

Key Points

- Karara commitments reach \$700 million and site development progresses with first concrete work started
- US\$1.2 billion Karara Project Loan Facility Agreement signed
- Positive results from revised Karara project construction cost estimate, including infrastructure upgrades
- Gindalbie consolidated cash reserves substantially increased from A\$144.9 million to A\$219.9 million



The view of Karara Concentrator site, June 2010.

Executive Summary

- Development work on the Karara Iron Ore Project has advanced with the pouring of the first structural concrete footings for the ball mills and power line tower bases. Work has also started on the Karara Airstrip and early works at the Geraldton Port.
- A total of 670 rooms are now available for the Karara workforce at three camps.
- Procurement orders have been placed for rail supply, pressure filters, thickeners, floatation cells, magnetic separators, apron feeders, belt feeders, switchyard equipment, and fire pumps and contracts have been awarded for marine geotechnical investigations, services relocations, transmission line early works, facilities management, and road construction.
- The Facility Agreement for the US\$1.2 billion Karara Project Loan was signed at a ceremony in Canberra witnessed by the Vice President of the Peoples Republic of China, Mr Xi Jinping, and Australia's then-Prime Minister Mr Kevin Rudd.
- Project Construction Cost for Stage 1 has been estimated at \$1.975 billion compared with the \$1.648 billion estimate in the 2007 Bankable Feasibility Study. The estimate includes the construction of additional infrastructure capacity for rail, water, power and port to support production levels of 14-36Mtpa. Total commitments for the Karara Project reached approximately \$700 million during the June Quarter and will top \$1 billion in the September Quarter following further awards of construction, equipment and services contracts.
- Gindalbie successfully undertook a capital raising to raise \$206.4 million through an institutional share placement, a placement to Ansteel and a Share Purchase Plan for eligible shareholders.
- Mr George Jones was appointed as the Company's non-executive Chairman on June 29, 2010, replacing Mr Geoff Wedlock, who tragically passed away on June 19, 2010 in an aircraft crash in West Africa. Mr Wedlock was a highly respected member of the Australian mining industry who made an enormous contribution to the development and growth of Gindalbie.

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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 small-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

During the quarter an updated Project Construction Cost estimate for the Stage 1 development of the Karara Iron Ore project was completed following further detailed engineering design and final construction estimates and schedules.

The revised Project Construction cost estimate of \$1.975 billion covers all construction costs for the Stage 1 production level of 8Mtpa of magnetite concentrate and up to 3Mtpa of hematite. In addition, the estimate encompasses additional infrastructure capacity to support production levels of 14-36Mtpa. The updated Project Construction Cost schedule is summarised below:

2010 Karara Project Construction Cost Estimate	
<i>Item</i>	<i>Cost (A\$ m)</i>
Mine Development and Magnetite Concentrator	905
Infrastructure	
<i>Rail and Port</i>	275
<i>Power transmission</i>	242
<i>Other (including water, camp, airstrip, roads etc)</i>	263
Project Management, Engineering & Other	290
TOTAL CONSTRUCTION COST	1,975

The revised Project Construction Cost estimate compares directly with the \$1.648 billion capital cost estimate in the 2007 Bankable Feasibility Study (BFS) for the hematite and magnetite phases of the Karara Project (excluding the China Joint Venture Pellet Plant). This represents an increase of approximately 20% or \$327 million since the BFS, which was completed in September 2007.

The significant portion of this construction cost increase relates to design scope and infrastructure capacity increases for an ultimately larger project, and upgraded major plant items while the balance reflects the impact of cost escalation, in the two and half years since the BFS was completed.

Some of the key expenditure areas which have been changed or brought forward include:

- An increase in the capacity of the high-voltage power line, from 132kv to 330kv, connecting Karara to the State grid at Eneabba. This is sufficient to accommodate an ultimate production capacity of 36Mtpa; Improved rail haulage capacity of the 85km spur line connecting Karara to the existing rail line from Morawa-to-Geraldton, increasing the capacity of the spur line to +36Mtpa. This line is being built as a dual gauge to allow conversion from narrow to standard gauge in the future;
- An increase in capacity of the iron ore storage facilities at the Port of Geraldton from 100,000 tonnes to approximately 255,000 tonnes. The storage facilities will allow an annualized capacity of 14Mtpa;
- An expansion of the water pipeline supplying the Project to accommodate future production capacity of up to 16Mtpa: and
- Increasing the capacity of sections of the magnetite concentrator such as larger secondary crushers, larger high pressure grinding rolls and adding additional thickeners.

Working Capital Requirements

A future working capital funding requirement of approximately \$430 million has been estimated, made up of pre-commissioning items (insurance, building spares inventory, mining pre-strip) of \$184 million and Finance Facilities (bonds, interest and working capital) of \$246 million.

To finance the future working capital funding requirement, Gindalbie and AnSteel have concluded a separate agreement whereby AnSteel will facilitate the procurement of debt funding arrangements to cover the working capital requirements. The partners have agreed to target a funding structure based on a 70:30 debt to equity basis, which is the same as the project loan structure agreed for the Karara Project. However the Joint Venture is also mindful of changing market conditions in the future which may result in the application of different debt-to-equity ratios. The equity component to be provided by Gindalbie, based on a 50:50 debt to equity basis, has been included as part of the successful capital raising.

Updated Cash Operating Cost Estimates

A preliminary review of the Cash Operating Cost estimates for the Karara Project has indicated that they are consistent with the 2007 Bankable Feasibility Study cost of A\$42/t FOB Geraldton, pre-royalties.

Project Funding

Debt

Project debt for Karara is to be provided principally by China Development Bank and Bank of China. During the quarter the Facility Agreement for the US\$1.2 billion Karara Project Loan was signed at a ceremony in Canberra witnessed by the Vice President of the Peoples Republic of China, Mr Xi Jinping, who is the immediate deputy to President Hu Jintao, and Australia's then-Prime Minister Mr Kevin Rudd.

The completion of final ancillary banking documents and obtaining Chinese regulatory approval for Ansteel's parent company guarantee are the key final requirements to allow drawdown of the Loan Facility to proceed on schedule from July.



The 12 year Karara Project Loan Facility is based on the US 6 month LIBOR with a competitive margin, with Ansteel providing a 100% parent company guarantee up until completion. Gindalbie shareholders, at a meeting on June 16, 2010, overwhelmingly approved the necessary security arrangements required for Ansteel's parent company guarantee.

Offtake Contracts

Karara Mining Limited (KML) and Angang Group International Trade Corporation have finalised long-term off-take contracts covering the life-of-mine production from the Karara Project.

The magnetite concentrate contract covers the total production from the Karara operations.

The pricing structure for Karara magnetite concentrate will be based on the internationally-recognised Pilbara fines price plus a quality adjustment to reflect the high grade (68.2% Fe) and low impurity specifications of the Karara iron product.

The hematite contract covers the total production from Karara, which is scheduled to start in mid-2011, and allows for volumes up to 3Mtpa. The pricing structure for hematite will be based on the Hamersley Iron Pilbara lump and fines (FOB) price.

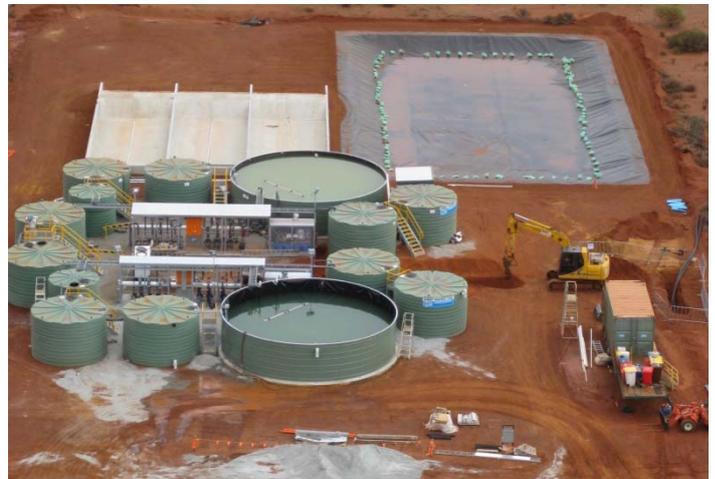
Project Development

Construction activity on the Karara Project continued to progress during the period, with the following key work undertaken:

- Commencement of 330kV transmission line tower bases between Karara and Koolanooka
- Pouring of the first structural concrete – the footings for the four Karara ball mills
- Completion of the first pod of 250 rooms and the first 700 man kitchen-diner at the new Karara Village
- Commissioning of the phone and communications towers at Lochada and Karara
- Commencement of the Karara Airstrip
- Delivery of 50% (60km) of the operations water pipe to a Chinese port, awaiting shipment to Karara
- Commencement of early works at Geraldton Port
- Placement of procurement orders for rail supply, pressure filters, thickeners, floatation cells, magnetic separators, apron feeders, belt feeders, switchyard equipment, and fire pumps
- Contracts awarded for marine geotechnical investigations, services relocations, transmission line early works, facilities management, and road construction

Concentrator Design

The detailed engineering design continued with the ongoing release of foundation designs and focus shifting to the release of steel design packages for shop detailing and fabrication.



(Left) Ball mill footing work (Right) Waste water plant works

Accommodation Facilities

Workers are currently being accommodated at the 120-room Karara Exploration Camp at Karara and the 300-room Lochada Village, between Morawa and Karara.

The first stage of the 1350-room Karara Village, consisting of approximately 250 rooms and a 700-seat kitchen-diner, has been completed. Subsequent stages are progressing well.

In total, 670 of the planned 1770 rooms are currently available for use.

(Right) Karara Village, bird's eye view as at June 2010



Port

Early works access at Geraldton Port was granted allowing the start of minor port works and the completion of marine geotechnical investigations for the new Berth 7. It is anticipated that concrete works will start in the September Quarter subject to approvals.

Transition arrangements from Geraldton to Oakajee Port, for inclusion in the Geraldton Port Services Agreement, were successfully negotiated with the State Government. Construction and operating agreement negotiations with the Geraldton Port Authority have recommenced as a result of the resolution of the transitional arrangements.



(Above) Geraldton Port works (Below) Positioning the steel casing at Yadanooka

Water



Exploration and assessment activities for the Yandanooka water source continued. The bore field configuration was finalised with production bore drilling commencing. Testing of the bore field to confirm water quality and quantities are scheduled to be undertaken in the September Quarter.

Licence applications were submitted for allocations in line with the water diversification strategy.

The manufacture of the pipe for the process water line is progressing well with approximately half delivered to Port in China, awaiting shipment to Karara. Installation activities are expected to commence in the September Quarter.

Power Transmission Line

The installation of tower footings for the power transmission line from Karara to Koolanooka has commenced, with 32 bases completed.

Access and tenure negotiations have continued with landholders on the Koolanooka to Eneabba alignment as well as the State Government for the timber reserve.

A Heads of Agreement setting out the key commercial principles for the delivery and operation of the power line was executed with Western Power. Commercial negotiations continued regarding the operation and maintenance of the transmission line, the Electricity Transfer Access Contract and interconnection agreements with Western Power.

Rail

A Heads of Agreement was executed with The Public Transport Authority of Western Australia for the Karara to Tilley rail line. The Karara to Tilley rail line legislation was passed during the June sitting of the West Australian Parliament.

Commercial negotiations with above and below rail operators continued during the quarter. A Heads of Agreement was executed for the provision of long-term bulk rail haulage services with QR Freight (QRF), the group national bulk freight haulage business for QR Limited.

Under the Rail Operations Heads of Agreement QRF has been appointed as the exclusive provider of rail operations for the initial tonnages of magnetite concentrate (8Mtpa) and Direct Shipping Ore (up to 3Mtpa) to be produced by the Karara Project.

The agreement with QRF covers the full rail distance of approximately 300km from the Karara mine site to the port of Geraldton and encompasses bulk haulage transport operations both on the new 85km spur line to be built from Karara to Tilley Siding, near Morawa, and on the existing narrow gauge railway line that runs from Morawa to Geraldton.

The future growth options will include the opportunity to dovetail the expansion of the Karara Project with the availability of new Port and Rail Infrastructure to be developed by Oakajee Port and Rail ("OPR").

The HOA also covers an Early Works phase where QRF is providing:

- the design of a Rail Operating Plan to determine the optimal size and frequency of rail operations;
- the specification, modification and certification of locomotives to meet KML's requirements;
- the design, specification and construction of rail wagons to meet KML's requirements; and
- the provision of personnel, support and maintenance services for the rolling stock to ensure that the greatest possible efficiencies are realised from the rolling stock

The manufacture of rail sleepers has continued as planned and sleepers will be available as required for the railway line construction contractor.

The supply of the rail was awarded in the quarter and the construction contract will be awarded early in the September quarter.

Contracts and Procurement

Total commitments for the Karara Project reached approximately \$700 million during the June Quarter following orders for items such as a dual wagon tipper, water pipeline, magnetic separators, rail and pressure filters.

The award of a further \$300 million of major new construction, equipment and services contracts in the September Quarter will see project commitments top \$1 billion.

Some of the major new service and construction contracts expected to be awarded include a facilities management contract to manage the Karara and Lochada accommodation villages, the construction of the 85km Karara rail spur connecting the project with the existing rail line near Morawa, the installation of the 140km water pipeline from Mingenev to site, civil work at Geraldton Port and the construction of access roads.

Supply and delivery of all ordered materials and equipment remains on or ahead of schedule and will support the planned construction sequence.

Karara Project Exploration

Exploration and resource definition drilling for the first stage of development at Karara has been completed. The reserves and resources defined to date should allow +30Mtpa of production for more than 30 years. The orebody remains open at depth and extends to the North East along the Karara Ridge.

A review of all Karara DSO prospects was undertaken during the Quarter and those showing the most potential were short listed for aggressive exploration programs. These programs, which include RC and diamond drilling, are designed to advance those with robust mineralisation through to development studies. This work is earmarked for 2010-2011 and will commence with the Brak and Hinge prospects, along with a potential paleochannel deposit. Brak and Hinge represent goethitic-hematite supergene enrichment which have consistently returned rock chip samples of >60%Fe.

GINDALBIE REGIONAL EXPLORATION

Regional Mapping (Minjar JV)

Geological field assessment of tenements within the Minjar JV commenced during the June Quarter. This work comprises detailed geological mapping, accompanied by surface rock chip geochemical sampling, over BIF stratigraphy covering both the Windaning and Golconda Formations. The results of this program are expected to be reported in the September Quarter.

Southern Detritals (E59/1136, E59/1139 and E59/1023)

An aircore drilling program to assess the size, shape and detrital content of five of the identified paleochannels has been proposed and will be undertaken in the September and December Quarters. The program consists of 109 holes for approximately 3,000 metres.

Also during the June Quarter a preliminary investigation into Channel 6 was undertaken. Eleven magnetically concentrated lag samples were collected and two samples were collected from historic RAB holes that intersected iron rich horizons on the periphery of the channel. Results were returned from these samples during June and the significant iron assay results (>57% Fe) are tabulated below.

Sample	North	East	Fe%	SiO2%	Al2O3%	P%	S%	LOI
GR3683	6,760,293	480,599	58.36	6.14	5.86	0.036	0.014	2.01
GR3685	6,760,420	481,600	57.88	5.94	6.21	0.058	0.017	2.03
GR3686	6,763,780	481,851	57.98	7.13	5.50	0.039	0.015	1.82

The average results of the 11 samples returned a lower than average iron content compared with other magnetically concentrated lag samples collected previously, averaging 55%Fe rather than 57% Fe. However, a large portion of the Channel 6 paleochannel remains untested.

CORPORATE

Equity Raising

During the quarter Gindalbie successfully undertook a capital raising to raise \$206.4 million through an institutional share placement, a placement to Ansteel and a Share Purchase Plan for eligible shareholders.

Gindalbie placed 120.2 million shares at \$0.93 each to institutional investors. Following Chinese regulatory approval, expected in the September Quarter, Gindalbie will place 80.215 million shares at \$0.93 each to Ansteel.

In addition \$20 million was raised through a Share Purchase Plan (SPP), whereby eligible shareholders applied for up to \$10,000 of new shares at the same price as the institutional placement.

The placements to institutions and Ansteel required shareholder approval, and this was received at a meeting on June 28, 2010.

The proceeds of the raising will be utilised as follows:

- **\$61 million** for Gindalbie's 50% share of the construction cost shortfall based on the revised Construction Cost estimate as announced 5 May, 2010, and assuming the debt is drawn down at an average A\$/US\$ exchange rate of \$0.91;
- **\$107.5 million** to fund Gindalbie's equity share of the \$430 million working capital requirements for the Karara Project as announced 5 May, 2010. The final amount required will depend on the debt to equity ratio agreed following further discussions with the China Development Bank and Bank of China. The partners are targeting a debt:equity ratio of 70:30, up to a maximum of 50:50, being the basis upon which the raising was completed; and

- Approximately **\$6.5m** will be used to cover fees, all legal expenses and other costs associated with the raising.
- Any surplus funds will be used to strengthen Gindalbie's cash resources to underpin future growth opportunities at Karara.

Board

Mr George Jones was appointed as the Company's non-executive Chairman on June 29, 2010, replacing Mr Geoff Wedlock, who tragically passed away on June 19, 2010 in an aircraft crash in West Africa.

Mr Jones has been a Director of Gindalbie since September 2005 and was Chairman until August 2009, when he stepped down to recover from Meniere's Disease, from which he is now fully recovered.

Mr Wedlock was a highly respected member of the Australian mining industry who made an enormous contribution to the development and growth of Gindalbie. He was a non-executive director of the Company since February 2008, and the Company's non-executive Chairman since August 2009.

JV Agreement

During the Quarter Ansteel and Gindalbie agreed to extend the time for completion of the debt facilities under the IJV Agreement to 31 July, 2010 and the time for completion of the pellet plant conditions to 30 June, 2012. All other remaining conditions under the IJV Agreement have now been completed, in particular regulatory approvals and the life of mine offtake agreements.

Mineral Resources Rent Tax

The Federal Government's proposed Resources Super Profits Tax has been replaced with a revised proposal for a Mineral Resources Rent Tax (MRRT) applicable to the iron ore and coal sectors. Gindalbie believes the Karara Project should be exempt from MRRT because as a magnetite project a large amount of value-added processing is required to produce a premium iron concentrate. In this regard Karara is more comparable to a nickel or bauxite project, both of which have been exempt from MRRT. Gindalbie has begun consultations with Government officials in an attempt to have magnetite exempted from MRRT. In the event an exemption is not granted, an initial review show the effects of MRRT on Karara would be minimal because of the low value of the magnetite ore prior to processing if the taxing point is consistent with Government advice that it will be at the point the resource is mined.

Cash Reserves

At 30 June, the Consolidated Entity had cash reserves of A\$219.9 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\$145.51 million. Gindalbie has no corporate debt.

Shareholder Information

As at 30 June, 2010, the Company had 707,757,674 shares on issue and 14,913 shareholders. The Top 40 shareholders held 65.16% of the Company. New shares relating to the institutional placement and SPP were issued on July 1, 2010 and will be reflected in the September Quarterly Report.

Yours faithfully
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.

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