of BHP Billiton, Executive Director of Jakarta Stock Exchange-listed PT Inco and Executive Director of the Johannesburg-listed Impala Platinum.

Mr Shao An Lin was appointed as a Non-Executive Director during the period. Mr Shao has been working for China's Ansteel Group for more than 20 years. He has a PHD in Mining and has held a host of senior positions in Ansteel's iron ore operation, including Chief Engineer of Dong An Shan Iron Ore Mine, General Manager of Yan Qian Shan Iron Ore Mine and Deputy General Manager of Gong Chang Ling Iron Ore Co. In 2006, Mr Shao was appointed General Manager of Ansteel Group Mining Company. He is also the President of the Metallurgical Mine Association of China.

During the period Gindalbie also advanced the search for an additional Independent Non-Executive Director, and hopes to be in a position to make an appointment in coming months.

Mr David Richardson was appointed Gindalbie's new Chief Financial Officer, effective from 21 February 2011.

Mr Richardson is an experienced international finance professional and corporate executive who has held senior executive positions with a number of large multi-national engineering organisations including a six-year stint with the ASX-100 international services group WorleyParsons Ltd, where he held several key roles including General Manager, Finance – Australia and Chief Financial Officer – Americas/Europe.

Prior to joining WorleyParsons, Mr Richardson spent 12 years in a range of key executive roles with the New York Stock Exchange-listed international services group Schlumberger Limited, including assignments in London and the USA. He joins Gindalbie from the role of Chief Financial Officer and Company Secretary for the diversified ASX-listed manufacturing and property group Schaffer Corporation Ltd, which he has held since 2008.

Mr Richardson replaces Mr David Southam who left Gindalbie late last year to become the Finance Director at WA nickel miner Western Areas NL.

Cash Reserves

At 31 March, the Consolidated Entity had cash reserves of A\$240.55 million which includes the proportionate consolidation of Gindalbie's share (50%) of the KML cash reserves. The Company's cash reserves independent of KML were A\$176.25 million. Gindalbie has nil corporate debt.

Shareholder Information

As at 31 March, 2011, the Company had 935,215,590 shares on issue and 16,751 shareholders. The Top 40 shareholders held 67.06% of the Company.

GINDALBIE METALS LTD

GARRET DIXON
Managing Director and CEO

Competent Person Compliance Statements

The information in this report that relates to Exploration Results and Resource Statements is based on information compiled by Mr David Mason who is a Member of the Australasian Institute of Mining and Metallurgy.

Mr Mason is a full-time employee of Karara Mining Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Mason consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.