

Key Points

- Karara Iron Ore Project receives final environmental sign-off
- WA Premier Mr Colin Barnett turns the first soil to signal the official start of Karara construction
- Project Development Team mobilised and site clearing already completed
- Doric Constructions wins \$70 million Karara Village contract.
- Gindalbie consolidated cash reserves of A\$164.47 million



The cleared site for the Karara magnetite processing plant, viewed from the top of the Karara ridge

Executive Summary

- The Federal Government granted Commonwealth approval for the development of the Karara Iron Ore Project.
- The Karara Project Development Team was mobilised immediately following the Commonwealth approval. The Karara workforce was rapidly built to 120 personnel.
- The start of construction was officially marked with a Groundbreaking Ceremony at Karara, with the symbolic first sod turned on site by WA Premier Mr Colin Barnett, Gindalbie Director Mr George Jones and Ansteel Senior Vice President Wen Baoman.
- Clearing of the Karara concentrator site has been completed and preliminary earthworks for the processing plant have started.
- The Lochada Camp neared completion and will be commissioned in January 2010. Together with the existing Karara Exploration Village, more than 400 rooms will be available for the rapid build-up of the Karara workforce.
- Doric Constructions was awarded the \$70 million contract for the construction of the Karara Village and will commence mobilising its workforce in January 2010.
- Detailed engineering and design of the of the Karara magnetite concentrator is at an advanced stage, with the 60% model review scheduled for the March Quarter, 2010.
- Major contract packages targeted for award in the March and June Quarters include Karara earthworks and concrete, Geraldton Port works, rail operator and spur line construction, water pipeline construction, Karara mining and tailings management.
- Project debt funding arrangements and offtake contracts being targeted for completion in the March Quarter 2010

KARARA IRON ORE PROJECT (Ansteel 50%)

Overview

Construction commenced in early November on the Karara Iron Ore Project following the receipt of final Commonwealth environmental approval on 30 October and State Government environmental approval on 9 September. Initial work involved site clearing, preliminary earthworks and other site establishment activities, in preparation for construction activities in 2010. Work at the Lochada Camp has also advanced with the camp to be commissioned and occupied in January, 2010.

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.

Groundbreaking Ceremony

On November 28 the start of construction at Karara was officially marked by a Groundbreaking Ceremony on site. The symbolic first sod was turned on the site of the Karara magnetite concentrator by WA Premier Mr Colin Barnett, Gindalbie Director and immediate past chairman Mr George Jones and Ansteel Senior Vice President Mr Wen Baoman.

The ceremony was also attended by Gindalbie Managing Director Mr Garret Dixon, senior Ansteel executives Mr Su Wensheng and Mr Wang Heng, who is also a non-executive Director of Gindalbie, the Chinese Consular General in Perth, Mr Li Shugang, representatives of the area's traditional owners, representatives of the media and other senior Gindalbie management, employees and guests.

The official launch of the Karara Project represented a pivotal event for Gindalbie. Karara is the first major mine development in the Mid West and as a magnetite project heralds a new era of downstream processing for the industry in the emerging Mid West iron ore province.



Ansteel Vice President Wen Baoman, Gindalbie Director George Jones and WA Premier Colin Barnett turn the first soil at Karara



Gindalbie Managing Director Garret Dixon (centre) shows George Jones, Colin Barnett and Wen Baoman the Karara orebody

Project Funding

Debt

Project debt for Karara is to be provided by China Development Bank, which has already granted conditional approval to KML for up to US\$1.2 billion.

Detailed term sheet negotiations and drafting of legal documentation continued for the loan, which will be provided on a commercially attractive basis.

Terms and conditions of the Project Loan are being targeted for completion in the March Quarter, 2010. The development timetable for Karara is such that drawdown of the Project Loan will not be required until the June Quarter, 2010.

Offtake Contracts

Agreement in principle has been reached with Ansteel on the offtake pricing structure for the Karara iron ore products. The pricing structure for the Karara magnetite concentrate will be based on the Hamersley Iron benchmark fines price and with appropriate adjustment for Karara's high grade, low impurity product.

Drafting of the legal documentation has started with completion of the contracts scheduled for the March Quarter 2010.

Approvals

On October 30 the Federal Government granted Commonwealth environmental approval for development of the Karara Project to proceed.

The Department of Environment's decision, which followed the announcement of State environmental approval on 9 September, represented the final regulatory approval required for on-site construction and development work at Karara to proceed.

Project Development

The Karara Project Development Team was mobilised in November immediately following the receipt of the Commonwealth environmental approval.

During November and December a workforce of more than 120 was onsite at Karara and at the location of the Lochada Camp. The concentrator site at Karara was cleared and earthworks for the processing plant have commenced. The Lochada Camp neared completion.



A view of the cleared site for the Karara Concentrator with the Karara ridge in the background

Concentrator Design

Detailed engineering and design continued with the 60% model review scheduled for the March Quarter, 2010. Concrete foundation design is well advanced to allow the timely commencement of construction.



Regular Design Review Meetings are held to monitor the progress of the detailed engineering and design

Accommodation Facilities

The existing Karara Exploration Camp is fully utilised, housing the current workforce of approximately 120.

Construction of the 300-person Lochada Camp neared completion and is scheduled for commissioning in January, 2010. The Lochada camp, located on private property between Morawa and Karara, will be used to accommodate part of the initial workforce prior to the completion of the main Karara Village accommodation facility and later to accommodate workers required to construct the water pipeline, power line and rail spur.

In December, West Australian construction company Doric Constructions (Australia) Pty Ltd, part of the Doric Group, was awarded a \$70 million contract for construction of the Karara Village.

Under the contract 900 construction camp rooms together with a construction camp kitchen and associated facilities will be completed progressively in 2010. The camp will be located near the old Karara homestead, close to the site of the main Karara concentrator and plant. Once fully completed, the main construction camp will be able to accommodate up to 1,350 personnel.

Following completion of the construction phase of the Project in 2011, part of the construction camp will be dismantled and removed, leaving a permanent on-site accommodation village and associated facilities capable of housing up to 450 permanent employees and contractors involved in ongoing operations.

Doric will begin mobilisation of its workforce to construct the Karara Village in January 2010.



The 300 – person Lochada Camp is due for completion in January

Port

At Geraldton Port optimisation studies have continued in conjunction with the Geraldton Port Authority to assess the optimum configuration of the Port to accommodate Karara's production profile prior to transition to Oakajee Port.

Design of the storage shed's loading out system has been completed. Design work for the rail wagon dumper and the storage facility has continued to advance.

Major port site works are scheduled to commence in the June Quarter 2010, following the award of contracts in the March Quarter 2010. During the March Quarter miscellaneous service relocations and minor works supporting the major works will be started.

Water

During the quarter the final access agreements required for the water pipeline to the Twin Hills aquifer were secured and water licensing was granted to satisfy construction activities. Construction of the water pipeline is scheduled to start in the March Quarter 2010.

Exploration and assessment activities have continued to assess the optimum water sources for the current and projected production profiles of the Karara Project.

Power Transmission Line

Technical assessment and preliminary design work continued during the Quarter on the 330kV power transmission line from the Karara site to Eneabba. Geotechnical assessment of the transmission line alignment has commenced, which is a crucial component of the design requirements.

Further commercial negotiations continued with potential constructors and operators of the transmission line.

Rail

Formal negotiations have commenced with WestNet Rail to access the below rail infrastructure from near Morawa to the Geraldton Port. These negotiations include the requirement for upgrade work to accommodate the expected volumes of production from Karara.

Negotiations for the selection of an above rail operator and rolling stock is at an advanced stage, with a contract expected to be awarded in the March Quarter 2010.

Tenders have been called for the construction of the 85km spur line with negotiations to continue during the March Quarter 2010. Construction of the line is scheduled to begin in the June Quarter 2010.

Contracts and Procurement

Tenders have been issued for contracts covering the Karara mining and tailings management, with both scheduled for award in the June Quarter 2010. Pre-stripping of the Karara orebody is planned for the March Quarter 2011. Tailings placement will start with the commissioning of the Karara concentrator.

The awarding of contract packages for the Karara earthworks and concrete are expected to be awarded in the March Quarter 2010. Other contracts for the supply of pressure filters, thickeners and flotation cells are also expected to be awarded.

Progress on all long lead items, including the primary crusher, secondary crushers, high pressure grinding rolls, ball mills, fine grinding mills and power transformers, remain on schedule. Delivery of items has commenced, and will continue until the June Quarter 2011. Ongoing quality management inspections and verification are being regularly conducted on the long lead items.

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 West along the Karara Ridge.

During the quarter field programmes completed at Karara included construction of a further seven waterbores at Karara and Blue Hills, which will provide construction water for the Project.

The sterilisation drilling program over the infrastructure footprint at Karara was also completed, totalling 1,708 metres. This program has delineated potential gravel resources for use in construction, along with a potential zone of detrital mineralisation. Sampling and assaying of these detritals will be undertaken in the March Quarter 2010, as will pump testing of the water bores.

GINDALBIE REGIONAL EXPLORATION

During the Quarter RC drilling programs were completed at two prospects, Hippo and Porcupine, which occur within the Warriedar JV (lease E59/935), the Minjar Project (lease E59/1327), and the Windaning JV (lease M59/380). The drill programs targeted zones within the prospects having the highest potential to host iron mineralisation, and the results to date, while preliminary, are summarised below.

While this preliminary drilling program met with only limited success, the two trends straddling the central portions of the Warriedar Fold Belt and covering rocks of both the Golconda and Windaning Formations, remain highly prospective for DSO iron mineralisation.

Work during the March Quarter 2010 will focus on the validation and interpretation of the drilling results from the Shelf, Main Track, West End and Hippo programs.

Exploration Licence - E59/1327 (Minjar Project - Gindalbie 100%)

The eastern part of the 4.4km Porcupine trend of Golconda Banded Iron Formation (BIF), Shelf, was delineated by elevated rock chip samples. This zone was drill tested with five holes for 292 metres. The RC drilling conducted at Shelf identified a pervasive, porous, goethitic laterite cap (interpreted as strongly weathered, partially enriched BIF) located above weathered BIF. The width of BIF along the 280 metres of drill tested strike length is in the order of 20 to 35 metres true width. There were no zones of iron mineralisation greater than 57% Fe, over two or more metres in width, intersected.

Warriedar JV - E59/1333 (Gindalbie 60%)

The central part of the Porcupine trend, Main Track, was drill tested with four holes for 238 metres.

The RC drilling conducted at Main Track in November identified narrow (5-10 metre) BIF units containing even narrower, weak horizons of enrichment. This section of BIF is the narrowest of the Porcupine trend prospects. The drilling demonstrated the sedimentary stratigraphy to be an intercalation of BIF with clays, probably derived from mafic volcanics. The best iron grades were one metre samples returning 53.38% Fe and 52.56% Fe.

Warriedar JV - E59/935 (Gindalbie 60%)

The Hippo Prospect is situated on the Windaning Formation BIF along strike from the structurally complex Mungada Ridge area.

The initial target area was drill tested with four holes for 238 metres. The BIF stratigraphy at Hippo was drilled on two sections, 300 metres apart.

Interpretation of this limited drilling suggests the BIF is variable in thickness and dip. The BIF at Hippo is about 25 to 40 metres thick and the zone of enrichment is located on the footwall contact with ultramafic schist and is 10 to 15 metres thick. The mineralisation consists of a combination of goethitic hematite and hematite and was intersected in one drill hole (HIC002).

The mineralisation intersected at Hippo is highly significant due its occurrence in a large area of subdued topography with very poor surface exposure of the BIF, buried beneath recent cover. The mineralisation is open for 300 metres to the north and completely open to the south.

Significant Drill Intercepts at the Hippo Prospect

| Hole ID | From | To | Interval | Fe% | SiO2% | Al2O3% | P% | S% | LOI% |
|---------|------|----|----------|-------|-------|--------|-------|-------|------|
| HIC002 | 45 | 48 | 3 | 58.03 | 9.94 | 0.15 | 0.090 | 0.137 | 6.47 |
| HIC002 | 50 | 65 | 15 | 64.31 | 3.15 | 0.21 | 0.124 | 0.064 | 3.91 |

Note: A nominal cut off of 57% Fe with a maximum of 2 metres internal waste was used to define significant ore intersections

Windaning JV - M59/380 (Gindalbie 89%)

The western area of the Porcupine trend, West End, extends into this JV and was drill tested by four holes for 198 metres.

The RC drilling conducted at West End identified a relatively wide section of BIF bearing stratigraphy, consistent over 1.2 kilometres of drilled strike length. This horizon ranges from 16 to 42 metres in width and consists of an intercalated package of BIF with clays (interpreted as mafic volcanics) and chert. The best iron grade was from WEC003 at the most western part of the prospect where 3m @ 54.40% Fe (including 1m @ 60.61% Fe) was returned, however the majority of the results were below 50% Fe.

CORPORATE**Cash Reserves**

At 31 December, the Consolidated Entity had cash reserves of A\$164.47 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\$43.18 million. Gindalbie has nil corporate debt.

JV Agreement

During the Quarter Gindalbie agreed with its joint venture partner, Ansteel, to extend the time for completion of conditions under the Karara Incorporated Joint Venture Agreement (IJV).

Under the terms of the IJV a number of conditions subsequent had to be completed within three months of the receipt of environmental approvals for the Project. Ansteel and Gindalbie have agreed that the time for completion of these conditions should be extended until 9 April 2010. The conditions relate primarily to arrangement of senior debt facilities, offtake agreements and Chinese regulatory approvals for the pellet plant.

Shareholder Information

As at 31 December, 2009, the Company had 707,187,674 million shares on issue and 13,876 shareholders. The Top 20 shareholders held 62.06% of the Company.

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 the Company 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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