

Key Points

- The budget and schedule for the Karara Iron Ore Project remain in line with previous forecasts
- Karara Ore Reserve substantially upgraded from 522 million tonnes to 977mt
- At 31 December, the Consolidated Entity had cash reserves of A\$251.62 million
- Karara Project is on track for DSO production in the second quarter of 2011



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 \$1.26 billion worth of work at or below the corresponding budget.
- First production remains in line with previous forecasts. Initial hematite sales are scheduled for mid-2011. Commissioning of the magnetite concentrator is scheduled for the December Quarter 2011, which will result in first product on ship in early 2012.
- Draw down of the \$US1.2 billion Karara Project Loan Facility currently totals \$US274.5 million.
- The Karara airstrip has been completed and is receiving up to 50-seat aircraft. 1770 accommodation rooms are currently available for use across Karara's three villages.
- Ongoing Karara Project site development work saw significant progress. Concrete work is now 30% complete, with foundations and footings for secondary crushers, tower mills and high pressure grinding rolls, HPGR screens, primary crusher, crushed ore stockpile, concentrate thickener and pipe racks.
- Work advanced 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.
- The Probable Ore Reserve for the Karara Deposit was upgraded to 977.5 million tonnes grading 36.5% Fe, 42.7% SiO₂, 0.8% Al₂O₃, 0.09% P, and -0.7% LOI following a re-optimisation and re-design of the Karara open pit. The reserve upgrade has also confirmed the high quality of the Karara orebody with an extremely low waste-to-ore stripping ratio of 0.38:1.
- Mr Robin Marshall, a former Vale, Inco and BHP Billiton Iron Ore executive, was appointed to the Gindalbie Board as an independent Non-Executive Director, following the retirement of Mr Tunku Ya'acob Bin Tunku Abdullah, the Chairman of former substantial shareholder Melewar Industrial Group Berhad.
- Chief Financial Officer Mr David Southam resigned and a replacement is expected to be appointed mid-January.

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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.



Drill and blast operations

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 \$1.26 billion during the December Quarter with current commitments within 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 across areas of rail, power, water and port to support production levels of 14-36Mtpa.

Initial hematite mining, crushing and stockpiling has commenced. First hematite sales from the Karara Project are scheduled for mid-2011. Commissioning of the magnetite concentrator is scheduled for the December Quarter 2011, with first product sales to occur in early 2012.

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

\$US274.5 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 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.

Equity

Gindalbie and Ansteel made further equity contributions to Karara Mining Limited of \$19.1 million each on October 19, in line with the equity contribution schedule. Gindalbie's payment was made from existing cash reserves and was money that had been earmarked for this purpose from the capital raising undertaken in May 2010.

Project Development

Mine Site and Concentrator

The detailed engineering design is 80% complete with concrete and structural steel packages the most advanced. The design is expected to be complete by June 2011. The fabrication of structural steel commenced with the first package expected to be delivered to site during February 2011.

Concrete work is approximately 30% complete with 15,000m³ laid. An initial early works structural, mechanical and piping (SMP) contract has been awarded to commence installation of the ball mills. All four complete ball mills are on site.

Work has commenced on foundations and footings for secondary crushers, tower mills and high pressure grinding rolls, HPGR screens, primary crusher, crushed ore stockpile, concentrate thickener and pipe racks.

The two high pressure grinding rolls are on site, as is the primary crusher and three complete secondary crushers. Both secondary screens are also onsite.

Approximately 15km of bitumen roads have been constructed across site. The 330kV transformers have been installed.



Karara's 330kV power transformers (L) and ball mill installation (R)

The Karara Airstrip was completed and is now licensed for and receiving 50 seat aircraft

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

Port

Laing O'Rourke 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 95% complete and concrete foundations for the ore storage facility are 40% complete with 600m³ poured. The ship loader for Berth 7 and dual rail wagon tipper supply is progressing in line with schedule requirements.

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



Geraldton Port works

Water

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

The data required to support the water licence application was formally submitted and is expected to be granted in the June Quarter 2011.

DM Civil now has 30km of pipeline strung on the surface ready for installation. Approximately 16km of the 130km pipeline has been installed. The entire pipe order has now been delivered to site.



Karara water pipeline installation

Power Transmission Line

Downer EDI has now completed 120 of 351 power transmission tower bases. Structural steel for the towers has begun arriving on site and delivered ready for assembly at 29 sites. Twelve towers have been assembled on the ground and two towers erected.

An accommodation camp at Three Springs is being established to assist with the transmission line installation. Forty rooms of a 150-room facility have been installed.

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



330kV transmission towers

Rail

Macmahon progressed the rail spur earthworks commencing at the Karara rail loop and the major cutting at Koolanooka. Approximately 20% of the earthworks for the rail spur have been completed.

The rail line has been manufactured and the first of two rail shipments has arrived with the second and final shipment due in early 2011. Approximately 80% of the sleepers required are being stockpiled on site.

Commercial negotiations with above and below rail operators continued during the quarter. Both of these negotiations are at a very advanced stage.



Rail works

Contracts and Procurement

Total commitments for the Karara Project reached \$1.26 billion as at 31 December.

Supply and delivery of all ordered materials and equipment remains on 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
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
Facilities Management	Sodexo
Power transmission line design and construct	Downer EDI
Structural Steel Supply	Ansteel
Karara site switch room supply	Plummers

Trial Mining

During the December Quarter a Trial Mining project was carried out based around the two DSO deposits at Karara. The initial focus was on the Karara South Deposit with Karara East being brought into production in mid-December.

Mining up to end of the Quarter, produced approximately 290,200 tonnes comprising 37,600 tonnes of high grade at 58.19% Fe, 3,960 tonnes of medium grade at 55.69% Fe, 48,930 tonnes of low grade at 52.08% Fe and 198,020 tonnes of waste.



Trial mining operations

A mobile crushing circuit, assembled on site during November, has processed approximately 60,000t of product, including 32,000t of high grade (17,500t lump and 14,500t of fines).

The DSO product has now been stockpiled on site in readiness for first ore sales by mid-2011.

Karara Project Exploration

Reserve Upgrade

During the Quarter there was a substantial increase in the JORC compliant magnetite Ore Reserve for the Karara Project to 977.5 million tonnes.

The updated Probable Ore Reserve for the Karara Deposit now totals 977.5 million tonnes grading 36.5% Fe, 42.7% SiO₂, 0.8% Al₂O₃, 0.09% P, and -0.7% LOI and follows a re-optimisation and re-design of the Karara open pit. The reserve upgrade has also confirmed the high quality of the Karara orebody with an extremely low waste-to-ore stripping ratio of 0.38:1.

The total reserve of 977.5Mt, including the nearby Blue Hills deposit, represents an 87% increase on the previously published Probable Ore Reserves (as reported in the Company's 2010 Annual Report) of 522 million tonnes grading 36.6% Fe, 42.6% SiO₂, 0.8% Al₂O₃, 0.09% P and -0.7% LOI.

Karara's total JORC Compliant Resource of 2.518 billion tonnes grading 34.1% Fe, inclusive of the above reserves, remains unchanged. The updated Ore Reserves were calculated based on a re-optimisation of the Karara open pit which was undertaken as a result of:

- the inclusion of additional in-fill drilling results received from drilling conducted following completion of the Bankable Feasibility Study (BFS) in September 2007. This drilling further increased confidence levels in the resource, enabling the conversion of 96% of the resource of Indicated status, available for conversion to Ore Reserves;
- further refinement of the open pit design to further reduce the strip ratio and mining cost and reflect the latest changes in geology, geotechnics and the processing plant; and
- the availability of more accurate mining cost information due to the receipt of final tenders for contract mining.

The additional infill drilling conducted at Karara has significantly confirmed confidence in the deposit and in particular its ability to support continued upgrades in production capacity of magnetite concentrate up to the planned optimum of at least 30Mtpa.

The total Karara Project magnetite Ore Reserve is summarized below:

Pit	Mt	Fe%	SiO ₂ %	Al ₂ O ₃ %	P%	LOI%
Karara	955.5	36.4	42.8	0.8	0.09	-0.7
Blue Hills	22.0	41.3	36.8	0.4	0.09	-0.2
Total	977.5	36.5	42.7	0.8	0.09	-0.7

The main Karara orebody remains open at depth and along strike to the north-west along the Karara Ridge, offering excellent potential for further additions to the Resource and Ore Reserve inventory as mining progresses.

Exploration

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 December Quarter included finalising statutory approvals and completing the earthworks required for commencing drilling programs scheduled for the March Quarter, 2011. These programs will focus on bedded goethitic-hematite mineralisation at the Brak and Hinge prospects as well as interpreted paleochannel detritals south of Karara.

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. An exploration budget of \$8 million has been approved for 2010-11 for work on Gindalbie's extensive Mid West tenement package outside of the Karara Joint Venture.

The primary activities completed during the December Quarter were the finalising of statutory approvals and the completion of earthworks at the Onga, Aroha North and Lodestone prospects. This work was required to allow the commencement of drilling programs now scheduled for the March Quarter 2011.

During the December Quarter Gindalbie successfully recruited a new team of Exploration Geologists to undertake these programs.

CORPORATE

Equity Raising

Gindalbie's \$74.5 million share placement to its joint venture partner Ansteel, which formed part of the \$206.4 million capital raising earlier this year, was completed during the Quarter following receipt of final Chinese regulatory approval.

Gindalbie allotted 80.107 million shares at \$0.93 per share to Angang Group Hong Kong (Holdings) Limited. Other elements of the capital raising included a \$111.8 million institutional share placement and a strongly supported Share Purchase Plan (SPP) to existing shareholders.

The funds raised are predominantly being used to fund Gindalbie's equity share of the construction cost of the Karara Project, as well as its equity share of the estimated \$430 million working capital requirements for the Project. Any surplus funds will strengthen the Company's working capital position and its ability to target new growth opportunities.

Board and Executive Management

During the period Mr Tunku Ya'acob Bin Tunku Abdullah resigned as a Non-Executive Director of Gindalbie. Tunku Abdullah is the Chairman of Melewar Industrial Group Berhad, a former substantial shareholder in Gindalbie, and has served as a Director since October 2004.

Also during the period experienced international mining executive, Mr Robin Marshall, was appointed to the Gindalbie Board as an Independent Non-Executive Director.

The appointment of Mr Marshall – who previously held senior executive positions with Vale Inco and BHP Billiton Iron Ore – further strengthens the Gindalbie Board in the key areas of project construction and management, mining and corporate strategy.

In conjunction with the appointment of Mr Tim Netscher as an Independent Non-Executive Director in September, Mr Marshall's appointment also ensured an appropriate level of diversity and independence within the Board following the retirement of Tunku Abdullah.

Gindalbie Chief Financial Officer Mr David Southam tendered his resignation to take up the role of Finance Director at Western Areas. A replacement is expected to be appointed mid-January.

Cash Reserves

At 31 December, the Consolidated Entity had cash reserves of A\$251.62 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\$200.16 million. Gindalbie has nil corporate debt.

Shareholder Information

As at 31 December, 2010, the Company had 935,215,590 shares on issue and 15,860 shareholders. The Top 40 shareholders held 69.80% 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.