

KARARA OPERATIONAL AND FUNDING UPDATE

Gindalbie Metals Limited (ASX: **GBG** – “Gindalbie”) is pleased to provide an operational and funding update for the Karara Project as it continues to move through the critical commissioning and ramp-up phase.

While the commissioning of the Karara Concentrator is continuing with no material issues encountered, as outlined in the March 2013 Quarterly Report (see separate announcement today), product shipments have been below internal forecasts because of minor delays in the production ramp-up.

To assist with short-term working capital requirements, Gindalbie and Ansteel each contributed A\$50 million through subordinated, interest-free loans to the joint venture company Karara Mining Limited (“KML”) during the March Quarter, 2013.

During April, Gindalbie and Ansteel each advanced a further A\$30 million loan to KML on similar terms. Gindalbie made its payments from existing cash reserves.

Subsequently, agreement has been reached with Ansteel for a financing arrangement to assist Gindalbie to replenish its cash reserves to more comfortable levels.

Ansteel has agreed, subject to Foreign Investment Review Board (FIRB) approval and consent by KML’s Chinese lenders, to advance to KML a second A\$30 million loan, to allow repayment by KML of Gindalbie’s A\$30 million loan.

Ansteel has also granted Gindalbie an option to purchase the second A\$30 million loan at its face value (plus interest at a rate of 6% per annum). The arrangement replenishes Gindalbie’s cash reserves to more than A\$35 million and provides a significant timeframe to investigate options to accommodate exercising the option to purchase the loan, including the sale of its Lodestone Magnetite Project and/or the development of the Shine hematite DSO project.

In the event Gindalbie fails to exercise the option to buy the loan within 12 months it has been agreed that Ansteel may convert all or part of its two loans to KML totaling A\$60 million into KML shares, subject to any necessary approval of FIRB and Chinese regulatory authorities.

The conversion rate is as follows:

- Conversion Shares = Loan Amount x $\frac{\text{Issued Shares}}{\text{Capital}}$
- Loan Amount - \$60M or a lesser amount at Ansteel’s election
- Issued Shares - 308,080,000 fully paid ordinary KML shares on issue
- Paid up Capital - \$1,329,145,375

For example, if Ansteel converts the entire A\$60,000,000 of loans, then KML will issue 13,907,283 Shares to Ansteel or approximately 4.51% of total issued capital.

Karara’s shipment rates are now improving with the Concentrator currently running at approximately 70 per cent capacity following the successful commissioning of the primary and secondary crushing circuit and High Pressure Grinding Rolls.

Commissioning of the final polishing circuit has commenced and the Project is forecast to achieve its nameplate throughput production capacity of 8Mtpa and full production of premium quality (68%Fe) magnetite concentrate during the June Quarter.

Steady state operation at nameplate capacity should enable commercial production to be declared and for the project to become cash flow positive during the September Quarter.

A total of 9 magnetite shipments for more than 530,000 tonnes have now been completed since the first shipment in early January 2013, including a vessel on Monday with almost 68,000t, which set a new record for a single shipment from the Geraldton Port. These have achieved a very competitive market price in line with the average magnetite concentrate grade achieved to date of up to 63% Fe. Including DSO shipments, the Project has now made 52 shipments for more than 3 million tonnes since starting in October 2012.

“Considering its size, the commissioning and ramp-up of the Karara Project is proceeding extremely well, and we expect to be cash flow positive within months,” said Gindalbie Managing Director Tim Netscher.

“Given this outstanding progress and the fact that we are now on the cusp of generating surplus cash flow, we are determined to ensure that Gindalbie is not hit by the headwinds of turbulent global commodity and equity markets just as we are about to complete this journey,” he added.

“We are grateful to our joint venture partner and major shareholder for this interim financial support they have provided. This gives us sufficient headroom and we now have a number of options in front of us over the 12 month period to allow us to repay the loan and maintain our 50% interest in KML.

“These options include pushing ahead with the development of the Shine DSO project, which is expected to generate a healthy return and/or the sale of our Lodestone Magnetite Project.”

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