

Key Points

- Eleven magnetite shipments were made for 674K wet metric tonnes (wmt)
- Twelve shipments of hematite DSO were made for 727K wmt
- Plant throughput was restricted by a tailings filtering issue, but rectification work is nearing completion
- Nameplate capacity 8mtpa premium quality magnetite concentrate forecast to be achieved by the end of July



Ansteel Group Chairman Zhang Guang Ning, former Gindalbie Chairman George Jones and the Hon. Colin Barnett, Premier of Western Australia opening the Karara Project

Executive Summary

- The Karara Project was officially opened on 9 April 2013 by the Hon. Colin Barnett, Premier of Western Australia.
- No material issues have been encountered in the commissioning and ramp-up of the major components of the critical front-end crushing and grinding circuit of the plant – the primary and secondary crushers, high pressure grinding rolls (HPGRs) and ball mills.
- Plant throughput was restricted by some relatively minor issues with the tailings filtering system, which had been largely rectified.
- Nameplate capacity of 8mtpa and premium concentrate grade of 68% Fe is expected to be achieved by the end of July with consistent production and purity at these levels expected to be achieved in the September Quarter.
- During the Quarter there were 11 shipments of magnetite concentrate for 674K wmt, making 16 shipments and 957K wmt for the year to 30 June 2013.
- During the Quarter there were 12 shipments totaling 727K wmt of hematite DSO, with more than three quarters of sales made up of high grade products. There were 53 shipments of hematite, totalling 3.17Mt for the year to 30 June 2013.
- Mr Tang Fuping was appointed as a non-executive director of the company following the resignation of Mr Shao Anlin.

KARARA PROJECT (Ansteel 50%)

Overview

Gindalbie is developing the world-class Karara 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 substantial, long-life, magnetite concentrate operation with a smaller-scale supporting hematite operation.

Commissioning and Ramp-up

The Karara Project was officially opened on 9 April 2013 by the Hon. Colin Barnett, Premier of Western Australia.

The opening ceremony was held at the Karara mine site and attended by over 150 dignitaries including Federal Resources Minister the Hon. Gary Gray AO, former Gindalbie Chairman George Jones AM, Ansteel Group Chairman Zhang Guang Ning, representatives of the Project's Chinese banks, Traditional Owners, Karara Mining Limited (KML) employees, contracting partners, representatives of Mid West communities and other stakeholders.

The commissioning process at Karara has been undertaken in stages in order to progressively ramp-up the quantity and quality of magnetite concentrate.

Seven of nine key areas have been successfully completed and commissioned, including the major components of the critical front-end crushing and grinding circuit of the plant – the primary and secondary crushers, high pressure grinding rolls (HPGRs) and ball mills.

All of the components referred to above have successfully operated at up to their design throughput rate.



Karara magnetite concentrator

Commissioning of the last two remaining areas of the plant – the polishing circuit and a group of ancillary functions including the final tailings circuit – is in the final stages.

The final concentrate grade of 68% Fe is expected to be achieved with the commissioning of the flotation circuit. To date, concentrate grades of up to 65% have been produced.

Some relatively minor filtering problems were encountered with the tailings circuit during the period, which restricted plant throughput. The issue is being overcome with rectification work, including the installation of additional piping and pumping capacity.

Early testing of the engineering solution has been extremely successful and Gindalbie reconfirms its guidance of Karara achieving nameplate capacity of 8Mtpa and premium (68%Fe) magnetite concentrate specifications by the end of July with consistent production at this product purity grade expected to be achieved in the September Quarter. This should allow Karara to become operating cash-flow positive during the September Quarter 2013.

In light of the above forecast for steady-state production Gindalbie would expect to be in a position from the September Quarter 2013 to start reporting Quarterly operating cash costs, realised product pricing and other detailed production information.

KML is currently in dispute with contractor AGC Industries Pty Ltd (“AGC”) arising from AGC’s work on the structural, mechanical and piping contract at Karara. During the period, AGC advised it had commenced legal proceedings against KML in the Supreme Court of Western Australia. KML disputes AGC’s claims against it and will defend vigorously any legal actions.



Karara magnetite concentrator

Infrastructure

Karara’s integrated logistics chain, comprising the rail and port facilities, has proven its ability to operate at and above the Stage 1 capacity of 10Mtpa (8Mtpa of magnetite concentrate and up to 2Mtpa of hematite DSO).

Due to the previously advised delays in Karara magnetite production reaching nameplate capacity, appropriate solutions have been sought to satisfy rail contract commitments and avoid incurring penalties. The solutions have included limited purchases of hematite DSO ore from the Extension Hill mine, operated by Mount Gibson Iron Limited. Further details on the Mount Gibson arrangements are included in the Mining and Shipping section below.

The Moormaster automated mooring system installed on Berth 7 has not performed to specifications during commissioning. The manufacturer is now attempting to resolve the issue.

The problems encountered with the Moormaster system are not expected to have any impact on KML’s ability to reach Stage 1 nameplate capacity. The Moormaster system was specifically installed to improve the Berth 7 efficiency during adverse weather conditions to enable the Karara Export Terminal to handle future production expansion to 16Mtpa.



Iron Ore loading at Karara Export Terminal, Geraldton

Mining and Shipping

Magnetite

The mining of magnetite ore during the Quarter was managed to match the concentrator throughput.

Waste movement was increased to position the pit for uniform supply of ore once the concentrator plant is at steady-state production.

Magnetite shipments included a vessel with almost 68,000t, which set a new record for a single shipment from the Geraldton Port.

Magnetite shipments have achieved competitive market pricing in line with the magnetite concentrate grade.



Karara magnetite concentrate

The following table summarises magnetite mining and shipping details.

Karara Magnetite					
<i>Unit '000 wmt</i>	Sep-12	Dec-12	Mar-13	Jun-13	Total
Ore mined	683	519	883	1,279	3,364
Concentrate produced	-	83	226	797	1,106
Concentrate shipped	-	-	283	674	957

Small discrepancies may occur due to the effects of rounding.

Hematite

Hematite DSO production from the Terapod deposits continued at an accelerated rate as part of the DSO strategy to flex production to best utilise rail and shipping capacity during commissioning and ramp-up of the Karara magnetite operation.

In addition, in order to fully satisfy rail commitments and avoid incurring penalties, an agreement was entered into, for the purchase of limited quantities of hematite DSO ore from the Extension Hill mine, operated by Mount Gibson Iron Limited.

This ore was loaded at Perenjori and transported to the Karara Export Terminal, where it was subsequently blended with Karara hematite DSO for shipment to customers. During the period there were 42 trains for approximately 177K tonnes of product.

The following table summarises hematite mining and shipping activities.

Karara Hematite DSO					
Unit '000 wmt	Sep-12	Dec-12	Mar-13	Jun-13	Total
Ore Mined:					
Blue Hills					
High Grade	3	-	-	-	3
Medium Grade	12	-	18	-	30
Low Grade	35	-	19	4	58
Total	50	-	37	4	91
Terrapod					
High Grade	12	135	312	471	930
Medium Grade	10	20	34	53	117
Low Grade	51	95	129	129	404
Total	73	250	475	653	1,451
Total:					
High Grade	15	135	312	471	933
Medium Grade	22	20	52	53	147
Low Grade	86	95	148	133	462
Total	123	250	512	657	1,542
DSO Shipped	-	1,239	1,204	727	3,170

Small discrepancies may occur due to the effects of rounding.

Karara Project Exploration

Karara's exploration activities during the June Quarter involved drilling programs to test three aeromagnetic targets and completion of resource delineation at the Hinge Deposit.

Testing of the Weave; Horse and adjoining Pebbles targets, located around 5km and 8km north-east respectively from the Hinge Deposit, failed to intersect significant iron ore mineralisation ($\geq 55\%$ Fe).

At Hinge, located approximately 11km north of the Terapod mine, resource delineation Reverse Circulation (RC) drilling to support mine planning and feasibility studies was completed during the June Quarter. A total of 42 RC holes for 3,320m on a nominally 25m by 25m spacing have been completed to improve the confidence in the resource estimate (refer December 2012 Quarterly Report).

Exploration activities during the September Quarter 2013 will focus on preparation of an updated resource estimate for the Hinge Deposit.

Project Funding

Delays in the ramp-up of Karara production and therefore lower-than-forecast product shipment rates, together with recent volatility in the iron ore price, had an impact on KML's working capital requirements.

This is because the Project is effectively incurring all fixed operating costs and commissioning costs whilst not yet generating full production revenue.

During the Quarter Gindalbie and Ansteel contributed shareholder loans of A\$30 million each to KML for working capital purposes. As part of the loan arrangement:

- Ansteel agreed (subject to FIRB approval) to advance KML another A\$30 million loan to allow repayment by KML of Gindalbie's A\$30 million loan,
- Ansteel granted Gindalbie an option to purchase Ansteel's second A\$30 million loan,
- If Gindalbie elected not to do so, Ansteel could convert all or part of both of its loans, totaling up to A\$60 million, into KML equity.

Subsequent to that arrangement and subject to final agreements and satisfaction of conditions precedent, including Foreign Investment Review Board (FIRB) approval, Chinese regulatory approvals and bank consent, Ansteel has undertaken to provide all of the required bridging finance to KML to fund forecast cash requirements over the next 12 months until a new longer-term working capital facility can be secured and finalized with China Development Bank (and/or other third party lenders).

In recognition of Ansteel's funding support, Gindalbie has agreed to an ownership restructure of KML including negotiations of appropriate amendments to the Karara Joint Development Agreement.

Subject to the finalisation of all documentation, Gindalbie agreed not to exercise the previously-agreed purchase option, so that Ansteel will have the right to convert all or part of its A\$60 million loan amount into KML equity. Under the agreed conversion rate, and assuming the entire A\$60 million loan amount is converted, Ansteel will own 52.16% of KML with Gindalbie owning the remaining 47.84%.

As announced last month, the agreed conversion rate is as follows:

- Conversion Shares = Loan Amount x $\frac{\text{Issued Shares}}{\text{Capital}}$
- Loan Amount - A\$60M
- Issued Shares - 308,080,000 fully paid ordinary KML shares on issue
- Paid up Capital - \$1,329,145,375
- Maximum new shares to be issued - 13,907,283 at \$4.31 per share

KML will remain incorporated, headquartered and managed in Australia notwithstanding this ownership restructure.

Ansteel will work with Gindalbie and KML to secure a new longer-term working capital facility for the Project from China Development Bank, the principal financier to the Karara Project.

It is envisaged that the application process for this facility will take approximately 12 months to complete. This new loan facility will be used to repay any bridging finance (plus 6% pa interest) advanced by Ansteel to KML during the period.

GINDALBIE REGIONAL EXPLORATION

Exploration activities during the June Quarter involved drilling programs to test four regional aeromagnetic targets across the tenement portfolio.

Testing of the Fraggie and Gobo targets, located about 11km south and 7km south of Shine respectively, failed to intersect significant iron ore mineralisation ($\geq 5\text{m}$ at 57% Fe). Drilling at the Lister Prospect around 6-7km south of Shine, aimed at extending to the north along previously identified iron ore mineralisation, failed to intersect any significant results. Testing of the Tom's Kitchen target, 4km north of Shine, returned no significant iron ore intercepts.

Exploration activities for Gindalbie during the September Quarter 2013 will focus on resource delineation for mine planning at the Shine Project.

Shine Feasibility Study

State environmental approval has been received for the development of the Shine DSO deposit. Work is continuing on finalising commercial arrangements and addressing funding options prior to a final investment decision being made.

CORPORATE

Board

During the period Mr Tang Fuping was appointed as a non-executive director of the company following the resignation of Mr Shao Anlin.

Mr Shao was one of three Board members representing Gindalbie's biggest shareholder, its Karara joint venture partner Ansteel, and was a non-executive director of Gindalbie since March 2011.

Mr Tang, who has a PhD in Engineering from the Beijing Science & Technology University, is currently the Vice Chairman of Ansteel Group Corporation, General Manager of Ansteel Group in Anshan and Chairman of Ansteel Corporation Ltd.

Cash Reserves

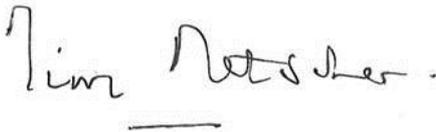
At 30 June 2013, Gindalbie Metals Ltd had cash reserves of A\$8.9 million.

Gindalbie has nil corporate debt.

Shareholder Information

As at 30 June 2013, the Company had 1,492,154,301 shares on issue and 18,646 shareholders. The Top 40 shareholders held 55.57% 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.