

Key Points

- Total shipments through the Karara Export Terminal at Geraldton were at a record 9.47 million tonnes per annum rate during the Quarter
- 15 magnetite shipments were made for 0.9 million wet metric tonnes (wmt)
- On a dry tonne basis magnetite concentrate grade averaged 64% Fe for the Quarter and grades of 65% Fe are currently being consistently achieved
- 24 shipments of hematite DSO were made for 1.5 million wmt
- The Karara magnetite concentrator is expected to be capable of approximately 75% of nameplate capacity by the end of March 2014.



Executive Summary

- A total of 39 shipments were made during the December Quarter totalling 2.4 million wmt, made up of 0.9 million wmt of magnetite concentrate and 1.5 million wmt of hematite DSO.
- Karara Mining Limited (KML) expects production of magnetite concentrate to be in the range of 2.4-2.7 million wmt for the six months to 30 June 2014.
- Shipments of DSO hematite for this period are expected to be in the range of 1.6-1.8 million wmt at an average weighted grade of 58%. Third party purchases are expected to account for approximately 45% of the total shipments.
- The tailings filters refurbishment program has been completed and has resulted in improved operational efficiency.
- The installation of a temporary wet tailings system is on track for completion during February while optimisation trials on the tailings thickener are continuing.
- The Karara technical review remains on track for completion during the March Quarter. The review will outline a clear plan and timetable to achieve nameplate capacity. A further market update will be provided during the Quarter.
- The Karara magnetite concentrator is expected to be capable of approximately 75% of nameplate capacity by the end of March 2014.
- At 31 December 2013, Gindalbie Metals Ltd had cash reserves of A\$35.5 million.

KARARA PROJECT (Ansteel 50%)

Overview

The Karara Project, 200km east of Geraldton, is a joint venture with Ansteel, one of China's largest steel makers and the biggest iron ore producer.

The project consists of a long-life, magnetite concentrate operation with a smaller-scale supporting hematite operation.

Production

A total of 39 shipments were made during the December Quarter totalling 2.39 million wmt of combined magnetite concentrate and hematite DSO. Magnetite production quality averaged 64% during the Quarter.

Karara Magnetite			
<i>Unit '000 wmt</i>	Sep-13 Qtr	Dec-13 Qtr	YTD total
Ore mined	1,815	2,265	4,080
Concentrate Produced	657	829	1,486
Concentrate Shipped	685	897	1,582

Hematite production also increased and, as previously advised, shipments included purchases of third party ore to maximise the use of installed rail and port capacity. During the period third party purchases amounted to approximately 0.334 million wmt.

Karara Hematite DSO			
<i>Unit '000 wmt</i>	Sep-13 Qtr	Dec-13 Qtr	YTD total
Ore Mined:			
High Grade	786	593	1,379
Medium Grade	49	87	136
Low Grade	203	76	279
Total	1,038	756	1,794
DSO Shipped	1,042	1,495	2,537

The following production guidance is provided for the six months to 30 June, 2014:

- Magnetite concentrate: 2.4-2.7 million wmt at an average grade of approximately 65% Fe
- Hematite DSO shipments: 1.6-1.8 million wmt, including approximately 45% third party purchases



Tailings Remediation and Technical Review

The ramp-up and optimisation program for the Karara magnetite concentrator continued during the Quarter to progress the plant toward achieving nameplate capacity.

With the program of work currently underway it is expected that the magnetite concentrator will be capable of approximately 75% of nameplate capacity by the end of March 2014.

The ramp-up and optimisation program for Karara identified that the proportion of coarse tails being rejected in the early stage of the concentrating process was significantly below design, resulting in a higher proportion of fine tailings being produced. As a result, the tailings thickener and tailings filters are seeing approximately 54% more fines tailings than the plant was designed to accommodate, therefore restricting overall production volume.

The following remedial actions were instigated:

1. tailings filters refurbishment program;
2. installation of a temporary wet tailings system to allow partial by-pass of the tailings filters; and
3. thickener optimisation trials.

The tailings filters refurbishment program has been completed and has resulted in improved operational efficiency.

The installation of a temporary wet tailings system is on track for completion during February while optimisation trials on the tailings thickener are continuing in order to assess the optimum operating conditions.

A complete technical review of Karara, focussing on the tailings system and also assessing other parts of the Concentrator to identify potential bottlenecks and any additional work required to achieve full design throughput, remains on track for completion during the March Quarter.

The technical review will outline a clear plan and timetable to achieve nameplate capacity and a detailed market update will be provided during the Quarter.



Karara Project Exploration

Drilling programs to test a series of exploration targets during the December Quarter were delayed while all regulatory approvals were obtained. These programs are now expected to take place in the March 2014 Quarter.

Project Funding

Delays in the ramp-up of Karara production and therefore lower-than-forecast product shipment rates have impacted KML's working capital requirements. The Project is effectively incurring all fixed operating costs and commissioning costs whilst not yet generating full production revenue.

During the period KML received US\$230 million to meet the additional working capital requirements. The funding package comprised:

- US\$100 million from a concentrate pre-sale agreement with Ansteel, under similar terms and conditions to the two previous pre-sale agreements; and
- US\$130 million from a new term loan facility provided by the Bank of China (BOC).

The package provides Ansteel the right to subscribe for new equity in KML to provide KML, if required, with sufficient funds to repay these loans. As previously announced in April last year Ansteel also has the option to convert a further A\$60 million of shareholder loans into equity.

If Ansteel elects to convert both loans (US\$230 million and A\$60 million) into equity, based on current exchange rates, it would increase its stake in KML to approximately 62 per cent, with Gindalbie retaining approximately 38 per cent ownership.

After assessing the alternative of Gindalbie raising new equity to maintain its ownership interest in KML, the Board of Gindalbie decided that the Ansteel funding solution represented by far the best option for shareholders, as the dilutionary effect of the issue of new GBG shares under an entitlement offer at the current market price would be far greater than the impact on Gindalbie shareholders of issuing new KML shares to Ansteel.

GINDALBIE REGIONAL EXPLORATION

Drilling programs to test a series of exploration targets during the December Quarter were delayed while all regulatory approvals were obtained. These programs are now expected to take place in the March 2014 Quarter.

CORPORATE

Sale of Shine

During the period Gindalbie reached agreement to sell its 100%-owned Shine Hematite Deposit, located 40km north-east of the Karara Project, to Mount Gibson Iron Limited (ASX: MGX) for a total of \$15 million plus a trailing price participation royalty.

Under a binding Term Sheet executed between the companies, Mt Gibson will acquire the iron ore rights over the Shine tenements for an upfront consideration of \$12 million. A further milestone payment of \$3 million is due on the first commercial sale of iron ore – effectively a non-refundable pre-payment on a price participation royalty.

Under this royalty, on a month average for every A\$1 the Platt's 62% price is above A\$115 per tonne Gindalbie will receive an additional A\$0.20 per tonne sold with the \$3 million having been prepaid under the milestone payment. The parties have 90 days to conclude definitive agreements for the transaction and meet conditions precedent.

The sale will crystallise significant upfront value for one of Gindalbie's 100%-owned assets in the Midwest region and represents a positive outcome for shareholders.

As part of Mt Gibson's future assessment of ore transport options, the Term Sheet provides the ability for Mt Gibson to negotiate commercial terms for use of Karara Mining Limited's rail infrastructure.

Chief Financial Officer

Subsequent to the end of the period Gindalbie announced the appointment of experienced corporate finance executive Mr Wayne Zekulich as its new Chief Financial Officer, effective from 28 January 2014.

Mr Zekulich replaces Mr David Richardson who leaves Gindalbie at the end of January to take up the position of Chief Financial Officer with another company.

Mr Zekulich was most recently the Chief Financial Officer and Chief Development Officer with Oakajee Port & Rail and has previously held senior roles with Commonwealth Bank, N.M. Rothschild & Sons and Deutsche Bank.

Cash Reserves

At 31 December 2013, Gindalbie Metals Ltd had cash reserves of A\$35.5 million.

During the period Gindalbie received \$30 million from KML representing the repayment of its previous shareholder loan to KML.

The repayment of the shareholder loan was made possible by Ansteel lending a further \$30 million to KML in addition to its own previous \$30 million shareholder loan to KML.

Shareholder Information

As at 31 December 2013, the Company had 1,493,660,842 shares on issue and 17,913 shareholders. The Top 40 shareholders held 55.33% of the Company.

GINDALBIE METALS LTD**DALE HARRIS**

Managing Director

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.