

Sustainability Report

SAFETY MANAGEMENT

Gindalbie and its joint venture company Karara Mining Limited (KML) value the safety and health of all of its employees, contracting partners, site visitors and the wider community in which they operate, and are committed to a 'zero harm' philosophy relating to safety performance in all areas of the businesses.

As the Karara Project gains momentum, transitioning from construction into an advanced mining operation, a risk based strategy for safety management is embraced.

The Occupational Health and Safety Management System is aligned to the AS/NZS 4801:2001 standard which provides a framework for industry best practice operations.

As standard practice, the Companies:

- Do not compromise on health and safety standards;
- Include health and safety considerations in planning work;
- Identify, assess, mitigate and manage risks;
- Ensure work meets relevant standards and codes of practices;
- Develop, engage and empower employees and contractors;
- Set measurable objectives and targets aimed at continuous improvement and eliminating work related illness;

- Collaborate and communicate with employees with respect to all health and safety endeavours; and
- Maintain a health and safety system based on best industry standards.

Through the above practices, an exceptional level of safety performance at Karara has been achieved. The 12-month rolling total lost time injury frequency rate (LTIFR) is 0.66, based on combined KML and contracting partners' working hours (4,574,180). This compares to the 2010-11 average LTIFR published by WorkSafe for the Metal Ore Mining sector of 4.18 and 14.19 for the Construction Services sector.

During the year, the most common injuries were finger and hand injuries and minor back strains.

As a way of highlighting safety and promoting some friendly rivalry between contract partners, KML implemented a virtual horserace-style competition called the Karara Kup, with contractors vying to win the right to fly a safety flag for a month. Under the competition KML extracts statistical data from the contract partners' weekly reports and displays and updates the safety performance collectively in the form of a virtual horserace.

This simple idea has been highly successful by using a fun approach to promote a very serious area. Winning the monthly flag has become a highly-prized addition to a contractor's area and is flown with a great sense of pride.

Further forging a strong relationship with contracting partners has enabled a co-operative and positive approach to mine site safety. A joint initiative was undertaken last year whereby a Safety Committee was developed, a Health and Safety Constitution was established and weekly safety performance meetings were introduced. These continued this year. The outcomes of these meetings are subsequently presented at Executive Safety Meetings, regularly held onsite with members of KML's Senior and Project Management.

Alcohol breath testing for all site personnel prior to the commencement of each shift is mandatory. This is in addition to regular, random drug and alcohol testing. Employees are also required to complete 'Take Five' assessments to seek out and mitigate potential hazards at the start of a new task. Safe Act Observations must also be completed to regularly assess 'business as usual' scenarios for any opportunity to reduce risk or potential hazards further. Formal Job Safety Analysis' must be completed prior to the commencement of every new task and updated on a regular basis. Figure 1 shows the achievement in these areas.

Fluctuations of the lead indicator values are consistent with the fluctuations in contractor person hours recorded each month.

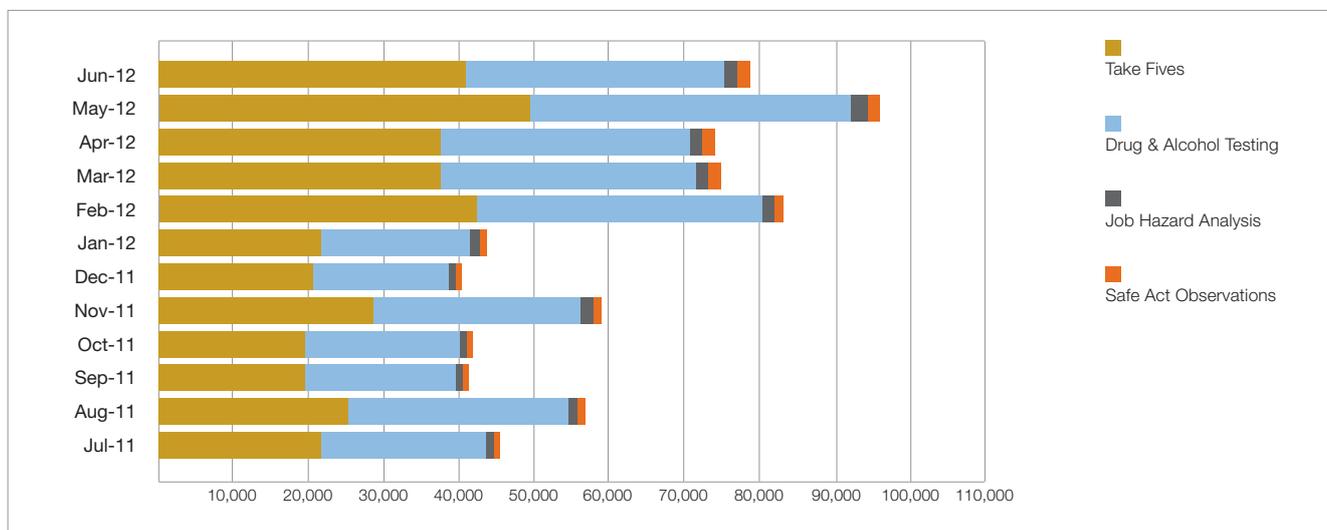


Figure 1 Lead Indicators Statistics Reported 2011-2012

Sustainability Report

Continued...

Gindalbie understands the compliance obligations with regards to mine site health and safety. The transition from construction to operations transfers the key regulating legislation from the Occupational Health and Safety Act 1984 (OHS Act) to the Mine Safety and Inspection Act 1994 (MSI Act). Current processes and procedures have been developed to ensure compliance with the MSI Act when it takes effect.

To facilitate this, an operations safety team has been employed and has developed and put in to use a comprehensive audit schedule to ensure full compliance in line with MSI Act and Regulations. This team continues to work alongside the construction safety team to ensure obligations to both OHS and MSI Act are met.

The Department of Mines and Petroleum has conducted a number of inspections of the mine during the reporting period. A provisional improvement notice was issued to KML for lack of delineation along a haul road during the time of the traffic management plan audit. This was rectified immediately.

At the time of writing the Karara Mining Geraldton Port Project Management Plan had been approved by the DMP, while approval for the shiploader was imminent.

HUMAN RESOURCES MANAGEMENT

Gindalbie recognises that people are the underpinning factor in the success of the business. It is the group of talented and committed people whose values align to the Company's, which is the critical ingredient that determines the Company's success.

KML shares the same values and commitment to its people.

WORKFORCE

With an expected mine life of more than 30 years, the Karara Project will generate an estimated 600 direct and indirect long-term jobs.

As the Karara Project has continued to progress with its construction phase into operations, Gindalbie's and KML's combined workforce has grown by more than 20 per cent during 2012.

The workforce is set to continue to grow rapidly in the coming year in line with the commissioning and ramp-up of the Karara Project and the potential development of other Gindalbie projects.

With the increasing workforce, both companies will continue the commitment to their Local Preference Policy in sourcing the workforce, where possible, from within the Midwest region and WA.

INVESTING IN OUR FUTURE

Gindalbie and KML are committed to providing a professional and rewarding environment where employees can grow and develop their careers. The Companies offers opportunities across a wide range of career disciplines. The Companies seek people who not only have the right skills, experiences and abilities, but also possess a level of passion and commitment and are eager to exceed their capabilities.

Developing and retaining a skilled employee group is critical to business performance. The performance management system assesses performance and behaviours and aligns people and the business objectives, together with identifying learning and development opportunities. Continual learning and development has allowed the implementation of a 'promote from within' policy.

In 2012, KML continued its Midwest University Scholarship Program. The program represents an opportunity for KML to develop innovative new pathways for students to gain a long-term career with the Karara Project, helping to address the skills shortage in the region and provide new employment opportunities for local communities.

The program provided financial support for eight Midwest University Students who are pursuing degrees relevant to mining including Environmental, Engineering and Accounting, with a view to employ these students once they graduate. One student has recently graduated and has joined the KML Environment Team full time.

The university scholarship program follows KML's High School Scholarship program for mechanical and electrical apprenticeships launched last year.

Thirteen students in Years 11 and 12 from across the Midwest have been offered a high school scholarship. Each will participate in a three year apprenticeship with KML after they complete their High School Certificate. This program earned recognition during the year from the Department of Training and Workforce Development and the Education Minister, the Hon Peter Collier.

In conjunction with the Durack Institute, Gindalbie has also committed to \$2.4 million over three years for up to eight local Midwest people to gain Certificate III traineeships for Process Operator roles in the Karara Concentrator.

KML's commitment to local indigenous engagement and participation will continue over the coming year with the implementation of its Indigenous Employment program. This program offers assistance with employment, training, small business opportunities and career pathways.

REMUNERATION STRATEGY

Gindalbie and KML offer a competitive remuneration package to employees which is reviewed annually against the employee's contribution and comparative industry organisations. The remuneration package consists of a competitive salary and short-term incentive bonus. This fosters a performance oriented culture which attracts, retains and motivates employees, whilst encouraging them to meet their full potential.

The executive remuneration strategy was enhanced by implementing a long term incentive plan which enables the attraction and retention of key executives. The performance related plan is aligned to long term strategic objectives and in turn will maximise shareholder return.

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Gindalbie and KML are committed to delivering long term and sustainable business operations to genuinely benefit the needs and aspirations of Midwest communities.



Sustainability Report

Continued...

COMMUNITY ENGAGEMENT

Gindalbie and KML are committed to delivering long term and sustainable business operations to genuinely benefit the needs and aspirations of Midwest communities. Given that Gindalbie and KML have not yet moved into cash generation mode, like all other expenditure, community expenditure needs to be carefully managed. To this end, the two driving principles of our community program are 'targeted' and 'cost-effective'. We target our community investment into areas which are likely to deliver the most sustainable benefit and we employ a number of mechanisms to ensure cost effectiveness, such as leveraging off other organizations in the area, targeting activities which are likely to also have spin-off benefits for the company and involving the community in delivering the benefits, thereby ensuring ongoing ownership. As such, our community investment activities focus on regional health, education, youth development and housing. A significant financial investment was made into the local community this year as well as numerous community initiatives which directly engage the local community providing both short and long term benefits.

Under the Local Content Policy, of the 1,594 businesses engaged to date in the construction and development of the Karara Project, 98 per cent are Australian and nearly 20 per cent of these businesses have been from the Midwest itself, as illustrated in Figure 2. This amounts to over \$220 million being spent within the Midwest, compared with approximately \$200 million spent overseas and more than \$2 billion spent in Australia, with the predominant spent in Western Australia.

In addition to the high community contribution through business, a number of successful community initiatives have been developed in the past 12 months including:

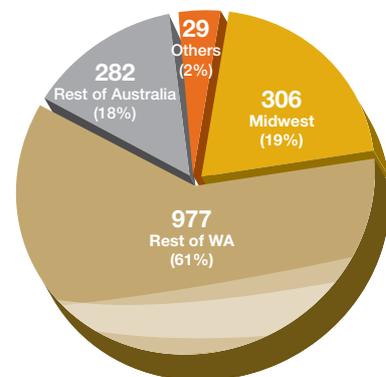
- The Karara Community Farm - The Farm, developed last year on 600 acres of KML-owned land, is a sustainable resource for community groups to utilise to generate their own profits as an alternative means of fundraising. Groups from within the region are welcome to submit

an application for the farm which is awarded to a group based on merit. The Farm was provided to the Morawa Winter Sports Group in 2011 that raised \$90,000 through a successful wheat crop. They plan to use the money to improve their sporting facilities. This year, the use of the Farm has been awarded to the Morawa Golf and Bowls Club which is a focal point of the community of Morawa;

- Educational Scholarships – Funding has been provided for thirteen apprenticeships, eight tertiary scholarships and up to eight traineeships. Please refer to the Human Resources Management section for more information;
- Karara Community Health Fund – In June this year, the Karara Community Health Fund was officially launched. The Fund, which is underpinned by an initial \$300,000 investment, will be available to provide a co-funding source for the surrounding communities to secure Government funding for health related infrastructure in the local Shires of Mingenew, Morawa and Perenjori. The initial investment has come from a range of sources including employee fundraising activities, key contractor partners and innovative revenue generators such as selling scrap metal to metal recycling facilities and sales of sandalwood collected on farming properties owned by KML;
- Partnership with the Royal Flying Doctor Service (RFDS) – subsequent to the end of the reporting period, a long-term community health initiative for the Midwest region was announced involving a partnership with the RFDS to launch a new Mobile Dental and Primary Healthcare Clinic. The state-of-the-art mobile clinic – which will be purchased and equipped by KML through the Community Health Fund and operated by the RFDS – will operate in a number of Midwest Shires which have been closely involved with, and supportive, of the development of the Karara Project. A key focus of the mobile clinic will be the provision of mobile dental

healthcare services to these Shires, which will be covered based on a yearly schedule centered on a certain number of weeks across the year;

- Mingenew Housing Project – Provision of two houses (\$688,000 cost) for use by the Shire to attract and house key workers to the region; and
- Morawa General Practitioner (GP) Flights – KML have provided 26 return flights to Perth per year on the Company's regular fly-in, fly-out charter service to assist in attracting and retaining good quality GP's in the Shires of Morawa, Perenjori and Mingenew.



TOTAL 1,594 SUPPLIERS

Figure 2 Breakdown of businesses associated with Karara Project

GERALDTON IRON ORE ALLIANCE

Gindalbie is a member of the Geraldton Iron Ore Alliance, which is dedicated to promoting the development of a viable and sustainable iron ore industry in the Midwest region. While the key objectives of the Alliance involve securing broad support and Government commitment to achieve public policy settings to facilitate and promote industry growth in the region, the Alliance companies also recognise that the area's youth of today are the employees of the future. As such, the Alliance has pledged its support to community and youth initiatives such as:

- Midwest Economic and Resources Summit (event partner);
- Community Careers and Training Expo (event partner);
- Midwest Business Excellence Awards (award sponsor); and
- Youth-N-Motion (partnership sponsor).

Sustainability Report

Continued...

INNOVATION

The Geoff Wedlock Innovation Park, a KML-owned ex-farming property was earmarked as an area to be partially rehabilitated and the remaining land available for innovative projects. Innovative ideas are submitted by employees and assessed over a range of criteria, where environmental benefits are favoured.

These projects have the support of the Chief Executive Officer and fulfill a commitment to support the local community through joint ventures and partnerships. Over a period of ten years, Gindalbie plan to develop the area into a show-piece for conservation and innovative, renewable energy farming solutions. Innovative projects which are underway include:

- Aquaponics – A small scale aquaponics system, made solely with reused materials, was established to grow a variety of plants, in particular vegetables and natives for rehabilitation works. Wastewater from a fish tank (containing around 50 perch) is fed through vegetable beds, where nutrients are stripped by the plants and micro-organisms living in the root zone. The 'cleaned' water is then returned to the fish tank. The success of the system has demonstrated the potential for a larger aquaponics system to be constructed. It is envisaged that the growth of species for rehabilitation and fresh vegetables and fish for the

camps will be a sound sustainability initiative for the company;

- Poultry enterprise – A chicken farm is being established as part of a greater plan to become more self-sufficient with food supplies for the mine site. Producing eggs near the mine site will reduce the current carbon footprint associated with delivering fresh eggs to a remote area. The chickens will also be able to be partially fed on vegetable 'scraps' from the site, reducing waste sent to landfill; and
- Agroforestry – Carob tree seedlings were planted last year and they continued to thrive this year. This forms part of a 12 year agroforestry trial developed in conjunction with Ainsley Agroforestry trialing the growth of Carob trees for a new market in WA.

Other Innovation projects which are being assessed include renewable and alternative energy sources, carbon farming initiatives, rehabilitation trials and waste management solutions.

INDIGENOUS AFFAIRS

Heritage

In the last 12 months, an Aboriginal Heritage Management Plan was approved by the Department of Indigenous Affairs (DIA) and implemented. Four members from each of the local indigenous groups Amangu, Binyardi, West Badimia and Widi have undertaken a Heritage compliance survey across the infrastructure

footprint. The following milestones have also been achieved:

- All Section 18 Compliance Reports approved By DIA;
- Heritage Agreements revised and implemented;
- Compliance with all Approved Section 18 Notices of Consent and Conditions (undertaken by Amangu, Binyardi, West Badimia and Widi); and
- Monthly Progress Reports provided to local indigenous groups.

Indigenous Employment

Assistance continued for local business initiatives and in identifying employment opportunities for Indigenous people. During the year four Traineeships granted within the Karara Project and negotiations are progressing with the Mid West Employment and Economic Development Aboriginal Corporation (MEEDAC) to develop local employment initiatives within the Geoff Wedlock Innovation Park such as building a nursery and an Aboriginal Ranger Training Program.

Cross Cultural Awareness Training

Cross cultural awareness training has been developed internally and approved by Traditional Owner Groups with the first session undertaken by staff in Geraldton. Site based courses will be undertaken once the construction phase has been completed and production underway.



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Geoff Wedlock Innovation Park

AN INITIATIVE OF
KARARA
MINING LTD
a Gindalbie-AnSteel Joint Venture

Bringing new ideas to the Mid West

Sustainability Report

Continued...

ENVIRONMENTAL MANAGEMENT

Gindalbie and KML recognise the value, qualities and biodiversity present within the Midwest region in which they operate.

Environmental Benefits of Magnetite

Key environmental advantages of magnetite concentrate are its purity and chemical composition, which lead to less energy consumption and lower carbon emissions in steel production.

Magnetite concentrate is exothermic, meaning it releases heat during processing and, therefore, requires less energy in that processing phase.

An independent report¹ has quantified the net environmental benefit of using magnetite rather than Direct Shipping Ore (DSO) for steel production. Over the full steel production cycle (ie, from in-ground orebody to finished steel), each tonne of magnetite concentrate used saves about 108 kilograms of CO₂ emissions when compared to using DSO hematite fines.

Project Environmental Approval Milestones

There have been a number of major environmental approval milestones achieved in the past 12 months, which have allowed construction of the concentrator and linear infrastructure (water pipeline, 330kV power line, railway line) and the commencement of mining operations. These include:

- Department of Water (DOW) approval in August 2011 to abstract 5GL of water from the Yandanooka borefield, Mingenew. This water will supply start-up processing and most of the future processing requirements;
- Approval by the Department of Transport (DoT) for a Commercial Vehicle Goods Licence to truck hematite ore to Sino Midwest;
- Approval by the DoT of the Railway between Tilley and the Karara mine site for operations;
- Approval by the DMP of the Mine Closure Plan for the Mungada Iron Ore Project;

- Approval by the Office of the Environmental Protection Authority (OEPA) under Section 46 of the Environmental Protection Act 1986 to remove condition 7 from the ministerial statements for the Mungada Iron Ore Project and Karara Iron Ore Project; and
- Significant footprint changes for both Karara and Mungada were approved by the OEPA, resulting in greater operability.

Environmental Management System

An Environmental Management System (EMS) which aligns to the AS/NZS ISO14001:2004 Environmental Management Systems standard has been implemented. The EMS contains management measures to minimise potential impacts to native flora, fauna, heritage sites, soil, air quality and water. Meeting the standards prescribed in the EMS allows environmental risks to be considered in the planning phase and ensure that these are effectively mitigated and monitored during operations.

During the last 12 months, significant improvements to the EMS were made, including:

- Development of an automated obligations register for operations;
- Updating the Environmental Policy;
- Completion of an environmental risk register for operations;
- Refining and completion of a Legal and Other Aspects register;
- Robust audit schedule against significant environmental aspects;
- New training packages developed to increase environmental awareness; and
- Development of an electronic document review process.

Environmental Programs

Environmental programs utilising innovative management strategies continued to be developed. Some major programs have been finalised and implemented in the past 12 months including the following:

- Malleefowl Protection Program – A multi-faceted program involving the

offsite rearing of birds to enable them to be tracked and monitored once released. In December 2011, two birds were released and were able to be tracked for a month. Motion sensor cameras established at active malleefowl mound which has also been used to obtain information. The program also includes an intensive feral animal management program, traffic management initiatives and extensive training. Various lessons have been learned by this program, which is being assessed for a Golden Gecko award at the time of reporting;

- Rehabilitation works – Rehabilitation works for the linear infrastructure corridor have been completed. The work was undertaken progressively and was therefore able to be achieved in the same year the construction work finished. The rehabilitated sites continue to be monitored to ensure they re-vegetate successfully and ultimately return to their natural composition;
- Weed Control Program – In addition to the weed prevention strategies implemented onsite, KML operates a 'beyond compliance' program to control weeds. This program is based on a dynamic register which is updated following inspections. Recently, a new 300-litre mobile weed spraying rig was purchased to improve the spraying capabilities;
- Recycling of Waste Materials – The principles of the waste hierarchy are followed, minimizing potential waste on site as a primary objective. Materials such as wood and piping offcuts are donated to the local high school manual arts department to be reused. Scrap metal is recycled with all funds raised contributed to the Community Health Fund. During the period approximately \$150,000 was raised;
- Water Conservation and Efficiency Plan (WCEP) – The WCEP was developed in accordance with the DOW's Operational Policy No. 1.2 – Policy on water conservation / efficiency plans. The WCEP outlines the water use requirements, opportunities for improving water use and

¹ The crucible group, "implications for the Australian magnetite industry of the introduction of a price/tax on carbon", June 2011.

selected water use efficiency measures required for current and ongoing operations. Best practice methods are continually looked at in the design of Karara and water efficiency strategies are implemented across all activities including dust suppression and waste management. A key efficiency measure for Karara is the use of dry stacked tailings over conventional tailings dams. Under this program tailings are filtered and dried with the water returned to the processing plant and the dry tailings conveyed (instead of piped) to the Tailings Management Facility. This method reduces Project water requirements by approximately one third, ensuring that Karara is one of the most water efficient mining operations in Western Australia.

Other water efficiency measures include:

- Identification of low quality water supplies close to the minesite for the purposes such as dust suppression;
- Designing sumps within the magnetite concentrator plant such that rainfall and recirculation water can be collected and returned to the process water dam;
- Recycling treated effluent through the beneficiation plant;
- Installing water efficiency appliances within the village, workshops, etc;
- Investigate reducing pressure throughout the system, particularly within the magnetite concentrator plant, to reduce the volume of water used;
- Laundries to utilise low phosphorous detergents (minimising phosphorous discharged to the wastewater treatment plants);
- Landscaping with native species;
- Front-end loader washing machines as standard (reduced water consumption compared to top loading machines); and
- Collection of brine discharge from two reverse osmosis plants used on site and utilized for dust suppression.

- Feral Fauna Control – Controlling feral fauna onsite protects both native flora, fauna, habitats and food sources. A feral fauna specialist annually to conduct an intensive eradication program. All site personnel have a responsibility to report fauna sightings, including ferals, as a targeted trapping program is conducted all year round. Motion sensor cameras have also been established at trapping sites to learn more about what species are attracted to the food lures and how they are learning to manipulate the traps. A training program was also rolled out to site personnel to increase awareness and management of ferals at or near site.

Environmental Compliance

A very high level of environmental compliance was demonstrated over the 12 month period across all State and Commonwealth statutory conditions. This result was primarily from the implementation of a rigorous internal audit and inspection process and compliance program specifically relating to environmental obligations.

The following summarises the main compliance reporting relative to the Karara project:

- Annual Compliance Assessment Report – As per Ministerial Statements (MS 805 and MS 806), the Annual Compliance Assessment Reports and the Performance Review Report were submitted to the DEC. The Reports were compiled in accordance with the conditions relevant to the Karara and Mungada Projects and reflect a high standard of compliance. MS 805 includes a total of 49 conditions and sub-conditions, of which 42 were considered compliant, 2 were considered non-compliant and the remainder not applicable. MS 806 includes a total of 43 conditions and sub-conditions, of which 36 were considered Compliant, two were considered Non-Compliant and the remainder Not Applicable. One of the non-compliant was for a condition which is no longer applicable and has since been removed. The second non-

compliant related to a document which is awaiting approval and therefore compliance could not be demonstrated at the time of the audit;

- Annual Environmental Report – The 2011 Annual Environmental Report (AER) is required by the DMP for all mining projects conducted under the Mining Act 1978 that have the AER condition imposed on the relevant tenements while the tenement(s) remain live. This report was compiled in accordance with the DMP Guidelines and demonstrated a high standard of compliance. Out of a total of 291 condition, 182 were considered to be Compliant, two Non-Compliant and the remainder Not Applicable to this year's reporting period. Both non-compliances relate to rehabilitation of historical exploration activities;
- Annual Environmental Compliance Report – The third Annual Environmental Compliance Report to address compliance against the Karara Project Federal Environmental Approvals under the Environment Protection and Biodiversity Conservation Act 1999 was prepared and submitted to the Department of Science, Environment, Water, Population and Community. Out of 108 conditions, 92 were considered Compliant, two were minor-Non Compliances and the remainder were Not Applicable. The minor non-compliances related to an incomplete training matrix and the wording of a condition which no longer reflected the current methodology for pre-disturbance inspections;
- National Greenhouse Energy Report – The first National Greenhouse Energy Report was submitted last year. Approximately 39 kilo tonnes of greenhouse gas emissions were reported which was primarily due to diesel from construction activities. Gindalbie also participated in the Carbon Discloser Project this year – a global collection of self-reported climate change data; and
- The first National Pollutant Inventory Report – Was submitted to the DEC and registration under the Energy Efficiency Opportunities Act 2006 was complete for the 2010/2011 period.