

Key Points

- The Karara Project reached 1,000,000 hours free of a Lost Time Injury (LTI)
- The budget and schedule for the Karara Iron Ore Project remain in line with previous forecasts
- A favourable outcome is expected from MRRT consultation
- At 30 September, the Consolidated Entity had cash reserves of A\$179.98 million



Aerial view of the Karara concentrator site.

Executive Summary

- The Karara Project construction cost forecast remains in line with previous estimates of \$1,975 million for Stage One production, which includes infrastructure to accommodate higher production levels. Commitments have been made for a total of \$1.2 billion worth of work at or below the corresponding budget.
- First production remains in line with previous forecasts of mid-2011 for hematite production and the December Quarter 2011 for magnetite concentrate production.
- Draw downs of the \$US1.2 billion Karara Project Loan Facility currently total \$US48 million.
- The Karara airstrip has been completed and is currently servicing more than 10 flights per week. Upgrading to 50-seat aircraft is expected to occur in the December Quarter 2010 following formal certification of the airstrip. 1200 accommodation rooms are currently available for use across Karara's three villages.
- Ongoing Karara Project development work saw the completion of ball mill footings and pedestals and preparations for the installation of the secondary crushers, which have been delivered to sight.
- Work is underway on all areas of infrastructure to support the Karara Project including the water pipeline, Karara-Morawa rail spur line, 330kV power transmission line and Geraldton Port facilities.
- Official consultation continued regarding the Minerals Resource Rent Tax. Gindalbie has submitted the Karara Project should be exempt from MRRT because of the value-adding nature of the magnetite project. In the event magnetite is not granted an exemption, modelling of the MRRT using the Government's model shows minimal impact on Karara.
- Mr Tim Netscher has been appointed as an Independent Non-Executive Director. The appointment further strengthens the Board by providing additional independence and experience in corporate governance, corporate strategy as well as project development.

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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.



Construction of the Karara Concentrator site

Project Construction Cost Estimate and Schedule

A revised Project Construction Cost estimate of \$1,975 million was outlined in the June Quarter Report. Current forecasts remain in line with that estimate.

Total commitments for the Karara Project reached approximately \$1.2 billion during the September Quarter with current commitments below the corresponding budget.

The construction cost estimate 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.

First hematite production from the Karara Project is scheduled for mid-2011, while first magnetite concentrate production is expected in the December Quarter 2011.

Working Capital Requirements

A future working capital funding requirement of approximately \$430 million was outlined in the June Quarter Report. The current forecast for working capital, which includes pre-commissioning items (insurance, building spares inventory, mining pre-strip) and Finance Facilities (bonds, interest and working capital) remains in line with that estimate.

Project Funding

Debt

Approximately \$US48 million of the \$US1.2 billion Karara Project Loan Facility had been drawn down at the end of the Quarter. The average exchange rate for the two draw downs of these funds was \$US0.91.

Negotiations have started with China Development Bank and Bank of China regarding the provision of a debt facility for the working capital requirements. The Karara Joint Venture partners are targeting 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.

Project Development

Concentrator Design

The detailed engineering design continued with the ongoing release of design packages. The structural steel design has been completed for the ball mill and secondary crusher buildings. It is anticipated the detailed engineering and design will be completed in the March Quarter, 2011.



Construction of the ball mill pedestals



The Karara Village is nearing completion

Site Infrastructure

The Karara Airstrip was completed during the Quarter and is now in use with six flights per week being operated. Formal certification of the 1400m sealed airstrip is expected during the December Quarter, which will allow an upgrade to 50-seat aircraft.

A total of 1200 accommodation rooms of the planned 1770 rooms are currently available for use across three villages, Karara, Karara Exploration and Lochada.

On the Karara Concentrator site earthworks are almost complete. Total concrete work is approximately 15% complete. The footings and pedestals for the ball mills have been completed and the secondary crushers have started arriving on site for installation.



Sealing the Karara airstrip



Site works have started for the Geraldton Port facility

Port

Site works have commenced at Geraldton Port to allow for the construction of the 255,000t storage facility. Laing O'Rourke has been awarded the contract for civil and concrete work, which is expected to start in October. The storage facility at Geraldton Port will be undertaken by Wearside Construction.

The Port Services Agreement with Geraldton Port Authority is in the final stages of negotiation and is targeted for completion in the December Quarter 2010.

Water

The raw water required for the Karara Concentrator will be sourced from the Parmelia aquifer located at Yandanooka, near Mingenew.

The required production bores have been constructed and tested with excellent volume and quality results. An allocation of 5.3GI is available, which is approximately 60% more than required for Stage One production levels and will satisfy magnetite concentrate production of up to 12Mtpa.

The approval process to gain water allocations for a 30Mtpa production profile has commenced with several sources near Yandanooka being targeted to utilise the existing infrastructure.

DM Civil has been awarded the contract for the pipeline construction and has commenced work. More than 70% of the pipe has been delivered.



Water pipeline installation



Power Transmission Line

During the Quarter Downer EDI was awarded the \$120 million contract for the construction of the 180km, 330kV power transmission line from the Karara Project to Eneabba. At Eneabba the transmission line will connect to Western Power's South West Interconnected Service, allowing Karara to draw power from the State grid under its 15-year supply agreement with Verve Energy.

Construction of the line has already commenced with the footings for approximately 70 of the 400 transmission line tower bases completed under an early works agreement.

The 330kV/33kV transformers have been delivered and placed upon their permanent footings and the switchyard design is finished.

The structural steel for the towers and the conductors have been ordered.



Footings for the 330kV transmission line towers

Rail

During the Quarter Macmahon was awarded the contract for rail earthworks and track laying for the 85km spur line servicing the Karara Project and earthworks have now commenced.

The contract, with an approximate value of \$86 million, is for construction of the spur line connecting Karara to Tilley Siding, near Morawa, where it connects with the existing railway line running from Morawa to Geraldton.

A total of 45,000 concrete rail sleepers have been delivered and the first 40km of rail has been produced and is awaiting delivery to site.

Commercial negotiations with above and below rail operators continued during the quarter.



Concrete bearers for the Karara rail spur



Secondary crushers arrive on site for installation

Contracts and Procurement

Total commitments for the Karara Project reached approximately \$1.2 billion during the September Quarter.

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

Service, Construction and Supply contracts >\$10 million

Project management and engineering support	Worley Parsons, Onyx Projects
Concentrator detailed design	Maison Worley Parsons
Primary ball mills and high pressure grinding rolls	Polysuis
Fine grinding mills	Nippon Eirich
Secondary cone crushers	Metso Minerals
Primary crusher	FL Smidth
Structural and mechanical works Geraldton Port	Wearside Construction
Karara Village supply and installation	Doric
Construction management services	AMEC Minproc
Pressure filters, float cells, thickeners	Outotec
Ductile iron pipe	Xinging

Service, Construction and Supply contracts >\$10 million

Earthworks and civil	NRW
Carbon steel rail	Ansteel
Earthworks and trackwork	Macmahon
Operations water pipeline	DM Civil
Access road	Brierty
Port civils	Laing O'Rourke
Dual gauge rail sleepers	Humes/Cemex

Karara Project Exploration

The exploration and resource definition drilling for Stage One of the Karara development has been completed.

The focus of the Karara exploration effort has now shifted to potential hematite-goethite deposits close to the Karara infrastructure which is being established. An exploration budget of approximately \$2 million has been approved for hematite exploration at Karara in 2010-11.

A review of DSO prospects on Karara's tenements undertaken during the June Quarter identified the two most prospective deposits for evaluation in the coming year.

Activities for the September Quarter included obtaining Statutory approvals and organising the earthworks required for completing the planned drilling programs scheduled for December Quarter 2010.

In addition statutory approvals were sought and received for the exploration programs planned to assess the size, shape and detrital content of the paleochannel identified on E59/817. This program is scheduled to be carried out in the December Quarter 2010.

GINDALBIE REGIONAL EXPLORATION

Gindalbie sees significant opportunity for the establishment of stand-alone iron ore projects in the region, particularly with the significant infrastructure being developed for the Karara Project, however exploration and development work was suspended in the wake of the Global Financial Crisis.

With the improvement in the global outlook and the strong progress on the Karara development, the Gindalbie Board has approved an exploration budget of \$8 million for 2010-11 for work on Gindalbie's extensive Mid West tenement package outside of the Karara Joint Venture.

As part of Gindalbie's plans to develop standalone projects, outside the Karara Joint Venture, the company appointed during the Quarter a General Manager Business Development. Mr Stephen Abbott is an experienced iron ore executive, who spent the past two years with Australasian Resources, which he joined after a lengthy career at Rio Tinto and Western Mining Corporation.

Part of Mr Abbott's role will be to oversee the fastracking of development of a Gindalbie project within its existing tenement package.

Planning and approvals work has commenced with a view to starting an aggressive exploration drilling program across several areas December Quarter 2010.

Specific work completed during the September Quarter is detailed below.

Gindalbie Tenements

Work on Gindalbie tenements comprised Annual Reporting for E59/1199 and Extension of terms for E59/1002 (Lodestone), E59/1136 and E59/1139. Program of Work (PoW) applications were submitted for E59/1136,

E59/1139, E59/1210 and E59/1535. These tenements cover the area interpreted from aeromagnetics to contain buried paleochannels with the potential to contain detrital accumulations. Drilling is scheduled to start on these channels March Quarter 2011.

Minjar area

In line with Gindalbie's exploration plan to test the most prospective hematite-goethite and detrital prospects PoW's were submitted for M59/420, E59/1023 (paleochannel detritals), E59/1169 (Dogleg), E59/1200 (Aroha), E59/1327 (paleochannel detritals) and E59/1329 (Onga). Drilling is also scheduled to start on these tenements in the December Quarter 2010, with the objective of delineating potential DSO resources.

In addition rehabilitation of previous drilling programs was completed on E59/1327 and mapping of the Chulaar prospect commenced.

Mt Mulgine JV

No work was completed during the September Quarter at the Mt Mulgine Tenements.

Warriedar JV

In preparation for the drilling program planned on the Warriedar group of tenements POW's were submitted and drill sites pegged at E59/935 (Hippo-Aroha) and E59/1331 (paleochannel detritals).

Windaning JV

Work completed on the Windaning JV ground consisted of completing the rehabilitation on M59/380.

CORPORATE

Equity Raising

Ansteel is still awaiting Chinese regulatory approval for the placement of 80.215 million shares at \$0.93 each, as approved by shareholders at a meeting on June 28, 2010. Approval is expected in the December Quarter 2010. This will provide an additional A\$74.59 million to Gindalbie for use in developing the Karara Project.

Board

During the period Gindalbie announced the appointment of senior international mining executive, Mr Tim Netscher, as an Independent Non-Executive Director. The appointment further strengthens the Board by providing additional independence and experience in corporate governance, corporate strategy in the resource sector as well as project development and management.

Mr Netscher is currently Regional Senior Vice President Asia Pacific for Newmont Mining Corporation, the world's second largest gold producer, a position he has held since 2009. In this role, he is responsible for six operating mines in three different countries.

Mineral Resources Rent Tax

Gindalbie has prepared a submission and is taking part in the consultation period with the Policy Transition Group regarding the Minerals Resource Rent Tax.

Gindalbie's primary position is 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 magnetite concentrate. In this regard Karara is more comparable to a nickel or bauxite project, both of which have been exempt from MRRT. In the event an exemption is not granted, modelling based on the current known parameters of the MRRT show minimal impact on Karara, primarily because of the low value of the magnetite ore after mining and primary crushing and prior to processing.

Cash Reserves

At 30 September, the Consolidated Entity had cash reserves of A\$179.98 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\$144.67 million. Gindalbie has no corporate debt.

Shareholder Information

As at 30 September, 2010, the Company had 850,108,099 shares on issue and 16,363 shareholders. The Top 40 shareholders held 62.89% 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 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.