

Key Points

- Karara Iron Ore Project revised total construction cost estimate of A\$2.57 billion
- First magnetite concentrate shipment anticipated in June 2012
- Erection of structural steel and installation of major processing components has commenced
- At 30 June 2011, the Consolidated Entity had cash reserves of A\$237 million



Karara tower mill installation

Executive Summary

- The Karara Project has reached a major milestone with civil work nearing completion and structural steel erection commencing. The Project's four ball mills are in place and installation of the tower mills, secondary crushers, and high pressure grinding rolls has begun.
- Civil works for the storage shed at Geraldton Port have been completed and 500t of structural steel has been erected. The Port facilities are scheduled for commissioning in March Quarter 2012.
- 151 towers for the Karara power transmission line have been erected. Aerial stringing of the power line is expected to commence in the September Quarter. Work has commenced on the Three Springs substation. The power line is scheduled for commissioning in the March Quarter 2012.
- Karara rail spur is 82% complete and scheduled for commissioning in the December Quarter 2011.
- Approximately 580,000t of hematite Direct Shipping Ore (DSO) has been mined to date from the Karara South and Karara East pits. Mining has started at the Blue Hills North deposit, the major DSO source for 2012.
- The water pipeline is scheduled to be commissioned in the December Quarter 2011. The awarding of the water licence continues through the approvals process and is expected in the September Quarter.
- Commissioning of various components of the main Karara Concentrator will commence in January 2012 with anticipated first shipment of magnetite concentrate in June 2012. Ramp-up of magnetite production is expected to take approximately six months with full production scheduled to be achieved by the end of 2012.
- To cover its share of the estimated increased construction cost, Gindalbie continues to consider equity alternatives that will give shareholders the opportunity to participate on an equitable basis.
- Current indications are that forecast average cash operating costs will be in the range of A\$65-68/t for production of 10Mtpa (8Mtpa magnetite concentrate and 2Mtpa hematite DSO) FOB Geraldton ex-royalties. Unit costs will reduce as production is increased and it is anticipated that average cash costs for production of 16Mtpa would be in the order of A\$55-60/t.

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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 Development

Mine Site and Concentrator



Ball mill gear boxes (L) and tower mill ball storage (R)



The detailed engineering design for the Magnetite Concentrator Plant is approximately 95% complete.

The fabrication of structural steel for Karara continues to accelerate with more than 2000t for the Geraldton Port storage shed now delivered. The first structural steel packages for the concentrator have arrived on the mine site.

Concrete work is approximately 74% complete with more than 34,000m³ placed. Current work has been focussed on concrete for the process plant thickeners, conveyors, pipe racks and substations.

All major items of processing equipment are now on site and available for installation. All bitumen roads have been constructed across site as well as ancillary roads, hardstands and access ways.

The initial Structural Mechanical and Piping (SMP) early works contract to install the four ball mills has progressed well with 64% of the package complete and all four of the balls mills in place on their pedestals. The Magnetite Concentrate thickener is in place on its foundations awaiting mechanical and electrical installation.

A second early works SMP contract is well underway with installation of the tower mills, secondary crushers, and high pressure grinding rolls well progressed. Long lead items including major piping components form part of this package. The full SMP package is expected to be awarded during the September quarter.

The major Electrical and Instrumentation (E&I) package is in the final stages of negotiation, with award expected in the September quarter. The buried electrical services contract has been awarded.



Karara Magnetite Concentrator site

The Karara Airstrip is receiving at least daily 50 seat flights to accommodate the increase in site work force.

A total of 1940 rooms have been completed for use across four villages with current manpower forecasts suggesting this will be sufficient for construction and operational activities.

Port



Geraldton storage facility

The joint venture company Karara Mining Ltd (“KML”) is investing more than \$200 million on infrastructure at Geraldton Port to enable capacity of approximately 16Mtpa. This capacity is suitable for the Stage 1 production level of 10Mtpa and the anticipated Stage 2 expansion to 16Mtpa.

For production beyond 16Mtpa Karara requires the development of Oakajee Port and has signed an MOU as a foundation customer of the project and KML continues to be engaged in constructive negotiations with all parties involved.

At Geraldton Port the civil work for the dual wagon tipper is 65% complete with major mechanical components being received and stored at the Port prior to installation.

The civil work for the storage shed is essentially complete with 2250m³ concrete placed. The structural steel has arrived for the shed with over 500t already erected.

Earth works for the Berth 7 are essentially complete with piling also commencing. The ship loader, berth structure and dual rail wagon tipper supply is progressing in line with schedule requirements. The SMP and E&I contract negotiations for the Port are continuing.

The Port infrastructure is scheduled to be commissioned in the March Quarter 2012.

The Port Services Agreement with Geraldton Port Authority is in the final stages of negotiation.

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 continues through the approvals process. A licence is expected to be granted in the September Quarter. An interim construction water licence of 0.9Gl was extended during the Quarter.

More than 104km of 130km of pipeline has been installed. The Yandanooka pump station is 41% complete. The water pipeline is scheduled to be commissioned in the December Quarter 2011.



Power Transmission Line



254 tower foundations have been cast and 151 towers have been erected. All structural steel for the towers has been delivered in advance of erection. An early works earth works contract for the Three Springs substation commenced during the period.

Aerial stringing of the towers is expected to commence during the September Quarter. The power line is scheduled to be commissioned in the March Quarter 2012.

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

Rail



Karara locomotives (L) and Karara rail spur (R)

Progress on the rail spur earthworks reached completion with only one salt lake crossing left to complete. The overall package is 82% complete with over 50km of 80km of sleepers in place and rail welding set to commence. Substantial ballasting of the sleepers has been completed. The rail spur is scheduled to be commissioned in the December Quarter 2011.

During the period KML signed a long-term Rail Haulage Agreement (“RHA”) with QR National Freight’s subsidiary Australia Western Railroad Pty Ltd to transport up to 10Mtpa of magnetite concentrate and/or hematite direct shipping ore over a period of 10 years.

Under the agreement, QR National Freight will invest in excess of A\$200 million in new locomotives, wagons and upgraded administration and maintenance facilities at the Narngulu East Facility near Geraldton.

Once ramp-up is completed, the rail haulage services provided by QR National Freight will involve four trains per day with 100 wagons per train.

Conditions precedent to the RHA are the signing of rail access agreements with rail owner WestNet and a direct agreement with KML's security trustee, all of which are in advanced stages of negotiation, and KML obtaining the consent of its financiers to the final form of the RHA.

Commercial negotiations with WestNet continued with closure expected shortly.

Mining and Shipping

Trial Mining

Trial mining at the Karara South and Karara 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.

Unit: '000t	Q4 2010	Q4 2010	Q1 2011	Q1 2011	Q2 2011	Q2 2011	Total
	Lump	Fines	Lump	Fines	Lump	Fines	
High Grade	19	10	135	87	83	73	407
Medium Grade	3	1	12	17	20	9	62
Low Grade	8	3	14	11	40	23	99
Total	30	14	161	115	143	105	568

The Karara South deposit was completed with the Karara East deposit coming on line as replacement. Production rates decreased in line with the magnetite stripping schedule and raiing opportunities.

Iron ore lump and fines product continues to be stockpiled throughout the supply chain allowing continuity of supply.

There were eight combined shipments with SinoSteel MidWest Corporation with a total of 141,000t of lump and fines loaded by Karara during the Quarter.



Trial mining at Karara



DSO Mining



Blasting at Blue Hills North



In addition to the trial mining referred to above and the magnetite mining referred below, Karara will shortly commence a DSO mining operation. To this end, mining operations at the Blue Hills North deposit commenced during the Quarter. This will be the major source of DSO for 2012.

Civil and mining contractor Brierty Limited was awarded the contract for hematite mining as well as associated services at Karara. The contract is valued at around A\$185 million and will run for approximately four years.

Magnetite Mining

Significant pre-stripping of the magnetite orebody has occurred as a result of the trial mining operations at Karara South and Karara East. Finalisation of the mining contract is currently at an advanced stage with long lead time equipment ordered.

Karara Project Exploration

No exploration activities were undertaken on the Karara Project during the Quarter. Exploration involving air core drilling to test interpreted regional channel detrital iron deposit target is planned to occur during the next six months.

Project Construction Cost Estimate and Schedule

A comprehensive review of the Karara Project was completed with a revised total construction cost estimate of A\$2.57 billion. The revised cost estimate is based on all available data from the detailed design for the Karara concentrator (currently over 95% complete) as well as tender prices for the final remaining major construction packages (structural, mechanical, piping and electrical and instrumentation) for the Concentrator.

Approximately 70% of the increase relates to increases in material quantities (such as concrete and steel) which have emerged as detailed design work nears completion and construction contracts are awarded. The balance relates to the higher cost of materials, labour and fuel due to general inflationary pressures and scope changes on the plant. Scope expansions relating to port and power line are expected to account for A\$125 million of the increase in forecast capital cost, which sets the project up for its first expansion phase.

The underestimation of material quantities has been the result of the Joint Venture's strategic decision to commence construction at Karara in 2009 prior to completion of the detailed design process in order to ensure the Project was developed as quickly as possible in the increasingly-competitive WA construction market.

Approximately \$1 billion of the overall construction cost is invested in the construction of infrastructure which is being built with additional capacity for an ultimately larger project at Karara. This up-front investment in infrastructure is expected to result in substantial cost savings over the long term as the Project increases production from an initial 8Mtpa of magnetite concentrate to its long-term potential of +30Mtpa. Approval has been given to start scoping studies on a proposed expansion of the Karara Project from its start-up production level to potentially 16Mtpa.

Commissioning of various components of the main Karara Concentrator will commence in January 2012 leading to the anticipated first shipment of magnetite concentrate in June 2012. Ramp-up of magnetite production is expected to take approximately six months with full production scheduled to be achieved by the end of 2012.

Project Funding

Debt

US\$778.5 million of the US\$1.2 billion Karara Project Loan Facility had been drawn down at the end of the Quarter.

In April KML signed a framework agreement for an additional US\$336 million working capital facility to fund non-construction related working capital and financing expenses to be incurred prior to the emergence of positive cash flows, from the sale of magnetite concentrate during the second half of 2012.

A framework agreement was also signed with China Development Bank to provide a separate US\$300 million bank guarantee for security to underpin key rail access agreements which are currently being finalised with WestNet Rail for the existing 200km narrow gauge railway line from Tilley Siding (near Morawa) to Geraldton. KML is building an 85km spur line from the Karara Project to connect with this line.

Operating Cost Review

A review of forecast operating costs for the Karara Project is nearing completion, subject to finalisation of key rail, port and mining contracts. Current indications are that forecast average cash operating costs will be in the range of A\$65-68/t for production of 10Mtpa (8Mtpa magnetite concentrate and 2Mtpa hematite DSO) loaded onto a vessel at Geraldton Port, not including royalties.

Unit operating costs will reduce as production is increased. As well as general efficiencies of scale, costs such as the fixed rail capital charge will be amortised across much larger tonnages. It is anticipated that average cash costs for production of 16Mtpa would be in the order of A\$55-60/t.



The identified Karara resource has the potential to support production of +30Mtpa for 30 years and while the long term operating cash costs based on annual volumes of greater 16Mtpa cannot currently be reasonably estimated, they are expected to be lower again due to further substantial economies of scale, particularly with respect to rail costs and Concentrator operating costs.

The Karara project is expected to generate very robust margins because of the premium quality and subsequent pricing of the magnetite concentrate.

Concentrate thickener

GINDALBIE REGIONAL EXPLORATION

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

The primary activities during the June Quarter included first-pass Reverse Circulation (RC) drill testing of the Lodestone magnetite prospect and commencement of delineation drilling at the Shine hematite prospect which is part of the Warriedar Joint Venture with Royal Resources.

RC drilling at Lodestone, with the aim of undertaking first-pass testing of the magnetite potential of the un-oxidised Band Iron Formation (BIF), was completed. A total of 24 RC holes for 4,574 metres were drilled on nominally 400 metre line spacing over the seven kilometre strike length of the target BIF. Drilling targeted between four and six discrete and steeply west dipping (>60°) BIF units, each with an average thickness of around 30 metres. Drill hole assay results for the oxidised and unoxidised portions of the BIF units indicate an average grade of 37% Fe, with significant assay results tabulated in Appendix 1. Planning is in progress to undertake a systematic exploration program aimed at delineating an Inferred Resource over the next 18 months.

At Shine, RC drilling at nominal spacing of 100 metre by 25 metre and targeted diamond core drilling for metallurgical testing commenced. A total of 47 holes for 4,377 metres of RC drilling and 4 holes for 521.9 metres of diamond core drilling were completed for resource delineation purposes across the hematite project. Assay results are expected in the coming month.

On completion of the resource delineation programs at Shine resource modelling and feasibility work will be progressed with the aim of determining development options.

Assay results have been received for the 22 RC holes for 1,798 metres that were drilled at Onga during the March Quarter. Drilling was completed across seven sections on nominally a 50 metre line spacing to test a 300 metre strike length of two BIF units. The western and eastern BIF units have an average thickness in outcrop of around 15 metres and 20 metres respectively. Assay results indicate narrow zones, on average <3 metres thickness, of mineralisation. Significant assays results from drilling at Onga are included in Appendix 2.

Gindalbie is committed to developing a portfolio of quality exploration and development projects and has commissioned a regional target generation project across its large tenement portfolio aimed at identifying a pipeline of quality projects.



CORPORATE

Cash Reserves

At 30 June 2011, the Consolidated Entity had cash reserves of A\$237 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\$149 million. Gindalbie has nil corporate debt.

Shareholder Information

As at 30 June 2011, the Company had 935,215,590 shares on issue and 17,138 shareholders. The Top 40 shareholders held 66.46% of the Company.

GINDALBIE METALS LTD


TIM NETSCHER
 Managing Director and CEO

Competent Person Compliance Statements

The information in this report that relates to Exploration Results is based on information compiled by Mr Ian Shackleton who is a Member of the Australasian Institute of Geoscientists.

Mr Shackleton is a full-time employee of Gindalbie Metals 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 Shackleton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Appendix 1

Table of significant assay results ≥ 20 metres at $\geq 30\%$ Fe for Lodestone.

Hole Number	From (m)	To (m)	Length (m)	Grade (Fe %)
LSC020	22	46	24	34.57
LSC021	30	134	104	35.76
LSC023	46	162	116	38.36
LSC024	54	130	76	37.67
LSC025	58	78	20	38.49
LSC026	38	196	158	37.62
LSC027	0	104	104	40.94
LSC028	42	114	72	39.60
LSC028	118	148	30	34.34
LSC029	0	20	20	39.77
LSC030	14	102	88	37.34
LSC031	70	134	64	36.11
LSC032	2	130	128	37.69
LSC033	26	182	156	38.74
LSC033	186	240	54	34.97
LSC034	36	68	32	34.42
LSC034	96	116	20	31.74
LSC036	0	162	162	44.80
LSC037	2	28	26	32.68
LSC038	0	72	72	34.90
LSC038	78	148	70	34.53
LSC041	136	200	64	33.23
LSC042	10	34	24	33.92
LSC043	88	122	34	32.84
LSC043	148	180	32	34.19

Grade is based on a drill hole length weighted average

Appendix 2

Table of significant assay results >2 metres at >57% Fe for Onga.

Hole Number	From (m)	To (m)	Length (m)	Grade (Fe %)
Onc005	102	105	3	59.88

Grade is based on a drill hole length weighted average

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