

# FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013

For the year ended 30 June 2013

The Directors present their report together with the consolidated financial statements of the Consolidated entity Gindalbie Metals Ltd ('the Company') and its subsidiaries and the Consolidated entity's interest in joint ventures accounted for using the equity method for the financial year ended 30 June 2013 and the Auditor's Report thereon.

#### 1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year were:

Name & Qualifications	Experience and Special Responsibilities
Mr Keith F Jones	The Chair of Deloitte Australia
B.Bus, FCA, FAICD F Fin	Former Managing Partner – Western Australia, Deloitte Australia
Non-Executive Chairman	Former board member of the Institute for Child Health Research
Tron Executive enaminari	
	Extensive resource industry experience  Director since March 2013
	Appointed as Chairman April 2013
Mr Tang Fuping	General Manager of AnSteel Group in Anshan
Non-Executive Director	Chairman of AnSteel Corporation Ltd
	Former Director of AnSteel Group New Steel Limited, Vice Manager of New Steel Limited
	Former Director of AnSteel No. 3 and No. 1 steel making plant
	Former Vice Chairman of AnSteel Group New Steel Limited, General Manager
	Director since June 2013
Mr Michael J O'Neill	Board member of the Perth Market Authority
Dip Bus Admin, SFFin, FAICD	Former Western Australian General Manager of ANZ Bank
Independent Non-Executive Director	Extensive banking and finance experience
	Chair of Audit and Risk Committee & Remuneration and Nomination Committee
	Director since April 2006
Mr Timothy C Netscher	Non-Executive Director of Industrea Ltd
BSc(Eng), BCom, MBA, FIChE, CEng, MAICD	Former Director of the Minerals Council of Australia
Managing Director and CEO	Former Senior Vice President of Asia Pacific Operations, Newmont Mining Corporation
	Former Managing Director of Vale Australia
	Former Senior Vice President of PT International Nickel Indonesia
	Former Managing Director of QNI Pty Ltd
	Former Executive Director of Impala Platinum Holdings Ltd
	Appointed Independent Non-Executive Director September 2010
	Member of Project Oversight Committee and Operations Oversight Committee
	Appointed Managing Director and CEO April 2011
Mr Yu Wanyuan	Vice President & CFO of Anshan Iron and Steel Group Complex
B.Eng	Manager of Ansteel Finance Company
Non-Executive Director	Former Assistant General Manager of Anshan Iron and Steel Group Complex
	Former Deputy Chief Accountant of Anshan Iron and Steel Group Complex
	Member of the Remuneration and Nomination Committee
	Director since June 2009
Mr Chen Ping	Vice President of Anshan Iron and Steel Consolidated entity
B.Eng	Former Chairman of Ansteel Mining Company
Non-Executive Director	Former General Manager of Ansteel Mining Company
	Director since June 2009

For the year ended 30 June 2013

Name & Qualifications	Experience and Special Responsibilities
Mr Andrew R Marshall	Former Project Director of Vale Inco
I. Eng, MAICD	Former Vice President – Asset Development Projects of BHP Billiton Iron Ore
Independent Non Executive Director	Former Project Manager of North Limited
	Former Project Director of Iron ore Company of Canada
	Former Manager Projects of Forrestainia Gold/LionOre Australia
	Former Manager Engineering & Project Services of Western Mining Corporation
	Former Project Manager of Nedpac (Signet Engineering)
	Non-Executive Director Sundance Resources NL
	Chair of the Project Oversight Committee
	Member of the Audit and Risk Committee & Operations Oversight Committee
	Director since December 2010
Mr Paul D Hallam	
	Former Director - Operations of Fortescue Metals Group Limited
BE (Hons) Mining, Grad Cert Mineral Economics, FAICD, FAUSIMM	Former Executive General Manager – Development & Projects of Newcrest Mining Limited
Independent Non Executive Director	Former Director - Victorian Operations of Alcoa
	Former Executive General Manager – Base and Precious Metals of North Limited
	Former General Manager - Gold of North Limited
	Non-Executive Director of Enterrise Metals Limited
	Non-Executive Director of Altona Mining Limited
	Non-Executive Director of Sandfire Resources NL
	Chair of the Operations Oversight Committee. Member of Project Oversight Committee
	Director since 14 December 2011
Mr George F Jones AM	Non-Executive Chairman of Sundance Resources Limited
B.Bus, FCIS, FAICD	Former Executive Chairman of Mundo Minerals Limited
Non-Executive Chairman	Former Executive Chairman of Portman Limited
	Extensive experience in the mining, banking and finance industries
	Member of the Remuneration and Nomination Committee and Audit Committee (until May 2011)
	Director since September 2005. Resigned as Chairman August 2009
	Re-appointed as Chairman June 2010
	Resigned as Chairman April 2013
Mr Shao An Lin	General Manager of Ansteel Consolidated entity Mining Company
Non-Executive Director	President of the Metallurgical Mine Association of China
	Former Chief Engineer of Dong An Shan Iron Ore Mine
	Former General Manager of Yan Qian Shan Iron Ore Mine
	Former Deputy General of Gong Chang Ling Iron Ore Co
	Member of the Audit and Risk Committee (since May 2011)
	Director since March 2011
	Resigned June 2013

For the year ended 30 June 2013

#### 2. COMPANY SECRETARY

Mr Christopher Gerrard was appointed as Company Secretary of Gindalbie Metals Limited on 7th December 2012.

Prior to his appointment Mr Gerrard was General Counsel and Company Secretary of Karara Mining Limited (KML), Gindalbie's incorporated 50:50 joint venture with Anshan Iron & Steel Corporation, throughout design, construction and delivery of Gindalbie's flagship Karara Iron Ore Project. Mr Christopher Gerrard retains primary responsibility for oversight and management of KML's legal work and corporate governance.

Prior to joining KML, Mr Gerrard was Commercial Manager and General Counsel of ASX-listed global defence prime contractor, Austal Limited. His experience in the Australian defence industry includes senior roles at SME levels and in government.

Mr Gerrard has a solid background in general commercial law, having practised law for several years in a variety of substantive areas including corporate law, trade practices, intellectual property and finance with leading firms Herbert Smith Freehills and Minter Ellison where he acted for a diverse range of industrial and resources companies and governmental clients at state and federal levels.

Mr Gerrard holds honours degrees in Law and Economics. He is admitted as a Barrister and Solicitor of the High Court of Australia.

Mr Ian E. Gregory B.Bus., FCIS, FCSA, FFIN, MAICD, resigned as Company Secretary on 7 December 2012.

#### 3. PRINCIPAL ACTIVITIES

The principal activities of the Consolidated entity during the year were exploration for and evaluation of iron ore projects and joint venturing with other mining companies to explore for minerals. During the year the Consolidated entity's primary mining activities related to its 50% joint venture interest in the Karara Iron Ore Project (KIOP), and exploration and development of its 100% owned iron ore projects. There has been no significant change in the nature of these activities during the year.

#### 4. RESULT OF OPERATIONS

The net loss for the year ended 30 June 2013 was \$144.3 million, (2012 - net loss of \$28.3 million). The loss for the year comprised an after tax loss of \$133.5 million from Gindalbie's 50% equity share of income from Karara Mining Limited (KML), an \$10.8 million net loss for Gindalbie Metals Ltd, representing, corporate overheads (\$7.4 million) and a noncash impairment charge related to exploration assets (\$5.4 million) partially offset by interest income (\$2.0 million).

During the year the consolidated entity completed a \$62 million equity raising via a \$40 million placement to institutional and sophisticated investors and a subsequent \$22 million placement to major shareholder Ansteel. The funds raised were primarily provided to KML as unsecured subordinated shareholder loans, to assist in funding the completion of the construction project.

As at the reporting date the consolidated entity remains debt free, with approximately \$9.2 million of cash reserves.

For the year ended 30 June 2013

#### 4. RESULT OF OPERATIONS (Continued)

Results of JV Entity – Karara Mining Ltd (KML)

KML's financial results by operating business unit for the year ended 30 June 2013 are summarised below.

# Karara Mining Ltd Financial Results:(year ended 30 June 2013)

All amounts in AUD millions

_	All amounts in AUD millions							
	Total	Hematite	Magnetite	Unallocated				
Revenue	249.3	249.3	-	-				
Operating cash costs (ex. royalties)	176.9	176.9	-	-				
Royalties	12.9	12.9	-	-				
Shipping & port charges	62.2	62.2	-	-				
Depreciation & amortisation	15.9	15.9	-	-				
Other expenses (Note 1)	250.1	9.5	22.8	217.8				
	518.0	277.4	22.8	217.8				
EBIT	(268.7)	(28.1)	(22.8)	(217.8)				
Net interest income	3.0	-	-	3.0				
Profit/(loss) before tax	(265.7)	(28.1)	(22.8)	(214.8)				
Income Tax	(1.4)	-	-	(1.4)				
Net profit/(loss) after tax	(267.1)	(28.1)	(22.8)	(216.2)				
Reported Gindalbie Metals Ltd, share (50%) of profit/(loss) from equity accounted JV	(133.5)							
Note 1 :-								
Take or pay obligations	26.9		26.9					
Inventory impairment	9.5	9.5						
Net foreign exchange (gains)/losses	217.8			217.8				
Asset Retirement Obligation interest	2.6		2.6					
Other miscellaneous expense/(income)	(6.8)		(6.8)					
Total Other Expenses	250.1	9.5	22.8	217.8				

During the year the company shipped 3.17 million tonnes of DSO (Hematite ore), generating a small cash operating loss, however after including depreciation, amortisation and inventory impairment charges, the full year loss from DSO operations was \$28.1 million. Approximately half of the DSO product sold during the year was classified as low grade DSO (<55% Fe content), which negatively impacted the average sale price per tonne achieved during the year. Since April 2013 the proportion of low grade DSO sales has decreased significantly, resulting in a marked improvement in the average realised DSO sale price per tonne.

For the year ended 30 June 2013

#### 4. RESULT OF OPERATIONS (Continued)

Commissioning of the magnetite concentrator commenced in November 2012, nevertheless as at 30 June 2013 the commissioning process had not advanced sufficiently for the company to declare the plant to be in "commercial production," and therefore in accordance with Australian Accounting Standards all commissioning and magnetite operating costs, net of the proceeds of all sales of magnetite concentrate since the start of commissioning, have been capitalized. The reported net loss for the year from magnetite operations of \$22.8 million, primarily reflects the expense incurred under certain take-or-pay contractual obligations for electricity and rail charges for the period between the commencement of these contracts, and the start of commissioning. A total of 957,000 tonnes of magnetite concentrate was shipped to customers during the year.

The unallocated loss for the year before tax of \$214.8 million included net foreign exchange losses of \$217.8 million, which in turn included a non-cash unrealised foreign exchange loss of \$215.3 million, principally related to the revaluation of the USD \$1.8 billion project finance facility. It is important to note that while the depreciation of the AUD versus the USD during the 2013 financial year has resulted in a significant unrealised (non-cash) foreign exchange loss, if sustained the more favourable exchange rate will significantly increase Australian Dollar denominated revenue in the future.

#### KML funding and ownership restructure

The joint venture entity has fully drawn down a US\$1.8 billion project finance facility provided by a syndicate of Chinese banks, nevertheless as at the reporting date the joint venture entity had a substantial net current asset deficiency. The delays in ramping up magnetite concentrate production, together with the volatility of iron ore pricing impacted on KML's working capital funding position during the year as the project is effectively incurring all fixed operating costs and commissioning costs whilst not yet generating full production revenue.

To assist with short-term working capital requirements KML concluded some magnetite concentrate pre-payment agreements with Ansteel and also commenced discussions regarding a potential restructure of its debt repayment schedule. In addition joint venture partners Gindalbie and Ansteel, each contributed a \$50 million subordinated, interest-free shareholder loan to KML during the year to assist with working capital during the commissioning and ramp-up phase, followed by two further loans of \$30 million each for working capital purposes. As part of the loan arrangement:

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

Subsequent to that arrangement and subject to final agreements and satisfaction of conditions precedent, Gindalbie and Ansteel reached agreement in principle to a restructure of the Karara Project. Ansteel undertook to provide bridging finance to KML to fund forecast cash requirements until a new longer-term working capital facility can be secured.

In recognition of Ansteel's funding support, Gindalbie agreed to an ownership restructure of KML including negotiations of appropriate amendments to the Karara Joint Development Agreement. In terms of the new arrangement and subject to the finalisation of all documentation, Gindalbie agreed not to exercise that 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%.

Subsequent to the reporting date joint venture partner Ansteel conditionally offered to provide a further US\$230 million working capital facility to ensure that the joint venture entity has sufficient working capital to satisfy revised forecast cash flow requirements. As at the date of this director's report this offer remains incomplete and non-binding (refer to section 10 of this Directors Report and note 31 to the financial statements for further details).

For the year ended 30 June 2013

#### 5. REVIEW OF THE KARARA IRON ORE PROJECT

The world-class Karara Project ("Project"), which is located 200km east of Geraldton in Western Australia, is the largest new resource project in the Midwest region and the second-largest magnetite project in Australia. The Project is owned and operated by Karara Mining Limited ("KML", "Karara"), which is jointly owned by Gindalbie Metals Ltd ("Gindalbie") and Ansteel, one of largest steel-makers and biggest iron ore producer in China. In January this year, Karara exported the first commercial shipment of magnetite concentrate in Western Australia.

Karara comprises a substantial, long-life magnetite concentrate operation with a Stage One capacity of 8Mtpa, with the potential for future production upgrade, and a smaller scale hematite operation.

#### **Project Development**

Commissioning and Ramp-up

The focus for the past year has been on the commissioning and ramp-up of the Karara Concentrator Plant and associated infrastructure chain.

In November 2012, Karara achieved a key milestone with production of the first batch of standard-grade magnetite concentrate, slightly below the specifications of the premium-grade concentrate expected from the plant during steady-state operations. This marked the commencement of the ramp-up phase towards the targeted annualized production rate of 8Mtpa ("million tonnes per annum") and final full-specification product specification of 68% Iron (Fe).

The first shipment of magnetite concentrate, comprising approximately 55,000t ("tonnes"), was made in early January 2013, marking another historic milestone, both for Karara and the magnetite industry in Western Australia.

The concentrator consists of a number of crushing and grinding stages, various stages of magnetic separation, as well as thickening and filtration stages.

Each of the key items equipment in the concentrator plant, such as the primary and secondary crushers, high pressure grinding rolls, ball mills and magnetic separators successfully operated as expected during the commissioning phase. However, the ramp-up of production capacity has taken significantly longer than expected, due to the impact of a number of small and relatively minor operational issues.

For example, after the ramp-up of the plant to approximately 70 per cent of its nameplate capacity in June, some relatively minor filtering problems were encountered with the tailings circuit which temporarily restricted plant throughput and required the installation of additional piping and pumping capacity.

With the completion of the final polishing circuit in July 2013, Karara produced its first-ever batches of premium quality 68% Fe magnetite concentrate, the first time a product of this nature has been produced in Western Australia.

Subsequent to the reporting period, a further issue with the tailings circuit delayed the ramp-up process. It was found the tailings de-watering slurry system needed to be partially re-engineered to achieve design moisture content in the final tailings product. An engineering solution has been identified and will be fully implemented in the December Quarter 2013 to allow production to ramp up.

#### Infrastructure

Karara's supporting infrastructure and logistics chain was completed and successfully commissioned during the first half of the year. The commissioning and ramp-up of the infrastructure and logistics chain to nameplate capacity exceeded expectations with no material issues encountered.

For the year ended 30 June 2013

#### 5. REVIEW OF THE KARARA IRON ORE PROJECT (Continued)

In summary, the key supporting infrastructure and logistics chain completed for Karara include:

- an 80km Karara rail spur, connecting the Karara Project to the common-user rail system at Tilley Siding, near Morawa. In addition, Brookfield Rail completed upgrading works to its common-user system between Tilley Siding and Geraldton, to cater for Karara's expected tonnages;
- a 180km 330kV powerline from Eneabba to Karara, which connects the Karara site into the WA's South West power grid;
- a 145km water pipeline, supplying process water from a borefield near Mingenew to Karara; and
- the Karara Export Terminal at Geraldton, a facility which is capable of handling up to 16Mtpa of magnetite concentrate or hematite direct shipping ore ("DSO") exports from a dedicated berth with associated rail and unloading infrastructure. The terminal consists of:
  - o a dedicated 4<sup>th</sup> railway line inside the Port;
  - o a twin-car rotary dumper (or train unloader);
  - o a 297m long storage facility with a capacity of 255,000t;
  - o a dedicated Berth 7 which can accommodate Panamax vessels (loaded to approximately 60,000t); and
  - o a 5,000tph ("tonnes per hour") ship-loader.

The rail network was successfully ramped up to Stage 1 requirements of four trains per day running between Karara and the Karara Export Terminal at Geraldton.

The Karara ship-loader is performing to expectations and can achieve the targeted ship-loading rate of 5,000tph.

A MoorMaster automated mooring system was installed on Berth 7 as part of the infrastructure investment by Karara in order to limit the downtime caused by adverse weather conditions by using berth-mounted suction units, in conjunction with mooring lines, to secure vessels to the Berth.

This system did not perform to specifications during commissioning, and 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, as it was specifically installed to improve the efficiency of Berth 7 during adverse weather conditions to enable the Karara Export Terminal to handle future production expansion to 16Mtpa.

Due to the delays in Karara magnetite production reaching nameplate capacity, appropriate solutions were 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.

For the year ended 30 June 2013

#### 5. REVIEW OF THE KARARA IRON ORE PROJECT (Continued)

#### Mining and Shipping

#### Magnetite

Magnetite ore was mined and crushed or stockpiled during the first half of the year, providing feed for the commissioning and ramp-up of the Karara concentrator. Mining was slowed during January and February 2013 to maintain commissioning stocks at targeted levels for the production profile with pre-stripping and waste removal accelerated to enable the mining fleet to be fully utilized.

A total of 3.364Mt ("million tonnes") of magnetite ore was mined for the 12 months to 30 June 2013. Magnetite concentrate shipments commenced in the March 2013 Quarter with a total 957,000wmt ("wet metric tonnes") of magnetite concentrate shipped for the year. Magnetite concentrate shipments included a vessel loaded to 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.

The following table summarises magnetite mining and shipping details per quarter for the year to 30 June 2013:

Karara Magnetite										
Unit '000 wmt 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

The hematite DSO mining strategy formed an important part of the commissioning and ramp-up at Karara, enabling KML to establish, commission, fully test and operate all elements of the integrated logistics chain. This helped to de-risk the Mine, Port and Rail operations prior to the start-up of the magnetite Concentrator and also take up the Project's take-or-pay obligations.

DSO hematite was mined from a number of deposits during the year including at Terapod North, South and West pits, Blue Hills North and Terapod Main Pit.

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.

For the year ended 30 June 2013

#### 5. REVIEW OF THE KARARA IRON ORE PROJECT (Continued)

The first shipment of hematite DSO was made from the Karara Export Terminal on 17 October 2012, signalling the start of regular shipments. A total of 3.17 million tonnes of hematite DSO was mined and shipped for the 12 months to 30 June 2013, as summarised in the table below:

	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						

#### **Karara Project (Near-Mine) Exploration**

During the year, exploration focus at Karara was on upgrading resource estimates to support mine planning for DSO operations, as well as investigating potential DSO hematite deposits close to the Karara infrastructure.

A 66-hole Reverse Circulation (RC) drilling program for 6,396m was completed on 25m by 25m spacing for resource delineation purposes at Terapod West, a satellite deposit located immediately adjacent to the existing Terapod mine. An updated resource block model was prepared which enabled mining to commence at Terapod West as part of the DSO mining and sales strategy.

At the Hinge prospect, located approximately 11km north of the Terapod mine, a 74-hole RC drilling program for 5,347m was completed on a 50m by 50m spacing. Data compilation and geological interpretation was completed, enabling a maiden Mineral Resource estimate to be completed as part of a Feasibility Study to develop the deposit.

The Mineral Resource estimate for the Hinge deposit was completed by Snowden Mining Industry Consultants.

At the Jasper Hill prospect, located 5km south-west of Hinge, the best results (≥5m at ≥57% Fe) from reconnaissance drilling were from two 50m spaced holes on one section and comprised 5m at 60.2% Fe from 61m in hole JHC052 and 6m at 59.2% Fe from 34m in hole JHC053. The mineralisation appears to be of limited extent and associated with localised alteration occurring at the contact between the target BIF and a package of mafic volcanic rocks.

Testing of the Mystic target, located 2.5km east of the Karara Magnetite Mine, the Skeksis target, located 400m west of the Hinge Deposit and 11km north of the Terapod Mine, and the Weave, Horse and adjoining Pebbles targets, located 5km and 8km north-east respectively from the Hinge deposit, failed to intersect significant iron ore mineralisation.

For the year ended 30 June 2013

#### 6. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by

each of the directors of the Company during the financial year were: Audit & Risk Committee | Remuneration & Nomination Director Directors Meetings Project Oversight Operations Oversight Committee Committee (POC) Committee (OOC) Meetings Meetings Meetings Meetings A B В В В R Mr G F Jones 3 Mr K F Jones Mr T Netscher 9 9 10 10 9 9 Mr MJ O'Neil Mr Y Wanyuan 10 9 Mr C Ping 8 10 Mr S Anlin 9 3 Mr R Marshall 9 10 3 3 Mr P Hallam 8 8 9 8 9 Mr T Fuping

#### 7. CORPORATE STRATEGY & LIKELY DEVELOPMENTS

The Consolidated entity's primary short term focus will be to continue to support the completion of commissioning of Stage 1 of the Karara Iron Ore Project. In addition the company will consider other iron ore exploration and development opportunities through joint ventures, sole funded exploration activity and acquisitions.

The Stage 2 feasibility study for the Karara Iron Ore Project to increase magnetite concentrate production to 16Mtpa is largely complete and has been presented to the Board for consideration. The benefits of Stage 2 include the ability to fully utilize the 16mtpa infrastructure capacity that has been built through Stage 1 and a significant reduction in cash operating costs through economies of scale, making it a low capital intensity, low operating cost expansion.

The Board is now considering funding and timing options for the Stage 2 expansion project.

#### 8. REGIONAL EXPLORATION ACTIVITY

Gindalbie has an extensive 1,900km<sup>2</sup> tenement package in the Midwest region outside of the Karara Project including two advanced projects.

Shine Hematite Deposit

Exploration activities at the Shine Hematite Deposit, which is located approximately 40km north-east of the Karara Project, included completion of work packages required to support the Shine Feasibility Study, which commenced last year.

A revised Mineral Resource estimate was also completed for the Shine deposit by Snowden Mining Industry Consultants ("Snowden") and is reported, above a 57% Fe cut-off grade.

The Feasibility Study on the development of the Shine deposit has largely been completed and indicates that the project can generate an attractive financial return at current market prices.

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.

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the year

C - Mr G Jones attended 4 OOC meetings and 4 POC meetings as an invitee, Mr O'Neil attended 7 OOC meetings and 7 POC meetings as an invitee,

<sup>&</sup>amp; Mr K Jones attended 1 OOC meeting and 1 POC meeting as an invitee

Mr T Netscher attended 1 Remuneration & Nomination meeting as an invitee, Mr K Jones attended 1 Remuneration & Nomination meeting as an invitee.

For the year ended 30 June 2013

#### 8. REGIONAL EXPLORATION ACTIVITY

Lodestone Magnetite Project

At the Lodestone Magnetite Project, located 45km south-east of Karara, exploration drilling resulted in a maiden JORC Compliant Mineral Resource estimate, also completed by Snowden and reported above a 0% Fe cut-off grade.

Initial analysis indicates the potential to produce a premium magnetite concentrate grading more than 63% Fe with low impurities, in particular phosphorous.

The Lodestone magnetite deposit compares favourably with other magnetite deposits in Australia in terms of size and grade. It should be noted that this is a global resource estimate and further work is required to optimise the resource model with the potential to also improve the magnetite weight recovery.

Strategic options are being considered in order to evaluate the best way to unlock the value of Lodestone for Gindalbie shareholders.

Regional Exploration

During the year, Gindalbie continued to progress regional exploration activities across its tenure in the Midwest region.

A reconnaissance exploration drilling program at the Andorra prospect, located about 40km north of Shine returned no significant results.

Reconnaissance drilling was also completed over the Dog Leg prospect, located approximately 50km east of the Blue Hills North mine. The best result (≥5m at ≥55% Fe) was 5m at 55.9% Fe from 29m in hole DLC002.

Drilling was conducted on the Windaning Joint Venture with Falcon Minerals Limited (Gindalbie 78.25% and Falcon Minerals Limited 21.75%) to test three aeromagnetic targets but failed to intersect any iron ore mineralisation.

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

#### 9. ENVIRONMENTAL REGULATION

The Consolidated entity's current exploration and development activities are conducted in accordance with environmental regulations under both Commonwealth and State legislation.

As stated in the Environmental Policy, the Company is committed to achieving superior standards in its environmental performance. It has employed environmental professionals to monitor this area of operating performance, with responsibility for monitoring of environmental exposures and compliance with environmental regulations.

As part of its corporate environmental management program, the Consolidated entity has established parameters for its mining operations. These include:

- setting and communicating environmental objectives and quantified targets
- monitoring progress against these objectives and targets
- implementing environmental management plans in operating areas which may have a significant environmental impact
- identifying where remedial actions will be required and implementing action plans
- monitoring of licence requirements, with performance against licence conditions reported to the various State regulators on a regular basis.

To enable it to meet its responsibilities, a regular internal reporting process has been established. Environmental performance in the field is reported to the project management team. This performance is also reported to the Gindalbie Board on a regular basis.

Compliance with the requirements of environmental regulations and with specific requirements of the relevant managing authorities including the Department of Environment and Conservation, and the Department of Industry and Resources was achieved across all aspects of the current operations.

There were no instances of non-compliance in relation to any instructions or directions from the relevant governing agencies. The Board is not aware of any significant breaches during the period covered by this report.

For the year ended 30 June 2013

#### 10. EVENTS SUBSEQUENT TO REPORTING DATE

In September 2013 KML joint venture partner Ansteel made an incomplete non-binding offer to provide up to \$230 million USD of additional short term debt funding available to KML, to meet the latest forecast additional working capital requirements of KML for the remainder of the current financial year. This working capital facility if required will be made available through either a prepaid sales agreement(s) and/or Ansteel guarantees for additional bank debt facilities. A condition precedent to the provision of this additional working capital facility is that at Ansteel's option this new debt can be extinguished through the issue of new KML equity share capital to Ansteel. The independent directors of the consolidated entity have agreed in principle to this proposed additional funding arrangement for KML, and are negotiating with Ansteel to document and execute the proposal as at the date of this report.

Under this funding proposal should Ansteel ultimately exercise its' option to subscribe to new equity in KML to extinguish the proposed working capital facility, the consolidated entity's equity ownership position in the joint venture entity KML would be diluted. The level of dilution would be dependent upon the actual amount of debt extinguished, and the prevailing USD/AUD exchange rate at the time Ansteel exercised its option. Assuming a total of \$230 million USD of debt was converted to equity, at the current approximate USD/AUD exchange rate 0.9100, the consolidated entity's ownership interest in KML would be diluted down to approximately 38%. In the event that the consolidated entity's equity ownership of KML is diluted, under Australian Accounting Standards a gain or loss would be reported based on the difference between the carrying value of the investment in KML at the time of dilution, and the fair value of the remaining equity interest retained. The potential gain or loss upon dilution cannot currently be reliably estimated, as it will be dependent upon prevailing circumstances and market conditions that impact the fair value of KML at the date of dilution, as well as any change in the carrying value of the investment as at the date of dilution.

#### 11. REMUNERATION REPORT - Audited

#### 11.1 Key management personnel disclosures

The following were key management personnel of the Consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

**Executive director** 

Mr T C Netscher - Managing Director & CEO

Non-executive directors

Mr G F Jones - Chairman (resigned 9 April 2013)

Mr K F Jones - Chairman (commenced 1 March 2013 non-executive Director & 10 April 2013 Chairman)

Mr A R Marshall

Mr S An Lin (resigned 10 June 2013)

Mr M J O'Neill

Mr Y Wanyuan

Mr C Ping Mr P Hallam

Mr T Fuping (commenced 10 June 2013)

**Executives** 

Mr D Richardson - Chief Financial Officer

Mr C Gerrard - General Counsel (commenced 1 May 2012) & Company Secretary (commenced 7 December 2012)

#### 11.2 Principles of compensation

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Consolidated entity. Key management personnel include the directors of the company and senior executives for the Consolidated entity, in accordance with S300A of the *Corporations Act 2001*.

Compensation levels for directors and key management personnel of the Consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Remuneration and Nomination Committee obtains independent data on compensation packages and trends in comparative companies, and this information is used as one of the determinants in deciding the appropriateness of the Consolidated entity's compensation strategy.

For the year ended 30 June 2013

#### 11. REMUNERATION REPORT - Audited (Continued)

#### 11.2 Principles of compensation (Continued)

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's assessed contribution to the Consolidated entity's financial and operational performance.

Key management personnel can receive a portion of base remuneration as non-cash benefits. Non-cash benefits typically include payment of motor vehicle expenses. Any fringe benefit tax on these benefits is generally borne by the executive

Compensation packages for key management personnel include a mix of fixed and variable compensation and short-term and long-term performance-based incentives.

#### Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers individual performance and overall performance of the Consolidated entity. In addition, external consultants may be used to provide benchmark data to the committee who ensure that key management personnel compensation is competitive in the market place. Key management personnel compensation is also reviewed on promotion. Compensation increases are usually effective from 1 July each year, however in June 2013 the Board approved a recommendation not to increase fixed compensation for all employees. This decision will be reviewed in December 2013.

#### Performance-linked compensation

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward key management personnel for meeting or exceeding company objectives (both financial and non-financial). The short-term incentive plan (STI) is a discretionary 'at risk' bonus provided in the form of cash. Effective from the 1 July 2012, a new deferred incentive was introduced to replace the former LTI plans. The new deferred compensation scheme incorporates the issue of options over ordinary shares of the Company under the rules of the employee share plan, which vest over a three year period. There were two components to the former long term incentive plan (LTI) which consisted of (a) options over ordinary shares of the Company under the rules of the employee share plan and (b) a cash component subject to the achievement of specific long term performance hurdles (including performance hurdles related to the development of the KIOP).

#### Short-term incentive bonus

The short-term incentive plan is intended to focus employee behaviour towards the achievement of activities and milestones that contribute to the Consolidated entity meeting its business objectives for the financial year. In addition, it also provides clear alignment between personal and business performance and remuneration. Consolidated entity objectives are used to determine the performance rating. The Managing Director evaluates the Consolidated entity's strategic goals for the forthcoming financial year and identifies Key Performance (KPI's) which are deemed to be critical to the Consolidated entity achieving its mission each financial year. For performance linked compensation purposes the Consolidated entity is defined to include the Karara Iron Ore project (KIOP), a 50% owned joint venture of the Consolidated entity. These objectives are reviewed and if considered appropriate approved by the Nominations and Remuneration Committee.

At the end of the financial year the Managing Director assesses the Consolidated entity's performance against the Consolidated entity KPI's to determine the overall business score. The Consolidated entity performance ratings are applied against the Consolidated entity key performance indicators (KPIs) to determine the overall performance score.

The performance rating will range between 50% for minimum performance, 75% for target performance and 100% for stretch performance. No bonus is awarded where performance does not meet minimum performance standards. The Remuneration and Nomination Committee recommends the cash incentive to be paid to the individuals for approval by the board.

For the year ended 30 June 2013

#### 11. REMUNERATION REPORT - Audited (Continued)

#### 11.2 Principles of compensation (continued)

Employees are eligible for a short term incentive award of between 8% and 25% of Total Fixed Remuneration (base salary plus superannuation) dependent on their role and responsibilities within the Consolidated entity.

The KPI's for 2012/3, and the actual company performance relative to these KPI's was as follows:-

KPI	Maximum STI Award for 2012/3	STI award for 2012/3
Lost Time Injury Frequency Rate (LTIFR) for the combined construction & mining activities of GBG and KML (minimum threshold – achievement of relative WA industry average for FY13)	20%	20%
Karara Mining Ltd (KML) earnings before interest & tax (EBIT) (minimum threshold – achievement of internal budgeted EBIT)	30%	0%
Change in GBG share price relative to ASX Small Resources Index (minimum threshold – GBG share price movement at least 90% of index change)	20%	0%
Strategic new mining projects (minimum threshold – (i) advanced progress towards Shine project FID & (ii) material progress on sale of Lodestone project)	30%	10%
Total	100%	30%

As an example an executive entitled to a maximum STI bonus of 25% of total fixed remuneration, will receive an 2012/3 STI bonus of 7.5% of total fixed remuneration (i.e. 30% of 25%). The weighting of KPI's is adjusted to reflect the importance of the KPI to the company's performance. Only the achievement of a "stretch" KPI target results in a maximum STI award for each individual KPI. The final assessment and payment of 2012/13 STI awards is expected to occur in October 2013.

The KPI's for the 2013/4 financial year have been agreed as follows:-

КРІ	Maximum STI Award for 2013/4
Number of LTI's – GBG employees (minimum threshold – 2)	20%
Karara Mining Ltd earnings before interest, tax, depreciation and unrealised FX gains/losses (minimum threshold – budget)	15%
Change in GBG share price relative to ASX Small Resources Index (minimum threshold – GBG share price movement at least 90% of index change)	40%
Development and delivery of strategic plan for GBG's non-KML related assets.	25%

#### Deferred Compensation Scheme – share options

Options are issued under the Employee Share Option Plan (made in accordance with the criteria as set out in the plan approved by shareholders at the 2006 AGM), The total value of share options issued to eligible employees is equivalent to 1.25 times the value of the employee's STI award for the prior financial year (i.e. calculation of the maximum award is dependent upon satisfaction of STI performance hurdles). These share options vest subject to specific service conditions. All options are issued for no consideration, and are therefore similar in substance to "performance rights". There were 5,216,963 options granted to key personnel during the year ended 30 June 2013 (2012 – 1,000,000 options granted).

Specific service conditions:

- One third of option award (Tranche 1) Continuous employment with the company until 3 July 2013;
- One third of option award (Tranche 2) Continuous employment with the company until 3 July 2014;
- One third of option award (Tranche 3) Continuous employment with the company until 3 July 2015

All Directors and employees participating in any Company equity incentive plan are prevented from hedging the economic benefit of any unvested performance shares or options under such plans, as such arrangements have been prohibited by law since 1 July 2011. Hedging is permitted in respect of any performance shares or options that have vested.

Nil share options issued under the Employee Share Option Plan vested during 2012/13, as the designated minimum service conditions were not satisfied as at 30 June 2013.

For the year ended 30 June 2013

#### 11. REMUNERATION REPORT - Audited (Continued)

#### 11.2 Principles of compensation (continued)

Former Long-term incentive scheme – cash payments

The former long term incentive plan was based on performance against key criterion over the period 1 July 2011 to 30 June 2012. Employees were eligible for a long term incentive award of between 25% and 100% of their Total Fixed Remuneration per year over the two year period, dependent upon their role and responsibilities within the company. This LTI incentive scheme was replaced by the Deferred Compensation Scheme effective from 1 July 2012.

The key criteria for achievement of the former long term incentive scheme focused on:

- Better than benchmark Total Shareholder Return (TSR) versus comparable companies, based on S&P ASX Small Resources Index:
- · Achievement of KIOP project milestones including safety, construction and commencement of operations; and
- Development of Gindalbie (100% owned) projects.

#### Short-term and long-term incentive structure

Each year the Managing Director recommends the KPIs for the key management personnel, which are approved by the Nomination and Remuneration Committee. The Remuneration and Nomination Committee considers that the performance-linked compensation structure provides appropriate incentives to key management personnel.

#### Consequences of performance on shareholder wealth

In considering the Consolidated entity's performance and benefits for shareholder wealth during the year ended 30 June 2013, the Board believes that, safety performance, profitability, share price performance and achievement of specific strategic development objectives are the key links between the Consolidated entity's performance and the attainment of increased shareholder wealth.

	2013	2012	2011	2010	2009
		Restated*			
Total comphrehensive income attributable to owners of the company (\$000)	(136,643)	(37,372)	13,946	(2,534)	26,218
Change in share price (\$)	(0.33)	(0.39)	(0.20)	0.26	(0.68)
Return on capital employed	-21.2%	-5.2%	2.5%	-0.5%	15.0%

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

#### Service agreements

All key management personnel are employed under standard Company employment contracts except the CEO who is employed under a service contract.

The following key terms apply in respect of each of the contracts:

Position	Term	Notice Period	Redundancy Terms		
Chairman (Mr K Jones)	Unlimited	Nil	Nil		
CEO (Mr T Netscher)	Fixed term (27 April 11 - 31 Dec 13)	1 months	Balance of contract term salary		
CFO (Mr D Richardson)	Unlimited	8 weeks	6 months salary		
General Counsel (Mr C Gerrard)	Unlimited	8 weeks	6 months salary		

The Consolidated entity retains the right to terminate the contract immediately by the payment of the redundancy term.

The key management personnel are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service and employment contracts outline the components of compensation paid to the key management personnel but do not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performed and any changes required to meet the principles of the compensation policy.

There is no entitlement to termination payment in the event of removal for misconduct.

For the year ended 30 June 2013

#### 11. REMUNERATION REPORT - Audited (Continued)

#### 11.2 Principles of compensation (continued)

#### Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 2010 AGM, is not to exceed \$1,000,000 per annum and is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies.

Effective from 1 September 2012 the non-executive directors base remuneration was increased to \$82,500 per annum (previously \$75,000 per annum). With consideration of the extra duties performed, the Chairman's remuneration was increased to \$295,000 per annum (previously \$220,000 per annum). In recognition of the financial position of the company the board has resolved to reduce non-executive director fees by 20% for the year, commencing 1 October 2013.

Directors' fees cover all board activities. Effective from 1 September 2012 committee fees were increased to \$42,000 per annum (previously \$35,000) and are payable paid to those non-executive directors who sit on two or more committees (including committees of Karara Mining Ltd). Non-executive directors do not generally receive bonuses but may be issued with employee options under the Employee Share Option Plan or via the express approval of shareholders/Board of directors. Nevertheless the Board charter has been amended to formally recognise that at this stage of the Consolidated entity's development no further options will be issued to non-executive directors.

#### 11.3 Analysis of cash bonuses included in remuneration

Details of the vesting profile of the short-term cash bonuses awarded as remuneration to each director of the Consolidated entity, and other key management personnel are detailed below:-

	Included in remuneration	Short- term incentive bonu				
	\$ A					
			% forfeited in			
		% vested in year	year			
Director						
Mr T Netscher	82,383	30%	70%			
Executives						
Mr C Gerrard	25,016	30%	70%			
Mr D Richardson	29,033	30%	70%			

#### GINDALBIE METALS LTD AND CONTROLLED ENTITIES **DIRECTORS' REPORT** For the year ended 30 June 2013

#### 11. REMUNERATION REPORT – Audited (Continued)

11.4 Directors' and executive officers' remuneration (Company and Consolidated)

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the key management personnel of the Company and the Consolidated entity are listed below. Directors and executive officers remuneration amounts include the accrual of cash bonuses and long term, accruals of annual leave and long service

leave.																
		Short term		Post-employment	Other long term			Ot	her		Value of options as proportion of	Total performance				
															remuneration	related remuneration
					Long term incentive	Other long term (LSL)	Share based payments		nsation		%	%				
		Salary & fees	Cash bonus	Superannuation benefits			Value of options (b)	Termination benefits	Insurance premiums	Total						
		\$	\$	\$	\$		\$	\$	(c) \$	\$						
Directors																
Non-executive directors																
Mr GF Jones (Chairman) (resigned 9 April 2013)	2013	201,857	-	18,167	-	-	-	-	3,130	223,154	-	-				
	2012	220,183	-	19,817	-	-	-	_	3,085	243,085	-					
Mr KF Jones	2013	68,720	-	6,185	-	-	-	-	1,085	75,990	-	-				
(commenced 1 March 2013 Non Exec Director and 9 April 2013 as Chairman)	2012	-	-	-	-	-	-	-	-	-	-					
Mr MJ O'Neill	2013	122,083	-	-	-	-	-	-	3,246	125,329	-	-				
	2012	119,551	-	-	-	-	-	-	3,085	122,636	-	-				
MR A Marshall	2013	112,003	-	10,080	-	-	-	-	3,246	125,329	-	-				
	2012	99,782	-	8,980					3,085	111,848	-					
Mr C Ping	2013	81,250	-	-	-	-	-	-	3,246	84,496	-	-				
	2012	75,000	-	-	-	-	-	-	3,085	78,085	-					
Mr SA Lin	2013	76,667							3,068	79,735	-	-				
(resigned 10 June 2013)	2012	75,000	-	-		-	-	_	3,085	78,085	-					
Mr Y Wanyuan	2013	81,250							3,246	84,496	-	-				
	2012	75,000	-	-	-	-	-	_	3,085	78,085	-					
Mr P Hallam	2013	112,003	-	10,080	-	-	-	-	3,246	125,329	-					
(commenced 14 December 2011)	2012	58,868	-	5,298	-	-	-	-	1,691	65,857						
Mr W Heng	2013	-	-	-	-	-	-	-	-	-	-	-				
(resigned on 16 August 2011)	2012	9,375	-	-		-	-	-	414	9,789	-					
Mr T Fuping	2013	4,521	-	-	-	-	-	-	178	4,699	-	-				
(commenced 10 June 2013)	2012	-	-	-		-	-	_	-	-	-					
Sub-total non-executive directors remuneration	2013	860,354	-	44,512	-	-	-	-	23,688	928,555	-	-				
	2012	732,760	-	34,095	-	-	-	-	20,618	787,473	-					
Executive director						-				-						
Mr T Netscher (Managing Director & CEO)*	2013	1,113,649	82,383	16,470	-	-	214,128		3,246	1,429,874	15%	21%				
(Commenced position 27 April 2011)	2012	1,074,002	170,940	15,775	149,370	-	-	_	3,085	1,413,172	-	23%				
Total, all directors	2013	1,974,003	82,383	60,982	-	-	214,128	-	26,934	2,358,429	-	-				
	2012	1,806,762	170,940	49,870	149,370	-	-	_	23,703	2,200,645	-					

# GINDALBIE METALS LTD AND CONTROLLED ENTITIES DIRECTORS' REPORT For the year ended 30 June 2013

		Short f	Cash bonus	Post-employment  Superannuation benefits	Long term incentive	Other long term Other long term (LSL)	Share based payments Value of options (b)	compe Termination benefits	nsation Insurance premiums (c) \$		Value of options as proportion of remuneration %	
Executives												
Mr C Gerrard ( General Counsel)	2013	327,905	25,016	27,540		_	35,029		3,246	418,735	8%	14%
(commenced 1 May 2012)	2012	24,999					-		516			22%
Mr D Richardson (Chief Financial Officer)	2013	360,982				-	90,838		3,246			24%
(commenced 21 February 2011)	2012	351,047					,		1,099	520,751		26%
Mr DJ Stokes (General Counsel & Company Secretary)	2013	-	-	-	-	-	-	-	-	-	-	-
(ceased employment 16 March 2012)	2012	206,308	-	15,349	-	-	-	-	2,257	223,914	-	-
Total, all executives	2013	688,888	54,048	52,540	-	-	125,867	-	6,491	927,834	-	-
	2012	582,354	82,737	81,000	65,269	-	-	-	3,872	815,232	-	-
Total, all key management personnel	2013	2,662,890	136,431	113,522	-	-	339,994	-	33,425	3,286,263	-	-
	2012	2,389,116	253,677	130,870	214,639	-	-	-	27,575	3,015,877	-	-

NB:- The amount included as share based payments remuneration is not indicative of the benefit (if any) that individual executives may ultimately realize should the equity instrument vest (refer to 12.4(a)&(b)).

For the year ended 30 June 2013

#### 11. REMUNERATION REPORT - Audited (Continued)

#### 11.4 Directors' and executive officers' remuneration (Company and Consolidated) (Continued)

#### Notes to the table of directors and executive officers remuneration

Each option entitles the holder to purchase one ordinary share in the Company. The options are unlisted and cannot be transferred. The fair value of the options with non market conditions is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date.

Options with market conditions are determined using the Binomial model simulation in which the market conditions have been taken into account in the valuation of the option. The value disclosed above is the portion of the fair value of the options allocated to this reporting period.

This remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the year. The fair value of equity instruments is determined based on the fair value at grant date, and is expensed progressively over the vesting period. The amount included as remuneration is not indicative of the benefit (if any) that individual executives may ultimately realize should the equity instrument vest. The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise price	Number of options	Expected volatility	Risk free interest rate	Option Pricing model
10 No. 10	40 No. 40	<b>#0.005</b>	<b>#0.00</b>	- 100 010	000/	0.540/	
16-Nov-12	16-Nov-16	\$0.305	\$0.00	5,403,312	83%	2.54%	Black Scholes

(c) The Company pays insurance premiums that cover key management personnel. The premium is split between the directors and officers of the company only. The average premium per person has been included in remuneration.

#### 11.5 Equity instruments

All options refer to options over ordinary shares in the company, which are exercisable on a one-for-one basis under the Employee Share Option Plan.

#### 11.6 Options and rights over equity instruments granted as compensation

Details of options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

	Number of options granted during 2013	Grant Date	Number of options vested during 2013	Number of options lapsed during 2013	Fair value per option at grant date(\$)	Exercise price per option (\$)	Expiry Date
Executive :-							
Mr D Richardson	487,356	16-Nov-12	-	-	\$0.3050	\$0.00	16-Nov-16
Mr T Netscher	1,148,822	16-Nov-12	-	-	\$0.3050	\$0.00	16-Nov-16
Mr C Gerrard	187,935	16-Nov-12	-	-	\$0.3050	\$0.00	16-Nov-16

The options granted were provided at no cost to the key management personnel.

All options expire on the earlier of their expiry date or within 3 or 6 months of termination of the individual's employment. The options are exercisable at any time from their vesting date. Further details, including grant dates and exercise dates regarding options granted to executives are disclosed in Note 27 to the financial statements.

#### 11.7 Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

#### 11.8 Exercise of options granted as compensation

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

For the year ended 30 June 2013

#### 11. REMUNERATION REPORT - Audited (Continued)

#### 11.9 Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person is detailed below:

	Granted in year	Value of Options	Value of Options
		exercised in year	lapsed/forfeited in year
	\$(a)	\$(b)	\$(c)
Mr D Richardson	148,644	-	-
Mr T Netscher	350,391	-	-
Mr C Gerrard	57,320	-	-

- (a) The value of options granted in the year is the fair value of the options calculated at grant date using either the Black-Scholes or Binomial option pricing models. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the relevant vesting period.
- (b) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (c) The value of the options that lapsed during the year represents the benefit foregone and is calculated at the date the option lapsed using a Black-Scholes model.

#### 12. SHARE OPTIONS

#### Unissued shares under option

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise Price	Number of Options
8 October 2015	\$1.12	250,000
16 November 2016	\$0.00	<u>5,216,963</u>
		5 466 963

All options are employee options and expire on the earlier of their expiry date or three or six months after the termination of the employee's employment unless extended by the directors of the Company.

The above options do not entitle the holder to participate in any potential share issue of the Company.

#### Shares issued on exercise of options

During the financial year, the Company has not issued any ordinary shares as a result of the exercise of options (there were no amounts unpaid on the shares issued). Since the end of the financial year, the Company has issued 790,519 ordinary shares as a result of the exercise of options (exercise price of \$0.00).

#### 13. DIRECTORS' INTERESTS

The relevant interest of each director in the share capital of the companies within the Consolidated entity, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

#### **Gindalbie Metals Ltd**

Director	Ordinary shares	Options over ordinary shares
Mr K F Jones	300,000	-
Mr M J O'Neill	1,437,655	-
Mr T C Netscher	200,000	1,148,822
Mr A R Marshall	200,000	- · ·
Mr P D Hallam	100,000	-

For the year ended 30 June 2013

#### 14. LEAD AUDITOR'S INDEPENDENCE DECLARATION & NON-AUDIT SERVICES

The Lead Auditor's Independence Declaration is set out on page 23 and forms part of the Directors' Report for the year ended 30 June 2013.

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties. The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the independence and objectivity of the auditor.
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

	Co	nsolidated
	2013	2012
	\$	\$
Audit services:		
Auditors of the Company and Consolidated entity– KPMG Australia		
- audit and review of financial reports	86,676	79,258
Other services:		
Auditors of the Company and Consolidated entity– KPMG Australia		
- taxation services	4,734	49,012
	91,410	128,270

#### 15. ROUNDING OFF

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest ,000 dollars, unless otherwise stated.

#### 16. INDEMNIFICATION AND INSURANCE - OFFICER OR AUDITOR

The Company, during the financial year, in respect of any person who is or has been an officer or auditor of the Company:

- has not indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer or auditor.
- paid a premium of \$39,916 for a policy of insurance to cover legal liability and expenses for the directors and executive officers in the event of any legal action against them arising from their actions as officers of the Company.

The insurance policy does not contain details of the premiums paid in respect of individual officers of the Company.

Signed in accordance with a resolution of directors at Perth, WA on 25 September 2013.

T Netscher Director

Notes her.

K F Jones Director



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Gindalbie Metals Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Kpme

**KPMG** 

Brent Steedman

Partner

Perth

25 September 2013



#### Independent auditor's report to the members of Gindalbie Metals Ltd

#### Report on the financial report

We have audited the accompanying financial report of Gindalbie Metals Ltd (the company), which comprises the consolidated balance sheet as at 30 June 2013, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

#### GINDALBIE METALS LTD AND CONTROLLED ENTITIES



Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the Corporations Act 2001, including:
  - giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Material uncertainty regarding continuation as a going concern

Without modification to the opinion expressed above, attention is drawn to the following matter. The matters set out in note 2(c) of the financial report indicate the existence of a material uncertainty which may cast significant doubt as to whether the Group will be able to continue as a going concern and therefore, the Group may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the annual financial report.

#### Report on the remuneration report

We have audited the Remuneration Report included in section 12 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Gindalbie Metals Ltd for the year ended 30 June 2013, complies with Section 300A of the *Corporations Act 2001*.

VDMC

Kpine

Brent Steedman

Partner

Perth

25 September 2013

#### GINDALBIE METALS LTD AND CONTROLLED ENTITIES

- 1. In the opinion of the directors of Gindalbie Metals Ltd ("the Company"):
  - (a) the Consolidated financial statements and notes, and the Remuneration Report set out in section 12 of the directors' report, are in accordance with the Corporations Act 2001, including;
    - (i) giving a true and fair view of the financial position of the Consolidated entity as at 30 June 2013 and of its performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

KF Jones

Director

- 2. The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2013.
- 3. The directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Perth this 25th day of September 2013.

Signed in accordance with a resolution of the directors.

T Netscher Director

Page 26 of 66

#### GINDALBIE METALS LTD AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 30 June 2013

		Cons	olidated
		2013	2012
	Note	\$'000	\$'000
			Restated*
Other income	6(a)	57	48
Administration expenses	6(b)	(6,935)	(7,218)
Other expenses	6(c)	(5,989)	(2,785)
Results from operating activities		(12,867)	(9,955)
Finance income	6(d)	2,034	9,167
Net financing income		2,034	9,167
Share of (loss)/profit from equity accounted Joint Venture (net of tax)		(400 540)	(27.554)
Share of (1035)/profit from equity accounted some venture (net of tax)		(133,548)	(27,554)
(Loss)/profit before income tax		(144,381)	(28,342)
		(:::,00:)	(=0,0 :=)
Income tax benefit/(expense)	7	-	-
(Loss)/profit for the period		(144,381)	(28,342)
Other Comprehensive Income Items that may be reclassified subsequently to profit or			
loss: Changes in fair value of cash flow hedges - equity accounted joint venture		7,184	(9,030)
Income tax benefit/(expense) on other comprehensive income		554	(9,030)
Total other comprehensive income for the period net of tax	19(c)	7,738	(0.030)
Total other comprehensive income for the period liet of tax	13(0)	1,130	(9,030)
Total comprehensive (loss)/income		(136,643)	(37,372)
, ,		(100,010)	(0:,0:2)
(Loss)/Profit attributable to:			
Owners of the Company		(144,381)	(28,342)
(Loss)/Profit for the year		(144,381)	(28,342)
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(136,643)	(37,372)
Total comprehensive (loss)/income for the year		(136,643)	(37,372)
Francisco de la constanta de l			
Earnings per share	0.4		
Basic earnings/(loss) per share - cents	24	(10.62)	(2.42)
Diluted earnings/(loss) per share - cents	24	(10.62)	(2.42)

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 31 to 66.

# GINDALBIE METALS LTD AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the year ended 30 June 2013

	Issued capital	Retained earnings	Reserves	Total
	\$'000	\$'000	\$'000	\$'000
Year ended 30 June 2013				
Opening balance at 1 July 2012	693,173	28,063	(1,201)	720,035
Loss for the period	-	(144,381)	-	(144,381)
Changes in fair value of cash flow hedges - equity accounted joint venture	-	-	7,738	7,738
Total comprehensive income for the period	-	(144,381)	7,738	(136,643)
Transactions with owners of the Company, recognised directly in equity				
Shares issued				
- Issue of ordinary shares	62,390	-	-	62,390
- Transaction costs	(1,598)	-	-	(1,598)
- Share based payments expense		-	1,581	1,581
Closing balance at 30 June 2013	753,965	(116,318)	8,118	645,765
	Issued capital	Consolidat Retained earnings \$'000		Total \$'000
Year ended 30 June 2012		Restated *		
Opening balance at 1 July 2011	488,300	56,405	7,823	552,528
Loss for the period	_	(28,342)	_	(28,342)
Changes in fair value of cash flow hedges - equity accounted joint venture		( - /- /	_	(20,542)
Total comprehensive income for the period	-	-	(9,030)	(9,030)
Transactions with owners of the Company, recognised directly in equity	<del>-</del>	-	(9,030)	(9,030)
Transactions with owners of the Company, recognised directly in equity  Shares issued		-	(9,030)	(9,030)
	208,954	-	(9,030)	(9,030)
Shares issued	208,954 (4,081)	-	(9,030)	(9,030)
Shares issued - Issue of ordinary shares		-	(9,030)	(9,030) (37,372)

Consolidated

Amounts are stated net of tax, where applicable. Further details of issued capital and reserves are disclosed in Note 19.

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 31 to 66.

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

# GINDALBIE METALS LTD AND CONTROLLED ENTITIES CONSOLIDATED BALANCE SHEET For the year ended 30 June 2013

		Consolidate 30 June 2013 30 June		
	Note	30 June 2013 \$'000	30 June 2012 \$'000	
***************************************			Restated*	
ASSETS Cash and cash equivalents	9	9,166	40,517	
Trade and Other receivables	10	903	1,434	
Prepayments		643	3	
Inventories	11	1	19	
TOTAL CURRENT ASSETS		10,713	41,973	
Other receivables	10	36	303	
Property, plant and equipment	13	1,886	2,166	
Exploration and evaluation assets	14	24,715	25,560	
Loan to Joint Venture entity	17 17	59,931	653,000	
Joint venture accounted for using the equity method TOTAL NON CURRENT ASSETS	17	550,604 637,172	653,000 681,029	
1017E NON CONNENT / BOE 10		001,112	001,023	
TOTAL ASSETS		647,885	723,002	
LIABILITIES				
Trade and other payables	15	1,366	1,769	
Employee benefits	27	686	1,149	
TOTAL CURRENT LIABILITIES		2,052	2,918	
Employee benefits	27	68	49	
TOTAL NON CURRENT LIABILITIES		68	49	
TOTAL LIABILITIES		2,120	2,967	
		,	,	
NET ASSETS		645,765	720,035	
EQUITY				
lagued capital	19	752.005	693,173	
Issued capital Reserves	19	753,965 8,118	(1,201)	
Retained earnings	18	(116,318)	28,063	
-				
TOTAL EQUITY		645,765	720,035	

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

The consolidated balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 31 to 66.

# GINDALBIE METALS LTD AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF CASH FLOW For the year ended 30 June 2013

		Consol	idated
		30-Jun-13	30-Jun-12
	Note	\$'000	\$'000
Cash flows from operating activities			
Cash receipts from customers		44	48
Cash payments to suppliers and employees		(6,137)	(8,130)
Interest received		1,520	9,797
Net cash used in operating activities	26	(4,573)	1,715
. •			-
Cash flows from investing activities			
Exploration and evaluation expenditure		(4,650)	(15,201)
Proceeds from sale of property, plant and equipment		6	-
Acquisition of property, plant and equipment		(226)	(205)
Payments for investments in Joint Venture		(2,700)	(300,000)
Loan to Joint Venture entity		(80,000)	-
Net cash used in investing activities		(87,570)	(315,406)
Cash flows from financing activities		00.000	000.054
Proceeds from the issue of shares		62,390	208,954
Payment of capital raising costs		(1,598) 60,792	(4,081) 204,873
Net cash used in financing activities		00,792	204,073
Net increase in cash and cash equivalents		(31,351)	(108,818)
Trocking Gado in Gadin and Gadin Gyarranonia		(01,001)	(100,010)
Cash and cash equivalents at 1 July		40,517	149,335
•			
Cash and cash equivalents at 30 June	9	9,166	40,517

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 31 to 66.

For the year ended 30 June 2013

#### 1. REPORTING ENTITY

Gindalbie Metals Ltd (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Level 9, 216 St Georges Terrace, Perth. The consolidated financial statements of the Company as at and for the year ended 30 June 2013 comprise the Company and its subsidiaries (together referred to as the Group or the "Consolidated entity") and the Group's interest in jointly controlled entities. The Consolidated Entity is a for-profit entity primarily involved in iron ore exploration and development activities.

#### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the directors on 25 September 2013.

#### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

#### (c) Going Concern - Joint Venture Entity

These financial statements of the consolidated entity have been prepared on the going concern basis. The primary asset of Gindalbie Metals Limited (Gindalbie) is a 50% joint venture equity interest in Karara Mining Ltd (KML), a special purpose entity established to develop and operate the Karara Iron Ore Project (KIOP) in Western Australia. The remaining 50% is ultimately owned by Anshan Iron and Steel Group Corporation (Ansteel). Full details on the consolidated entity investment in the joint venture, including contingent liabilities related to guarantees provided in relation to KML are disclosed in notes 17 and 30.

At 30 June 2013, KML have net current liabilities of \$447 million which includes interest bearing liabilities of \$158 million due in the next 12 months. KML's cash flow forecast anticipates KIOP continuing to be commissioned during 2013 and the KIOP becoming cash flow positive in the first quarter of 2014. KML is required to make principal and interest repayments each May and November under their existing financing arrangements.

On the 2 July 2013 the consolidated entity announced that under a Binding Memorandum of Cooperation between the joint venture partners Ansteel has undertaken to provide bridging finance to KML up to a maximum of \$275 million. At the date of this report, \$200 million in funding has been provided under this facility to KML.

Subsequent to the reporting date Ansteel has made an incomplete non-binding offer to provide or guarantee up to a US\$230 million additional funding facility subject to the appropriate documentation and approvals for this facility being finalised. Furthermore the joint venture partners and KML have commenced negotiations with members of the existing project finance Chinese banking syndicate to secure further longer term working capital facilities or refinancing of existing debt to meet the scheduled repayment of interest bearing liabilities.

The Directors of the consolidated entity have identified inherent uncertainties regarding the potential future funding requirements of KML. The uncertainties primarily relate to one or more of the following events:

- KIOP achieving production quantities in accordance with the planned ramp up schedule;
- Future Australian dollar iron ore prices;
- The successful completion of the \$230 million funding facility to be guaranteed by Ansteel;
- The support of its bank lenders in China to continue to offer additional funding facilities; and
- If required, the ability to renegotiate existing banking facilities to obtain extended repayment terms.

The Board acknowledges the consolidated entity future funding requirements and believes that the going concern basis of preparation remains appropriate for the following reasons:

- KML is in advanced negotiations with Ansteel, who have historically provided support, with the aim of finalising the US\$230 million facility
- KML continues to ramp up its operations and is forecasting positive cashflows to be generated from the production of iron ore from the first quarter of 2014;
- KML has historically received support from Ansteel and its financiers for additional funding facilities and has successfully arranged these facilities as required.

For the year ended 30 June 2013

#### 2. BASIS OF PREPARATION (Continued)

#### (c) Going Concern - Joint Venture Entity (Continued)

Should KML not be successful in efforts to negotiate additional debt facilities or raise further additional equity, or the consolidated entity is not able to provide additional funding to KML or a combination of the foregoing, there exists a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as a going concern and therefore that it may be unable to recover the carrying value of the consolidated entity's investment in KML or the carrying value of other consolidated entity assets.

#### (d) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Consolidated entity. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information has been rounded to the nearest .000 dollars, unless otherwise stated.

#### (e) Use of estimates and judgements

The preparation of financial statements in conformity with AASB's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

#### (e) Use of estimates and judgements (continued)

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 7 Income Tax Expense
- Note 14 Exploration and Evaluation Assets
- Note 17 Investment in Jointly Controlled Entities

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 25 Financial Instruments
- Note 27(b) Share-Based Payments
- Note 29 Contingent Liabilities

#### (f) Changes in accounting policies

- (i) Presentation of transactions recognised in the other comprehensive income
  - From 1 July 2012 the Consolidated entity applied amendments to AASB 101 Presentation of Financial Statements outlined in AASB 2011-9 Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Consolidated entity to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the statement of profit or loss and other comprehensive income.
- (ii) The joint venture entity, Karara Mining Limited, has chosen to voluntarily early adopt *IFRIC 20 Stripping costs* in the production phase of a surface mine. This has resulted in a restatement of the 30 June 2012 Financial Statements of the joint venture entity. The impact of this restatement on the joint venture entity's 30 June 2012 Financial Statements was:

Decrease in net profit after tax for the year ended 30 June 2012 \$2,249,668

Decrease in value of Property, Plant and Equipment \$2,249,668

Consequently the consolidated entity has restated its 50% share of the equity accounted loss (net of tax) from the joint venture for the year ended 30 June 2012, resulting in a reduction of the 2012 equity accounted loss from the joint venture of (\$1,124,834), with a corresponding impact of the investment in the joint venture. The restatement of 1 July 2011 is not considered material to the users of the financial statements so the restated comparisons at this date have not been disclosed.

For the year ended 30 June 2013

#### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Consolidated entity.

#### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at cost in the Company's financial statements less impairment losses.

#### (ii) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangements are either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangements. A joint venturer recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

The consolidated financial statements include the consolidated entity's share of the profit or loss and other comprehensive income of the joint venture, after adjustments to align the accounting policies with those of the consolidated entity, from the date that joint control commences until the date that joint control ceases.

When the consolidated entity's share of losses exceeds its interest in an equity accounted joint venture, the carrying amount of that interest, including any long term investment, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the consolidated entity has an obligation or has made payments on behalf of the investee.

#### (iii) Transactions eliminated on consolidation

Intra-Consolidated entity balances, and any unrealised income and expenses arising from intra-Consolidated entity transactions, are eliminated in preparing the consolidated financial statements.

#### (b) Foreign currency

#### Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Consolidated entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in profit or loss.

#### (c) Financial instruments

#### (i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Consolidated entity's contractual rights to the cash flows from the financial assets expire or if the Consolidated entity transfers the financial asset to another party without retaining control of substantially all of the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

For the year ended 30 June 2013

#### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Financial instruments (Continued)

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Consolidated entity becomes a party to the contractual provisions of the instrument.

The Consolidated entity derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated entity has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expenses is discussed in note 3(k).

#### Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Consolidated entity manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Consolidated entity's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

#### Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

#### (ii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

#### (d) Property, plant and equipment

#### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income / other expenses in profit or loss.

#### (ii) Mine properties and development

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified as mine properties and development, and is disclosed as a component of property, plant and equipment. All subsequent development expenditure is capitalised and classified as mine properties and development. Development expenditure is net of proceeds from the sale of ore extracted during the development phase.

#### (iii) Depreciation and amortisation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part or item of property, plant and equipment. Land is not depreciated.

For the year ended 30 June 2013

#### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Property, plant and equipment (Continued)

The estimated useful lives for the current and comparative periods are as follows:

buildings 14 years machinery 10-15 years motor vehicles 3-7 years furniture fittings and equipment 3-8 years Leased plant and equipment 5-15 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

#### (e) Impairment

#### (i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in Consolidated entities that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

#### (ii) Non-financial assets

The carrying amounts of the Consolidated entity's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset of the Consolidated entity that generates cash flows that are largely independent from other assets. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### (f) Employee benefits

#### (i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

#### (ii) Other long-term employee benefits

The Consolidated entity's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus on-costs; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on AA credit-rated (Commonwealth Government) bonds that have maturity dates approximating the terms of the Consolidated entity's obligations.

For the year ended 30 June 2013

#### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Employee benefits (Continued)

#### (iii) Termination benefits

Termination benefits are recognised as an expense when the Consolidated entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

#### (iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Consolidated entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### (v) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

#### (g) Provisions

A provision is recognised if, as a result of a past event, the Consolidated entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and, the risks specific to the liability.

#### (h) Revenue

Revenue is measured at the fair value of the gross consideration received or receivable. The Consolidated entity recognises revenue when the amount of revenue can be reliably measured, and when it is probable that future economic benefits will flow to the entity.

#### (i) Sale of goods

Revenue from the sale of goods and disposal of other assets is recognised when persuasive evidence, usually in the form of an executed sales agreement, or an arrangement exists, indicating there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Consolidated entity, the quantity and quality of the goods has been determined with reasonable accuracy, the price can be reasonably estimated, and collectability is reasonably assured.

#### (i) Trade receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statement of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

#### (j) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

For the year ended 30 June 2013

#### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (k) Finance income and expenses

Finance income comprises interest income on funds invested, and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, bank charges, unwinding of the discount on provisions and performance bond facility fees.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis either as finance income or finance costs depending on whether they are in a net gain or loss position.

#### (I) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (i) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated Group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated consolidated entity is Gindalbie Metals Ltd.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Group are recognised in the separate financial statements of the members of the tax-consolidated Group using the 'separate taxpayer within Group's approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated Group and are recognised by the Company as amounts payable/ (receivable) to/(from) other entities in the tax-consolidated Group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated Group to the extent that it is probable that future taxable profits of the tax-consolidated Group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

#### (ii) MRRT

MRRT is considered for accounting purposes, to be a tax based on income and is applicable to the equity accounted joint venture entity. Accordingly current and deferred MRRT expense if applicable is measured and disclosed on the same basis as income tax.

For the year ended 30 June 2013

#### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (I) Income Tax (Continued)

On 29 March 2012 the Mineral Resource Rent Tax (MRRT) legislation achieved Royal Assent and became law in Australia. The MRRT is effective from 1 July 2012, however financial reporting considerations with respect to this new legislation must be made from the date of Royal Assent. The Consolidated Entity currently does not generate "mining revenue" or supply "taxable resources" as defined in the legislation, and therefore no deferred tax assets or liabilities arising from the MRRT have been recognized.

#### (m) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### (n) Earnings per share

The Consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

#### (o) Intangible assets

Exploration and evaluation assets

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of tenure to the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy 3(e)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

Exploration and evaluation costs are not amortised until such time as they are transferred to mine properties and production has commenced.

#### (p) Segment reporting

Determination and presentation of operating segments

An operating segment is a component of the Consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated entity's other components. All operating segments' operating results are reviewed regularly by the Consolidated entity's CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

For the year ended 30 June 2013

#### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (p) Segment reporting (Continued)

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and exploration expenditure.

#### (q) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2013, but have not been applied in preparing this financial report.

- (i) AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB will become mandatory for the Consolidated entity's 30 June 2016 financial statements. Retrospective application is generally required. The Consolidated Entity has not yet determined the potential effect of the standard.
- (ii) Amended AASB 119 Employee Benefits, which becomes mandatory for the Consolidated entity's 30 June 2014 financial statements and could change the definition of short-term and other long-term employee benefits and some disclosure requirements. The Consolidated entity does not plan to adopt this standard early and the extent of the impact has not been determined.

#### 4. DETERMINATION OF FAIR VALUES

A number of the Consolidated entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### i) Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes or Monte Carlo formula. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), expected life of the option, expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the option are not taken into account in determining fair value.

#### (ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### (iii) Financial instruments

The fair value is the amount for which an asset could be exchanged in an arm's-length transaction between knowledgeable, willing parties. Loans shall be recognised at fair value, the difference between the fair value and cash consideration provided under the loan will be recognised in the income statement as interest expense over the life of the loan. Refer to Note 17.

#### 5. FINANCIAL RISK MANAGEMENT

#### (a) Overview

The Consolidated entity has exposure to the following risks from its use of financial instruments:

- · credit risk
- · liquidity risk
- market risk

This note presents information about the Consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital including risks resulting from its investment in equity accounted joint venture ("Joint Venture"). Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Consolidated entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated entity's activities. The Consolidated entity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Consolidated entity's Audit and Risk Committee oversees how management monitors compliance with the Consolidated entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Consolidated entity.

#### (b) Credit risk

Credit risk is the risk of financial loss to the Consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated entity's cash and cash equivalents.

#### (c) Guarantees

The Consolidated entity's policy is to provide financial guarantees where contractually necessary to certain suppliers or on behalf of wholly-owned subsidiaries and equity accounted joint ventures. Refer to Note 30 for a list of outstanding performance guarantees at balance date.

#### (d) Investments

The Consolidated entity limits its exposure to credit risk on cash balances by only investing in liquid securities and only with counterparties that have credit ratings of between A2 and A1+ from Standard & Poor's and A from Moody's, with more weighting given to investments in the higher credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations. The Company has formed a Treasury Committee that considers and implements appropriate investment strategies and ensures investment policies are adhered to. Also refer to note 25.

#### (e) Liquidity risk

Liquidity risk is the risk that the Consolidated entity will not be able to meet its financial obligations as they fall due. The Consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated entity's reputation.

Typically the Consolidated entity ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 180 days, including the servicing of financial obligations. Refer to note 15 and 25 for more information.

#### (f) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Consolidated entity engages external treasury consultants in order to manage market risks. All transactions are carried out within Treasury Policy guidelines (refer to Note 5(d)), and these are considered and monitored by the Treasury Committee.

#### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (g) Currency risk

The Consolidated entity is exposed to currency risk via its Joint Venture on purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Joint Venture, namely the Australian dollar (AUD). The currencies in which these transactions primarily are denominated are United States dollars (USD), Euro, Chinese Yuan (RMB) and Japanese Yen.

At any point in time the Joint Venture may hedge its estimated foreign currency exposure in respect of forecast sales and purchases over the following months. The Joint Venture may also hedge a percentage of all trade receivables and trade payables denominated in a foreign currency. The Joint Venture may use forward exchange contracts to hedge its currency risk. No forward exchange contracts or other currency hedging instruments were entered into during the year.

#### (h) Interest rate risk

It is policy to protect the Consolidated entity from exposure to increasing interest rates. Accordingly, the Consolidated entity may enter into interest rate swap (IRS) contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. No IRS contacts were entered into during the year by the consolidated entity. The Joint Venture has entered into IRS contracts during the period.

#### (i) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Consolidated entity manages its capital to ensure its entities will be able to continue as going concerns while maximising the return to shareholders through the optimisation of its capital structure comprising equity and debt.

The capital structure of the Consolidated entity consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 18 and 19 respectively.

During 2013 the Consolidated entity has maintained the capital base through a clear cash management strategy and when required the issue of equity instruments.

There were no changes in the Consolidated entity's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

#### (j) Price risk

The consolidated entity is exposed to iron ore commodity price risk, through its Joint Venture investment.

	2013	2012
	\$'000	\$'000
6. REVENUE AND EXPENSES		
(a) Other income		
Other income	57	48
Total other income	57	48
	31	40
(b) Administration expenses		
Salary and on costs expenses	(4,027)	(4,236)
Corporate and consultant costs	(819)	(661)
Office and marketing costs	(744)	(898)
Other administration costs	, ,	
Total administration expenses	(1,345)	(1,423)
Total autilities tration expenses	(6,935)	(7,218)
(c) Other expenses		
Depreciation		
Property, plant & equipment	(225)	(214)
Equity-settled share-based payments transactions		
Impairment of exploration & evaluation assets	(312)	(6)
·	(5,452)	(2,565)
Total other expenses	(5,989)	(2,785)
( D. N. ( Constant and a second		
(d) Net financing income		
Interest income	2,034	9,167
Financial income	2,034	9,167
Net financing income	2,034	9,167
(e) Personnel expenses		
Wages and salaries	(2,380)	(2,314)
Other associated personnel expenses	(213)	(220)
Contributions to defined contribution superannuation funds	(177)	(173)
Increase in liability for annual leave	(177)	(173)
Increase in liability for long service leave	(110)	(132)
Increase in liability for bonuses	(141)	(548)
Equity Settled share based payment transaction	(312)	
Equity octained strained business and an actions of the strained s	(3,412)	(3,454)
(f) Expenses by nature	(3,412)	(3,434)
Employee benefits expense	(3,412)	(3,454)
Depreciation and amortisation expense	(225)	(214)
Corporate and Consultancy expense	(819)	(661)
Impairment of exploration & evaluation assets	(5,452)	(2,565)
Office and Marketing expense	(744)	(898)
Other expenses	(2,273)	(2,211)
	(12,925)	(10,003)
	(12,923)	(10,003)

Consolidated

2012

2013

#### 7. INCOME TAX EXPENSE

		2012
	\$'000	\$'000
Current tax expense		Restated*
Current year	-	-
Deferred tax expense		
Origination and reversal of temporary differences	(650)	(4,134)
Adjustments in relation to prior periods		
Benefit of tax losses and other deferred tax benefits not recognised	650	4,134
Total income tax expense/(benefit)	-	-
Numerical reconciliation between current tax expense/(benefit) and pre-tax net profit/(loss)		
Profit/(loss) before tax (	(144,381)	(28,342)
Income tax using the domestic corporation tax rate of 30% (2012: 30%)	(43,314)	(8,503)
Increase in income tax expense due to:		
Non-deductible expenses/assessable income		12
Decrease in income tax expense due to:		
Non-assessable income	-	
Equity accounting for share of (profit)/loss of joint venture	40,064	8,266
Losses (recognised)/not recognised	3,250	(224)
Total income tax expense/(benefit)	-	-

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

The Gindalbie Metals Ltd tax consolidated group has estimated unrecouped tax losses of \$111,466,086 (2012: \$98,517,747) available to be offset against future taxable income. The net deferred tax asset for the Group has not been recognised by the Consolidated entity on the basis that it is not probable that there will be future taxable income available against which the tax losses can be utilised. A deferred tax liability has not been recognised in equity in respect to the consolidated entity's share of the change in fair value of cash flow hedges of the joint venture of \$4,310,000 (2012: DTA \$2,079,000).

#### Tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Assets Liabilities			Net
	30 June 2013	30 June 2012	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accrued interest		-	2	41	2	41
Diesel fuel rebate		-	0	6	0	6
Property, plant & equipment		-	5	196	5	196
Exploration expenditure		-	7,414	7,667	7,414	7,667
Capital raising costs	(1,586)	(615)		-	(1,586)	(615)
Provisions	(226)	(360)		-	(226)	(360)
Accrued superannuation	(10)	(2)		-	(10)	(2)
Accrued expenditure	(8)	(13)		-	(8)	(13)
Tax loss carry forward	(5,591)	(6,920)		-	(5,591)	(6,920)
Tax (assets)/liabilities	(7,421)	(7,910)	7,421	7,910	-	-
Set off of tax	7,421	7,910	(7,421)	(7,910)	-	-
Net tax (assets)/liabilities	-	-	-	-	-	-

#### 7. INCOME TAX EXPENSE (Continued)

Deferred tax assets have not been recognised in respect of the following items:

Consolidated
30 June 2013 30 June 2012
\$'000 \$'000

27,880 22,635

Net carrying forward tax losses (30%)

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Consolidated entity can utilise the benefits there from.

Audit services:	8. AUDITOR'S REMUNERATION	Consolidated	
Auditors of the Company and Consolidated entity— KPMG Australia - audit and review of financial reports  Cither services:  Auditors of the Company and Consolidated entity— KPMG Australia - taxation services  Auditor's Remuneration  91.410 128.270  \$000 \$000  \$000  9. CASH AND CASH EQUIVALENTS  Bank balances 2,166 5,517 Term deposits 7,000 35,000  Cash and cash equivalents  9,166 40,517  10. TRADE AND OTHER RECEIVABLES  Current Interest receivables 7 138 Trade receivables 57 370  Quirent Cash security for performance bonds  Non-current Cash security for performance bonds  11. INVENTORIES  Current Raw materials and consumables  1 19		30 June 2013	30 June 2012
- audit and review of financial reports       88,676       79,258         Cither services:       Auditors of the Company and Consolidated entity- KPMG Australia       4,734       49,012         Auditor's Remuneration       91,410       128,270         S000       \$000         9. CASH AND CASH EQUIVALENTS       5,517         Term deposits       7,000       35,000         Cash and cash equivalents       9,186       40,517         10. TRADE AND OTHER RECEIVABLES       7       138         Current Interest receivable       7       138         Trade receivables       57       370         Other receivables       57       370         Non-current       36       303         Cash security for performance bonds       36       303         11. INVENTORIES       Current       1       19         Raw materials and consumables       1       19		\$	\$
Other services:       4,734       49,012         Auditor's Remuneration       91,410       128,270         \$100       \$1000       \$1000         9. CASH AND CASH EQUIVALENTS       \$100       \$500         Bank balances       2,166       5,517         Term deposits       7,000       35,000         Cash and cash equivalents       9,166       40,517         10. TRADE AND OTHER RECEIVABLES       7       138         Trade receivable       7       138         Trade receivables       57       370         Other receivables       57       370         Non-current       903       1,434         Non-current       36       303         Cash security for performance bonds       36       303         11. INVENTORIES       Current       80       1         Raw materials and consumables       1       19			
Auditor's fleeruneration       4,734       49,012         Auditor's Remuneration       91,410       128,270         \$000       \$000       \$000         9. CASH AND CASH EQUIVALENTS       \$000       \$000         Bank balances       2,166       5,517         Term deposits       7,000       35,000         Cash and cash equivalents       9,166       40,517         10. TRADE AND OTHER RECEIVABLES       7       138         Trade receivable       7       138         Trade receivables       57       370         Other receivables       57       370         Non-current       903       1,434         Non-current       36       303         11. INVENTORIES       1       19         Current       80       1       19	- audit and review of financial reports	86,676	79,258
- taxation services         4,734         49,012           Auditor's Remuneration         91,410         128,270           \$000         \$000           9. CASH AND CASH EQUIVALENTS         \$000         \$000           Bank balances         2,166         5,517           Term deposits         7,000         35,000           Cash and cash equivalents         9,166         40,517           10. TRADE AND OTHER RECEIVABLES           Current Interest receivable         7         138           Trade receivables         839         926           Other receivables         57         370           903         1,434           Non-current         36         303           Cash security for performance bonds         36         303           11. INVENTORIES         Current         1         19	Other services:		
Auditor's Remuneration         91,410         128,270           \$000         \$000           9. CASH AND CASH EQUIVALENTS           Bank balances         2,166         5,517           Term deposits         7,000         35,000           Cash and cash equivalents         9,166         40,517           10. TRADE AND OTHER RECEIVABLES           Current           Interest receivables         7         138           Trade receivables         839         926           Other receivables         57         370           903         1,434           Non-current         36         303           Cash security for performance bonds         36         303           11. INVENTORIES         Current           Raw materials and consumables         1         19	Auditors of the Company and Consolidated entity- KPMG Australia		
\$'000         \$'000           9. CASH AND CASH EQUIVALENTS         2,166         5,517           Term deposits         7,000         35,000           Cash and cash equivalents         9,166         40,517           10. TRADE AND OTHER RECEIVABLES         7         138           Trade receivables         7         138           Trade receivables         839         926           Other receivables         57         370           Non-current         903         1,434           Non-current Cash security for performance bonds         36         303           11. INVENTORIES         1         19           Current Raw materials and consumables         1         19	- taxation services	4,734	49,012
9. CASH AND CASH EQUIVALENTS         Bank balances       2,166       5,517         Term deposits       7,000       35,000         Cash and cash equivalents       9,166       40,517         10. TRADE AND OTHER RECEIVABLES         Current         Interest receivable       7       138         Trade receivables       839       926         Other receivables       57       370         903       1,434         Non-current         Cash security for performance bonds       36       303         11. INVENTORIES         Current         Raw materials and consumables       1       19	Auditor's Remuneration	91,410	128,270
Bank balances       2,166       5,517         Term deposits       7,000       35,000         Cash and cash equivalents       9,166       40,517         10. TRADE AND OTHER RECEIVABLES         Current         Interest receivable       7       138         Trade receivables       839       926         Other receivables       57       370         903       1,434         Non-current         Cash security for performance bonds       36       303         36       303         11. INVENTORIES       Current         Raw materials and consumables       1       19		\$'000	\$'000
Term deposits         7,000         35,000           Cash and cash equivalents         9,166         40,517           10. TRADE AND OTHER RECEIVABLES         Current           Interest receivable         7         138           Trade receivables         839         926           Other receivables         57         370           903         1,434           Non-current         36         303           11. INVENTORIES         Current           Raw materials and consumables         1         19	9. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents         9,166         40,517           10. TRADE AND OTHER RECEIVABLES           Current         Interest receivable         7         138           Trade receivables         839         926           Other receivables         57         370           903         1,434           Non-current         Cash security for performance bonds         36         303           11. INVENTORIES         Current           Raw materials and consumables         1         19	Bank balances	2,166	5,517
10. TRADE AND OTHER RECEIVABLES         Current       7       138         Interest receivable       7       138         Trade receivables       839       926         Other receivables       57       370         903       1,434         Non-current         Cash security for performance bonds       36       303         36       303         11. INVENTORIES       2         Current       Raw materials and consumables       1       19	Term deposits	7,000	35,000
Current       138         Interest receivable       7       138         Trade receivables       839       926         Other receivables       57       370         Non-current         Cash security for performance bonds       36       303         36       303         11. INVENTORIES         Current       Raw materials and consumables       1       19	Cash and cash equivalents	9,166	40,517
Interest receivable         7         138           Trade receivables         839         926           Other receivables         57         370           Non-current           Cash security for performance bonds         36         303           36         303           11. INVENTORIES           Current         Raw materials and consumables         1         19	10. TRADE AND OTHER RECEIVABLES		
Trade receivables         839         926           Other receivables         57         370           903         1,434           Non-current           Cash security for performance bonds         36         303           36         303           11. INVENTORIES           Current         Raw materials and consumables         1         19	Current		
Other receivables         57         370           903         1,434           Non-current         36         303           Cash security for performance bonds         36         303           36         303           11. INVENTORIES         Current           Raw materials and consumables         1         19	Interest receivable	7	138
Non-current         36         303           Cash security for performance bonds         36         303           11. INVENTORIES         Current         1         19           Raw materials and consumables         1         19	Trade receivables	839	926
Non-current Cash security for performance bonds  36 303  36 303  11. INVENTORIES  Current Raw materials and consumables  1 19	Other receivables	57	
Cash security for performance bonds       36       303         36       303         11. INVENTORIES         Current         Raw materials and consumables       1       19		903	1,434
Cash security for performance bonds       36       303         36       303         11. INVENTORIES         Current         Raw materials and consumables       1       19	Non-current		
11. INVENTORIES  Current Raw materials and consumables  1 19		36	303
Current Raw materials and consumables  1 19		36	303
Current Raw materials and consumables  1 19	44 INVENTORIES		
Raw materials and consumables 1 19	11. INV ENI URIES		
Raw materials and consumables 1 19	Current		
1 19		1	
		1	19

#### 12. INVESTMENTS

The Company holds investments in the following two controlled entities: Gindalbie (Anketell) Ltd (\$5) (2012: \$5) and Karara Pellet Plant Ltd (HK\$2).(2012: HK\$2).

#### 13. PROPERTY, PLANT AND EQUIPMENT

Land & buildings         2,016         1,854           At cost         2,016         1,854           Accumulated depreciation         (499)         (416)           Plant & equipment         2,546         2,513           Accumulated depreciation         (2,184)         (1,968)           Accumulated depreciation         (2,184)         (1,968)           Mine infrastructure         362         545           At cost         357         357           Accumulated depreciation         (350)         (335)           Accumulated depreciation         161           Under construction         1,886         2,166		Consolidated	
Land & buildings       2,016       1,854         At cost       2,016       1,854         Accumulated depreciation       (499)       (416)         Hant & equipment       2,546       2,513         Accumulated depreciation       (2,184)       (1,968)         Mine infrastructure       362       545         Mine infrastructure       357       357         Accumulated depreciation       (350)       (335)         Under construction       -       161		30 June 2013	30 June 2012
At cost       2,016       1,854         Accumulated depreciation       (499)       (416)         Plant & equipment       2,546       2,513         At cost       2,546       2,513         Accumulated depreciation       (2,184)       (1,968)         Mine infrastructure       362       545         Accumulated depreciation       357       357         Accumulated depreciation       (350)       (335)         Under construction       -       161		\$'000	\$'000
At cost       2,016       1,854         Accumulated depreciation       (499)       (416)         Plant & equipment       2,546       2,513         At cost       2,546       2,513         Accumulated depreciation       (2,184)       (1,968)         Mine infrastructure       362       545         Accumulated depreciation       357       357         Accumulated depreciation       (350)       (335)         Under construction       -       161			
Accumulated depreciation       (499)       (416)         1,517       1,438         Plant & equipment       2,546       2,513         At cost       2,546       2,513         Accumulated depreciation       (2,184)       (1,968)         Mine infrastructure       357       357         Accumulated depreciation       (350)       (335)         Under construction       -       161	Land & buildings		
1,517       1,438         Plant & equipment       2,546       2,513         At cost       2,546       2,513         Accumulated depreciation       (2,184)       (1,968)         Mine infrastructure       362       545         At cost       357       357         Accumulated depreciation       (350)       (335)         Under construction       -       161	At cost	2,016	1,854
Plant & equipment       2,546       2,513         Accumulated depreciation       (2,184)       (1,968)         Mine infrastructure       362       545         At cost       357       357         Accumulated depreciation       (350)       (335)         Under construction       -       161	Accumulated depreciation	(499)	(416)
At cost       2,546       2,513         Accumulated depreciation       (2,184)       (1,968)         Mine infrastructure       362       545         At cost       357       357         Accumulated depreciation       (350)       (335)         Under construction       -       161		1,517	1,438
Accumulated depreciation         (2,184)         (1,968)           362         545           Mine infrastructure         357         357           At cost         357         357           Accumulated depreciation         (350)         (335)           Under construction         -         161	Plant & equipment		
Mine infrastructure At cost Accumulated depreciation  Under construction  362 545  357 357 357  7 22	At cost	2,546	2,513
Mine infrastructure         357         357           At cost         (350)         (335)           Accumulated depreciation         7         22           Under construction         -         161	Accumulated depreciation	(2,184)	(1,968)
At cost         357         357           Accumulated depreciation         (350)         (335)           7         22           Under construction         -         161		362	545
Accumulated depreciation         (350)         (335)           7         22           Under construction         -         161	Mine infrastructure		_
Under construction - 161	At cost	357	357
Under construction - 161	Accumulated depreciation	(350)	(335)
		7	22
Total property, plant and equipment 1,886 2,166	Under construction	-	161
Total property, plant and equipment 1,886 2,166			
	Total property, plant and equipment	1,886	2,166

#### Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Land & buildings		
Carrying amount at beginning of year	1,438	1,510
Additions	162	-
Depreciation	(83)	(72)
Carrying amount at end of year	1,517	1,438
Plant & equipment		
Carrying amount at beginning of year	545	794
Additions	89	44
Depreciation	(272)	(293)
Disposals – at cost		-
Disposals – accumulated depreciation		-
Carrying amount at end of year	362	545
Mine Infrastructure		
Carrying amount at beginning of year	22	73
Additions	-	-
Depreciation	(15)	(51)
Disposals – at cost		-
Disposals – accumulated depreciation		
Carrying amount at end of year	7	22

For the year ended 30 June 2013

#### 14. EXPLORATION AND EVALUATION ASSETS

	Consolidated	
Costs carried forward in respect of areas of interest in:	30 June 2013	30 June 2012
Exploration and evaluation assets	\$'000	\$'000
Carrying amount at beginning of year	25,560	12,924
Additions	4,607	15,201
Impairment expense of exploration and evaluation assets (ii)	(5,452)	(2,565)
Carrying amount at end of year (i)	24,715	25,560

Exploration programs in each area of interest continue but have not reached a stage which permits a reasonable assessment of economically recoverable reserves. The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

- (i) The asset impairment expense represents the difference between the carrying value of exploration assets identified by project/tenement, less the estimated fair value of the tenements(s), after taking into account the costs to sell (where applicable) the tenement (s) or, there has been no budgeted future expenditure on tenements.
- (ii) At balance date the Board have reviewed the company's exploration assets and determined that certain areas of interest have been impaired to nil. Accordingly \$5,452,000 has been recognised as an impairment expense.

	30 June 2013	30 June 2012
	\$'000	\$'000
15. TRADE AND OTHER PAYABLES		
Current		
Trade creditors	372	905
Other creditors and accruals	994	864
	1,366	1,769
16. CONSOLIDATED ENTITIES		
	Ow nership	interest
	2013	2012
Parent entity	%	%
Gindalbie Metals Ltd		
Subsidiaries		
Karara Pellet Plant Ltd	100	100
Gindalbie (Anketell) Ltd	100	100

In the financial statements of the Company, investments in controlled entities are measured at cost. Joint venture operations are disclosed at Note 23.

#### 17 INVESTMENT IN JOINT VENTURE

#### (a) Joint Venture investments and principal activities

Major shareholdings in jointly controlled entities	Country of incorporation	Principal activities	Reporting date	8	ership rest
			uuto	2013	2012
			000000000000000000000000000000000000000	%	%
Karara Mining Ltd	Australia	Iron ore development	30-Jun	50	50
Subsidiaries of Karara Mining Ltd:					
Karara Management Services Pty Ltd	Australia	Iron ore development	30-Jun	50	50
DSO Ventures Pty Ltd	Australia	Iron ore development	30-Jun	50	50
Karara Infrastructure Pty Ltd	Australia	Iron ore development	30-Jun	50	50
Karara Port Services Pty Ltd	Australia	Port Infrastructure	30-Jun	50	50
Karara Energy Pty Ltd	Australia	Electricity Wholesaler	30-Jun	50	50
Karara Rail Pty Ltd	Australia	Rail Infrastructure	30-Jun	50	50
Karara Pow er Pty Ltd	Australia	Electricity transmission Infrastructure	30-Jun	50	50

Karara Mining Limited (joint venture) is a company domiciled in Australia, and is a joint venture company owned by Gindalbie Metals Ltd and Anshan Iron & Steel Group Corporation (Ansteel), a major Chinese state owned iron and steel producer.

The principal activities of the joint venture and its subsidiaries during the course of the year were the exploration, development and operation of the Karara Iron Ore Project. There were no significant changes in the nature of the activities of the joint venture during the year.

The consolidated entity's share of loss in Karara Mining Limited for the period to 30 June 2013 was a \$144.4 million loss (2012 loss \$28.3 million).

None of the consolidated entity's equity-accounted investees are publicly listed entities and consequentially do not have published price quotations.

#### (b) Joint Venture Project Finance Facility

In terms of a secured senior syndicated debt facility (Facility) signed by Karara Mining Limited (KML) on 6 August 2010, the company has fully drawn down a USD \$1.786 billion 12 year project finance facility provided by a syndicate of banks led by China Development Bank and Bank of China. Interest is payable half yearly and the interest rate is variable, comprising of a fixed margin above the 6 month LIBOR with sculptured half yearly principal repayments commencing May 2013. Under this facility KML is prohibited from paying dividends to shareholders or making loans to shareholders if the company is in breach of financial covenants related to the company's (i) debt equity ratio (ii) interest cover ratio, or (iii) life of loan cover ratio. In addition no dividend payments or loans to shareholders are permitted until after the fourth anniversary of the first utilization date (6 August 2010). No dividends have been received from KML during the year.

#### 17 **INVESTMENT IN JOINT VENTURE (Continued)**

(c) Loan to Joint Venture entity

30 June 2013 30 June 2012 \$'000

\$'000

Loans at fair value

59,931

The consolidated entity has provided interest free loans to joint venture entity KML totalling \$80 million as at the reporting date. These loans are unsecured and are subordinate to the existing project finance facility, and therefore are not generally repayable until after the project finance facility has been repaid in full or 31 December 2022. In accordance with Australian Accounting Standards the fair value of these loans at 30 June 2013 is \$59,931,000, based on the expected life of the loans and the prevailing market interest rate on a similar loan at the time the loans were granted. The difference between the nominal and fair value of these loans is recorded as an additional equity investment in the joint venture.

Joint venture partner Ansteel has provided similar subordinated shareholder loans to KML. Pursuant to an ASX announcement on 30 April 2013 and a further funding update announced on 2 July 2013, Ansteel have committed to providing a further \$30 million subordinated shareholder loan to the joint venture (subject to certain regulatory approvals, and the approval of the project finance banking syndicate). The joint venture entity will use these funds to repay \$30 million of the subordinated shareholder loan provided by the consolidated entity. In consideration for this loan repayment Ansteel has been granted an option to convert up to A\$60 million of subordinated shareholder loans provided to the joint venture entity into fully paid shares of KML. Should Ansteel exercise their option to convert these loans Ansteel's ownership interest in KML would be increased to 52.16%, and the consolidated entity's ownership interest would be diluted to 47.84%.

#### 17 INVESTMENT IN JOINT VENTURE (Continued)

(d) Joint Venture entity financial statements

KARARA MINING LIMITED AND CONTROLLED ENTITIES STATEMENTS OF COMPREHENSIVE INCOME For the year ended 30 June 2013

	Consolidated	
	2013	2012
	\$	\$
		Restated*
Continuing Operations	\$'000	\$'000
Revenue	249,259	34,851
Cost of Sales	(256,060)	(29,041)
Gross Profit	(6,801)	5,810
Other Income	6 905	264
	6,805	364
Other expenses	(5,533)	(4,835)
Take or pay obligations	(26,938)	(51,765)
Depreciation & Amortisation	(15,897)	(6,176)
Results from operating activities	(48,364)	(56,602)
recounce in one operations according to the control of the control	(10,001)	(00,002)
Financial income **	3,042	18,746
Financial expenses***	(220,420)	(39,907)
Net financing income	(217,378)	(21,161)
Profit / (Loss) before tax	(265,742)	(77,763)
lacementary (every energy) / homosis	(4.252)	00.054
Income tax (expense) / benefit	(1,353)	22,654
Profit / (Loss) for the year	(267,095)	(55,109)
Other comprehensive Income	-	-
Effective portion of changes in fair value of cash flow hedge net of tax	15,475	(18,060)
Total comprehensive Income	(251,620)	(73,169)
rotal comprehensive income	(231,020)	(73,109)

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

** Included interest income of:	3,042	4,655
*** Included interest expense of:	(5,099)	(1,880)

#### 17 INVESTMENT IN JOINT VENTURE (Continued)

KARARA MINING LIMITED AND CONTROLLED ENTITIES STATEMENTS OF FINANCIAL POSITION As at 30 June 2013

	Consoli	dated
	2013	2012
	\$	\$
	\$'000	\$'000
CURRENT ASSETS		Restated*
Cash and cash equivalents	8,899	400,321
Trade and other receivables	64,791	11,871
Prepayments	7,989	3,262
Inventories	20,244	4,116
Stock on hand	39,711	61,608
TOTAL CURRENT ASSETS	141,634	481,178
NON CURRENT ASSETS		
Trade and other receivables	41,926	41,663
Prepayments	12,128	12,917
Deferred tax asset	-	246
Property, plant and equipment	3,437,017	2,514,159
Exploration and evaluation assets	19,378	19,421
TOTAL NON CURRENT ASSETS	3,510,449	2,588,406
TOTAL ACCETO	0.050.000	0.000.505
TOTAL ASSETS	3,652,083	3,069,585
CURRENT LIABILITIES		
Trade and other payables	425,966	204,243
Employee Benefits	4,275	8,733
Senior debt	157,870	5,158
TOTAL CURRENT LIABILITIES	588,111	218,134
NON CURRENT LIABILITIES		
Long Term Provisions	34,657	39,857
Employee Benefits	487	240
Other Payables	-	32,411
Derivatives	3,692	18,059
Senior debt	1,787,705	1,438,520
Shareholders Loan	119,861	_
TOTAL NON CURRENT LIABILITIES	1,946,402	1,529,088
TOTAL LIADUSTIC	0.504.540	4 7 4 7 000
TOTAL LIABILITIES	2,534,512	1,747,222
NET ASSETS	1,117,571	1,322,363
1121780210		
EQUITY		
Share Capital	1,419,104	1,372,275
Reserves	(3,357)	(18,832)
Retained earnings / (Accumulated losses)	(298,176)	(31,081)
	, ,	<u> </u>
TOTAL EQUITY	1,117,571	1,322,363
Consolidated entity's 50% interest	558,785	661,181
Less: intercompany eliminations*	8,181	8,181
Carrying value of Joint Venture net assets	550,604	653,000
Joint ventura Opening halance	653,000	200 504
Joint venture Opening balance	653,000	389,584
Control Comprehensive income //less)	(133,548)	(27,554)
Other Comprehensive income/(loss)	7,738	(9,030)
Payments for investments	2,700	300,000
Interest free loan investment	20,714	-
Joint venture accounted for using the equity method	550,604	653,000

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

#### 17 INVESTMENT IN JOINT VENTURE (Continued)

KARARA MINING LIMITED AND CONTROLLED ENTITIES STATEMENTS OF CASH FLOWS For the year ended 30 June 2013

	Consolidated		
	2013	2012	
	\$	\$	
Cash flows from operating activities			
Receipts from customers	315,130	42,682	
Cash payments to suppliers and employees	(239,574)	(88,664)	
Interest Paid	(51,392)	(28,086)	
Net cash used in operating activities	24,164	(74,068)	
		_	
Cash flows from investing activities			
Interest received	4,475	12,183	
Exploration and evaluation expenditure	(1,478)	(3,194)	
Mine properties and development expenditure	(427,453)	(37,082)	
Acquisition of property, plant and equipment	(430,837)	(1,024,564)	
Net cash used in investing activities	(855,293)	(1,052,657)	
Cash flows from financing activities			
Proceeds/(payments) for performance bonds	-	82,234	
Repayment of bank guarantees and performance bonds	(5,990)	-	
Proceeds from borrowings	454,007	682,241	
Repayment of borrowings	(7,790)	-	
Proceeds from the issue of shares	5,400	600,000	
Net cash from financing activities	445,627	1,364,475	
Net increase/(decrease) in cash and cash equivalents	(385,502)	237,750	
Cash and cash equivalents at 1 July	400,321	174,596	
Effect of exchange rate fluctuations on cash held	(5,920)	(12,025)	
Cash and cash equivalents at 30 June	8,899	400,321	

For the year ended 30 June 2013

#### 17 INVESTMENT IN JOINT VENTURE (Continued)

#### (e) Joint Venture - Contingent Liabilities

The consolidated entity has various contingent liabilities in relation to its joint venture entity Karara Mining Limited (KML). For full details refer to Note 30.

#### (f) Minerals Resource Rent Tax (MRRT)

The joint venture entity KML may in the future become liable for MRRT (see note 3(I) (ii)). Certain transitional measures are contained in the MRRT legislation which can give rise to deductions in future years. Based on preliminary modeling and valuations performed by KML for future deductions and industry based forecasts of future iron ore prices, KML does not expect to have any material MRRT liability in the foreseeable future.

Consolidated
2013 2012
\$'000 \$'000

Restated\*

#### 18. RETAINED EARNINGS

Retained earnings at beginning of year Net (loss)/profit attributable to members of the consolidated entity Retained earnings at end of year

28,063	56,405
(144,381)	(28,342)
(116,318)	28,063

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

#### 19. CAPITAL AND RESERVES

(a) Issued Capital

Number of ordinary shares, fully paid 2013 2012

		\$'000	\$'000
1,492,154,301	1,247,487,454	753,965	693,173
1,247,487,454	935,615,590	693,173	488,300
044 000 047	044 074 004	00.000	000.054
244,666,847	311,871,864	62,390	208,954
-	-	-	-
-	-	(1,598)	(4,081)
1,492,154,301	1,247,487,454	753,965	693,173

#### **Ordinary shares**

Movements during the year Balance at beginning of year

Shares issued

- Issue of ordinary shares
- Exercise of options
- Transaction costs of share issues

Balance at end of year

During the year the Company:

- Issued 87,804,101 shares at 25.5 cents to Ansteel raising \$22,390,045.
- Issued 156,862,746 shares at 25.5 cents on a share purchase plan and institutional placement raising \$40,000,000.

During the comparative year the Company:

- Issued 111,922,105 shares at 67 cents to Ansteel raising \$74,987,810.
- Issued 199,949,759 shares at 67 cents on a share purchase plan and institutional placement raising \$133,966,338.

#### Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation. Note 28 provides details of shares issued on exercise of options.

#### 19. CAPITAL AND RESERVES (Continued)

	Consolidated	
	2013	2012
(b) Equity Settled Share Based Payments Reserve	\$'000	\$'000
Balance at beginning of year	7,829	7,823
Equity settled share based payments	1,581	6
Balance at end of year	9,410	7,829

The equity settled share based payments reserve comprises the net value of options expensed in the year calculated at grant date using the Black-Scholes or Monte Carlo model, depending on whether they contain market performance conditions. For options with a future vesting period the option value is bought to account progressively over the term of the vesting period.

	Consolidated	
	2013	2012
	\$'000	\$'000
(c) Equity accounted joint venture other comprehensive income reserve		
Balance at beginning of year	(9,030)	-
Changes in fair value of cash flow hedges	7,738	(9,030)
Balance at end of year	(1,292)	(9,030)

The recognition of other comprehensive income of JV entity comprises changes to the fair value of cash flow hedges.

#### 20. CAPITAL AND OTHER COMMITMENTS

#### **Exploration expenditure commitments**

In order to maintain current rights of tenure to exploration tenements, the Consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These requirements are subject to renegotiation when application for a mining lease is made and at other times. Payable no later than one year:

	Conso	lidated
	2013	2012
	\$'000	\$'000
Rents and rates	194	100
Exploration	1070	772
Total commitments	1264	872

Expenditure commitments for exploration programs beyond the next 12 months have not been determined by the Consolidated entity.

#### 21. OPERATING LEASES

Leases as lessee  Non-cancellable operating lease rentals are payable as follows:	2013 \$'000	2012 \$'000
Less than one year	913	1,015
Between one and five years	1,732	1,066
	2,645	2,081

The Consolidated entity leases office space under a non-cancellable operating lease expiring in three years. Leases generally provide the Consolidated entity with a right of renewal at which time all terms are renegotiated.

#### 22. INTERESTS IN JOINT VENTURE OPERATIONS

The Consolidated entity has interests in the following unincorporated joint ventures, both operate out of Australia:

Tenement Area	<b>Equity Interest</b>		Activities
	2013	2012	
	%	%	
Mt Mulgine	30	30	Tungsten Exploration

Subject to an agreement executed on 26 July 2013 the consolidated entity has agreed to assign all of its interest in the Mt Mulgine Joint Venture (other than a residual interest to explore for and mine iron ore on the tenements) for a consideration of \$500,000. The assignment of this joint venture interest is not expected to generate a material profit or loss for the consolidated entity.

#### 23. SEGMENT INFORMATION

The Consolidated entity has two reportable segments, as described below, which are the Consolidated entity's strategic business units. The strategic business units have different ownership and operating structures and are managed separately for this reason. For both of the strategic business units, the Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Consolidated entity's reportable segments:

- Karara Iron Ore Project includes the Company's share of this incorporated joint venture
- All other segments includes all other 100% owned or joint venture projects.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

#### Reconciliation of reportable segment assets and liabilities

Information about reportable segments

	Karara Iron Ore Project		All other		Total	
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		Restated*				
External revenues	-	-	57	48	57	48
Inter-segment revenue	-	-	-	-	-	-
Interest income	-	-	2,034	9,167	2,034	9,167
Depreciation and amortisation	-	-	(225)	(214)	(225)	(214)
Reportable segment (loss)/ profit before tax	-	-	1,866	9,001	1,866	9,001
Share of profit of equity-accounted investee	(133,548)	(27,554)				
					30-Jun-13	30-Jun-12
					\$'000	\$'000
						Restated*
Total profit or loss for reportable segments before tax					1,866	9,001
Unallocated amounts:						
Other corporate expenses					(12,699)	(9,789)
Income tax (expense)/benefit					-	-
Share of profit of equity-accounted investee					(133,548)	(27,554)
Net Profit/ (loss)					(144,381)	(28,342)

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

#### 23. SEGMENT INFORMATION (Continued)

#### Reconciliation of reportable segment assets and liabilities (Continued)

	Karara Iron Ore Project All other se		segments	То	tal	
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		Restated*				Restated*
Investment in Karara joint venture	550,604	653,000	-	-	550,604	653,000
Other assets	-	-	97,281	70,002	97,281	70,002
Liabilities	-	-	(2,120)	(2,967)	(2,120)	(2,967)
Reportable segment net assets	550,604	653,000	95,161	67,035	645,765	720,035

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

Other material items 2013	All other Reportable segment totals	Consolidated totals
Exploration and evaluation expenditure	4,607	4,607
Impairment losses on exploration and evaluation assets	(5,452)	(5,452)

#### **Geographical information**

The Iron Ore segment is managed and operates manufacturing facilities in Australia.

### 24. EARNINGS PER SHARE

#### Basic earnings per share

The calculation of basic earnings per share at 30 June 2013 was based on the loss attributable to ordinary shareholders of \$144,381,000 (2012: loss \$28,342,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2013 of 1,359,301,092 (2012: 1,171,909,612) calculated as follows:

Basic earnings per share	Consolidated		
	2013	2012	
	\$'000	\$'000	
		Restated*	
(Loss)/profit attributable to ordinary shareholders	(144,381)	(28,342)	
Weighted average number of ordinary shares	2013	2012	
	No. of shares	No. of shares	
Issued ordinary shares at 1 July	1,247,487,454	935,615,590	
Effect of share placement/ issue	111,813,638	236,294,022	
Effect of shares issued on exercise of share options	-	-	
Weighted average number of ordinary shares at 30 June	1,359,301,092	1,171,909,612	

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

#### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2013 was based on the loss attributable to ordinary shareholders of loss is \$144,381,000 (2012: loss \$28,342,000) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 1,359,301,092 (2012: 1,171,909,612) calculated as follows:

#### Diluted earnings per share

		Conso	lidated
	Note	2013	2012
		\$'000	\$'000
			Restated*
(Loss)/profit attributable to ordinary shareholders (diluted)		(144,381)	(28,342)
Weighted average number of ordinary shares		2013	2012
		No. of shares	No. of shares
Weighted average number of ordinary shares (basic)		1,359,301,092	1,171,909,612
Effect of share options on issue	28	-	-
Weighted average number of ordinary shares (diluted) at 30 June		1,359,301,092	1,171,909,612

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

In 2013, as the potential ordinary shares on issue would decrease the loss per share, they are not considered dilutive.

For the year ended 30 June 2013

#### **25. FINANCIAL INSTRUMENTS**

#### **Credit Risk**

Exposure to credit risk

The carrying amount of the Consolidated entity's financial assets represents the maximum credit exposure. Refer to note 5 for the credit management process. The Consolidated entity's maximum exposure to credit risk at the reporting date was:

		Cor	nsolidated
	Note	30 June 2013	30 June 2012
		\$'000	\$'000
Interest receivable	10	7	138
Cash security for performance bonds (current and non-current)	10	36	303
Trade receivables	10	839	926
Other receivables	10	57	370
Loan to joint venture entity	17	59,931	-
Cash and cash equivalents	9	9,166	40,517

The Consolidated entity cash and cash equivalents of \$9,166, 000 at 30 June 2013 (2012: \$40,517, 000), which represents is maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated of between A2 and A1+ from Standard & Poor's and A from Moody's.

The Consolidated entity's most significant receivable accounts for \$839, 000 of the receivables carrying amount at 30 June 2013 (2012: \$616,000). Refer to Note 5 for the credit risk management process and note 28 for details of receivable.

None of the Company's or Consolidated entity's receivables are past due (2012: nil).

Refer to Note 30 for disclosure of the consolidated entity's guarantees.

#### Liquidity risk

The following are the contractual maturities of the Consolidated entity's financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Non-derivative financial liabilities	Consolidated		Consolid	ated		
	2013		2013		2012	
	Carrying amount	6 mths or less	Carrying amount	6 mths or less		
	\$'000	\$'000	\$'000	\$'000		
Trade and other payables	1,366	(1,366)	1,769	(1,769)		

For the year ended 30 June 2013

#### 25. FINANCIAL INSTRUMENTS (Continued)

#### Interest rate risk

Exposure to interest rate risk

The Consolidated Entity's exposure to interest rate risk at balance date was as follows, based on notional amounts:

Consolidated	30 June 2013	30 June 2012
	\$'000	\$'000
Variable rate instruments		
Financial Assets		
Cash performance bonds	36	303
Cash	2,166	40,517
	2,202	40,820
Fixed rate instruments		
Financial Assets		
Cash	7,000	35,000
	7,000	35,000

The consolidated entity invests surplus cash in term deposits and in doing so exposes itself to the fluctuations in interest rates that are inherent in such a market. As at 30 June 2013, the consolidated entity invested \$7,000,000 into term deposits (2012: \$35,000,000) at an weighted average interest rate of 3.40% (2012: 4.62%).

#### Sensitivity analysis

The following table summarises the sensitivity of the Consolidated Entities' financial assets and liabilities to interest rate risk:

		Interest rate risk			
30 June 2013	Carrying amount	-100	bps	+ 100	) bps
		Equity	Profit or loss	Equity	Profit or loss
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash performance bonds	36	-	(0)	-	0
Cash	2,166	-	(22)	-	22
Total increase/(Decrease)		-	(22)	-	22
			Interest rate	risk	
30 June 2012	Carrying amount	-100	bps	+ 100	) bps
		Equity	Profit or loss	Equity	Profit or loss
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash performance bonds	303	_	(3)	_	3
Cash	5,517	-	(55)	-	55
Total increase/(Decrease)	3,317	- -	(58)	-	58

#### 25. FINANCIAL INSTRUMENTS (Continued)

#### Fair values

#### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

		30 June 20	013	30 June 2012	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
		\$'000	\$'000	\$'000	\$'000
Interest receivable	10	7	7	138	138
Cash security for performance bonds	10	36	36	303	303
Trade receivables	10	839	839	926	926
Cash and cash equivalents	9	2,166	2,166	40,517	40,517
Loan to joint venture entity	17	59,931	59,931	-	-
Trade and other payables	15	(1,366)	(1,366)	(1,769)	(1,769)
		61,613	61,613	40,115	40,115

#### 26. NOTES TO THE STATEMENTS OF CASH FLOWS

	Con	solidated
	2013	2012
Reconciliation of cash flows from operating activities	\$'000	\$'000
		Restated*
(Loss)/profit for the period after income tax (excl JV income)	(144,381)	(28,342)
Adjustments for:		
Share of loss/profit of equity accounted joint venture	133,548	27,554
Depreciation	313	416
Write off of carried forward exploration expenditure	5,452	2,565
Employee option expense	312	6
Operating profit before changes in working capital and provisions	(4,756)	2,199
Decrease/ (increase) in receivables	630	(3)
Decrease/ (increase) in inventory	18	6
Decrease/(increase) in prepayments	(641)	21
Increase / (decrease) in payables	(91)	319
Increase/ (decrease) in provisions	(445)	439
Increase/ (decrease) in other creditors	712	(1,266)
Net cash (used in)/from operating activities	(4,573)	1,715

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

#### **27. EMPLOYEE BENEFITS**

	Consolidated		
	30 June 2013	30 June 2012	
	\$'000	\$'000	
Current			
Liability for long service leave	-	-	
Liability for annual leave	428	310	
Liability for employee bonuses	258	839	
	686	1,149	
Non Current			
Liability for long service leave	68	49	
	754	1,198	

#### (a) Defined contribution superannuation funds

The Consolidated entity makes contributions to several defined contribution superannuation funds. The Consolidated entity has a legally enforceable obligation to contribute to these plans and contributes at the statutory rate of 9% of gross earnings. The amount recognised as expense or capitalised was \$395,777 for the financial year ended 30 June 2013 (2012: \$404,783).

#### (b) Share based payments

The Company has an employee share option plan which was approved at the 2006 Annual General Meeting held on 22 November 2006.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the rules of the plan, is based on the weighted average price of the Company's shares traded during the five business days preceding the date of granting the option.

All employee options expire on the earlier of their expiry date or three or six months after the termination of the employee's employment. Option issues generally contain a vesting period and exercise is solely at the discretion of the holder. All options are unlisted and cannot be sold or transferred.

There are no voting rights attached to the options or to the unissued ordinary shares. Voting rights will be attached to the issued ordinary shares when the options have been exercised.

Summary of options over unissued ordinary shares

Details of options over unissued ordinary shares as at the beginning and end of the reporting period and movements during the year are set out below.

The fair value of shares issued as a result of exercising options during the reporting period is the market price of the shares of the Company on the Australian Stock Exchange as at close of trading on the date of issue.

There were no options exercised during the year.

#### Terms and conditions of share-options programme

Grant date/employees entitled	Number of instruments in thousands	Vesting conditions	Contractual life of options
Options granted to senior employees on 23 Nov 2007	333 333	1 years service 2 years service	5 years
	333	3 years service	
Options granted to senior employees on 10 April 2008	333 333 333	1 years service 2 years service 3 years service	5 years
Options granted to senior employees on 10 April 2008	167 167 167	1 years service 2 years service 3 years service	5 years
Options granted to senior employee on 8 October 2010	250	Karara Project completes its first ore shipment.	5 years
Options granted to senior employees on 4 May 2011	600	The Company share performance at 30 June 2012 and 30 June 2013 are ranked relative to companies within the S&P/ASX300 Metals and Mining.	5 years
			4 years
Options granted to senior employees on 16 Nov 2012	1739	1 years service	
	1739	2 years service	
	1739	3 years service	
	8,566	-	

For the year ended 30 June 2013

#### 27. EMPLOYEE BENEFITS (Continued)

#### (b) Share based payments (continued)

Reconciliation of outstanding share options:

Expiry date	Exercise	Number of options at beginning of	Options granted	Options expired	Options lapsed	Options exercised	Options forfeited		options on nd of year	Proceeds received \$	Number of shares issued	Share price at date of
uuto	\$	year								•	issucu	exercise \$
								Vested	Unvested			
Consolidated 2013												
1-Aug-12	\$0.92	1,500,000	-	-	(1,500,000)	-	-	-	-	-	-	-
1-Aug-12	\$1.28	1,000,000	-	-	(1,000,000)	-	-	-	-	-	-	-
8-Oct-15	\$1.12	250,000	-	-	-	-	-	250,000	-	-	-	-
9-May-16	\$1.17	600,000	-	-	(600,000)	-	-	-	-	-	-	-
16-Nov-16	\$0.00	-	5,216,963	-	-	-	-	-	5,216,963	-	-	-
		3,350,000	5,216,963	-	(3,100,000)	-	-	250,000	5,216,963	-	-	-
Consolidated 2012												
6-Nov-11	\$0.60	2,500,000	-	(2,500,000)	-	-	-	-	-	-	-	-
30-Jun-12	\$1.82	300,000	_	(300,000)		-	-	-	-	-	_	-
1-Aug-12	\$0.92	1,500,000	_		-	-	-	1,500,000	-	-	_	-
1-Aug-12	\$1.28	1,000,000	_	_	-	-	-	1,000,000	-	-	_	-
8-Oct-15	\$1.12	1,000,000	_	_	(750,000)	_	_	250,000	_	_	_	_
9-May-16	\$1.17	2,000,000	_	_	(800,000)	_	(600,000)		600,000	_	_	_
8-Oct-15	\$1.12	2,000,000	1,750,000	_	(1,750,000)	_	(220,000)	_	-	_	_	_
9-May-16	\$1.17	_	1,000,000	_	(400,000)	_	(600,000)	_	_	_		_
5dy 10	Ψ1.17	8,300,000	2,750,000	(2,800,000)	(3,700,000)		(1,200,000)	2,750,000	600,000			

The market value of shares under these options at 30 June 2013 was \$0.11 (30 June 2012: \$0.44).

The options outstanding at 30 June 2013 have an exercise price in the range of \$0.00 to \$1.12 and a weighted average remaining contractual life of the options is 1,216 days.

Grant date	16-Nov-12
Fair value at measurement date (cents)	0.3050
Option pricing model	Black Scholes
Share price at grant date	\$0.305
Exercise price	\$0.00
Expected volatility (expressed as weighted average volatility	82.93%
used in the pricing modelling) (%)	
Option life (expressed as w eighted average life used in the	4
pricing modelling) (years)	
Expected dividends	Nil
Risk-free interest rate (based on national government bonds)	2.54%
(%)	

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

#### 28. PARTIES DISCLOSURES

#### Key management personnel disclosures

The following were key management personnel of the Consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

#### **Executive director**

Mr T C Netscher - Managing Director & CEO

#### Non-executive directors

Mr G F Jones - Chairman (resigned 9 April 2013)

Mr K F Jones - Chairman (commenced 1 March 2013 non-executive Director & 10 April 2013 Chairman)

Mr A R Marshall

Mr S An Lin (resigned 10 June 2013)

Mr M J O'Neill

Mr Y Wanyuan

Mr C Ping

Mr P Hallam Mr T Fuping (commenced 10 June 2013)

#### Executives

Mr D Richardson - Chief Financial Officer

Mr C Gerrard - General Counsel (commenced 1 May 2012) & Company Secretary (commenced 7 December 2012)

#### 28. RELATED PARTIES DISCLOSURES (Continued)

#### Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see Note 6(e)), or capitalised under exploration and evaluation assets per accounting policy Note 3(o) are as follows:

	2013	2012
	\$	\$
Short-term employee benefits	2,799,321	2,642,793
Long-term employee benefits	-	214,639
Post-employment benefits	113,522	130,870
Equity compensation benefits	339,994	<u>-</u>
	3,252,837	2,988,302

**Equity holdings and transactions**The movement during the reporting period in the number of ordinary shares of Gindalbie Metals Ltd held, directly, indirectly, or beneficially by each key management person, including their related parties is as follows:

Number of shares 2013	Held at	Purchases or	Received		Less balance held upon resignation	Held at
	1-Jul-12	held at date of employment	on exercise	Sales		30-Jun
			of options			2013
Directors						
Mr GF Jones	19,000,000	500,000	-		19,500,000	N/A
Mr KF Jones	-	300,000	-	-	-	300,000
Mr MJ O'Neill	1,437,655		-	-	-	1,437,655
Mr T C Netscher	100,000	100,000	-	-	-	200,000
Mr A R Marshall	100,000	100,000	-	-	-	200,000
Mr P D Hallam	100,000		-	-	-	100,000
Executives						
Mr D Richardson	10,000		-	-	-	10,000

Number of shares 2012	Held at	Purchases or	Received		Less	Held at 30-Jun 2012
	1-Jul-11	held at date of employment	on exercise	Sales	balance held upon resignation	
			of options			
Directors						
Mr GF Jones	18,600,000	400,000	-	-	-	19,000,000
Mr MJ O'Neill	1,228,241	209,414	-	-	-	1,437,655
Mr T C Netscher	-	100,000	-	-	-	100,000
Mr A R Marshall	-	100,000	-	-	-	100,000
Mr PD Hallam	-	100,000	-	-	-	100,000
Executives						
Mr D Richardson	8,000	2,000	-	-	-	10,000

#### 28. RELATED PARTIES DISCLOSURES (Continued)

#### Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Gindalbie Metals Ltd held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Number of options 2013	Held at	Granted as	Exercised	Other	Held at	Vested	Vested and
	1-Jul-12	remuneration		Changes*	30-Jun 2013	during the year	exercisable
							at 30 June
			1 1			1	2013
Directors		-					
Vir T Netscher	-	1,148,822	- 1	-	1,148,822	-	-
Executives							
Vir C Gerrard	-	187,935	-	-	187,935	-	-
Vir D Richardson	-	487,356	-	-	487,356	- 1	-

Number of options 2012	Held at	Granted as	Exercised		Held at	Vested during the	Vested and
	1-Jul-11	remuneration		Changes*	30-Jun	year	exercisable
			1		2012	1	at 30 June
			1			1	2012
Directors		-					
Mr GJ Dixon	2,500,000	-		(2,500,000)	-	-	-
Executives							
Mr D Richardson	-	1,000,000	-	(1,000,000)	-	-	-

<sup>\*</sup> Other changes in 2012 are options that were voluntarily forfeited (Mr D Richardson).

No options held by key management personnel are vested but not exercisable as at 30 June 2013.

#### Individual directors and executives compensation disclosures

Information regarding individual directors and executive's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

#### Other transactions with key management personnel

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial and/or operating policies of those entities.

A number of these entities transacted with the Consolidated entity in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were \$nil (2012: \$nil).

#### 28. RELATED PARTIES DISCLOSURES (Continued)

#### Other transactions with key management personnel (Continued)

There were no loans or other transactions made to/with key management personnel.

All additional required key management personnel disclosures are contained in the Remuneration Report section of the Directors' Report.

#### Other related party transactions

#### **Subsidiaries**

Loans to subsidiaries are non-interest bearing. During the financial year ended 30 June 2013, such loans to subsidiaries totalled \$9,748 (2012 \$6,854).

#### Joint venture

The Karara Joint Venture makes the results of its activities available to the Consolidated entity as well as to the other joint venturer. From time to time, to support the activities of the joint venture, the venturers increase their investment in the joint venture. During the period equity contributions of \$2,700,000 (2012: \$300,000,000) were made to the Joint Venture and granted \$80,000,000 (2012: nil) in interest free loans. These loans have been accounted at their fair value as at 30 June 2013. The loan receivable balance at 30 June 2013 is \$59,931,000. Refer to note 17.

An office cost recovery fee was charged by the Company to the Karara Iron Ore Project Joint Venture totalling \$1,107,053 (2012: \$2,422,820) representing recharge of office and administrative costs to the project. Of this amount \$553,526 (2012: \$1,211,410) related to the Company's share in the joint venture.

A labour cost recovery fee was charged by the Company to the Karara Iron Ore Project Joint Venture totalling \$2,466,081 (2012: \$1,474,182) representing recharge at market rates of employees seconded to the project. Of this amount \$1,233,040 (2012: \$737,091) related to the Company's share in the joint venture.

There is a jointly controlled entity balance of \$839,149 outstanding as at 30 June 2013 (2012: \$925,720).

#### 29. CONTINGENT LIABILITIES

Details of contingent liabilities are set out below. Refer to note 30 for contingent liabilities associated with the consolidated entity's equity accounted investment in KML.

	Consol	idated
	2013	2012
	\$'000	\$'000
Not otherwise provided for in the Financial report	-	-

#### **30. PARENT ENTITY DISCLOSURES**

As at, and throughout, the financial year ending 30 June 2013 the parent company of the Consolidated entity was Gindalbie Metals Ltd.

#### Result of the parent entity

2013 2012 \$'000 \$'000 Restated	
Restated	
	d*
Profit/(Loss) for the period (144,381) (28,34	2)
Other comprehensive income 7,184 (9,03	0)
Total comprehensive Profit/(Loss) for the period (137,197) (37,37)	2)
Financial position of parent entity at year end	
Current assets 10,713 41,97	73
Total assets 647,885 723,00	02
Current liabilities 2,052 2,99	18
Total liabilities 2,120 2,96	67
Total equity of the parent entity comprising of:	
Share capital 753,965 693,17	73
Reserve for own shares 8,118 (1,20	1)
Retained earnings (116,318) 28,00	63
<b>Total Equity</b> 645,765 720,03	35

<sup>\*</sup> Prior year adjustment in the Joint Venture Financial Statements is due to the early adoption of IRFIC 20 - stripping costs in the production phase of a surface mine. Refer note 2 (f) (ii).

#### Parent entity exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These requirements are subject to renegotiation when application for a mining lease is made and at other times.

Payable no later than one year:	Consolidated		
	2013	2012	
	\$'000	\$'000	
Rents and rates	194	100	
Exploration	1070	772	
Total commitments	1264	872	

Expenditure commitments for exploration programs beyond the next 12 months have not been determined by the company.

#### Performance guarantees

The Company has performance guarantees in place with the Department of Industry and Resources totalling \$26,000 (2012: \$48,000) under a performance bond facility with Macquarie Bank Limited. The guarantee is secured by a term deposit.

The Company has additional performance guarantees in place with the Department of Industry and Resources for \$10,000 (2012: \$24,000) representing security bonds over ground disturbance applications. These guarantees are secured by term deposits.

The Company also has performance guarantees in place to secure payment of rent under the Company's lease of premises at its office premises at 216 St Georges Terrace, Perth totalling \$nil (2012: \$231,000). These guarantees are secured by term deposits

#### 30. PARENT ENTITY DISCLOSURES (Continued)

#### Parent entity contingent liabilities

Pursuant to a \$1.786 billion USD project financing facility provided to KML by a syndicate of Chinese banks, the company has provided a First Ranking Share Mortgage in favour of the banks over all shares in KML. The company has also provided a Second Ranking Share Mortgage to its joint venture partner in KML, Anshan Iron & Steel Group Corporation ("Ansteel") in respect of 50% of the liability Ansteel may incur under a Sponsor Guarantee Ansteel has provided to the banks. The company's liability under this commitment is unlimited, however the estimated maximum potential liability based on credit facilities provided as at 30 June 2013 is \$892.5 million USD (2012 - \$768 million USD).

Furthermore Gindalbie and Ansteel provided a Cross Charge to each other over the shares each owns in KML, to secure each entity's obligations under the Joint Venture Development Agreement.

The consolidated entity has provided several parent company performance guarantees to a combined value of \$220 million (2012 - \$172 million), in terms of KML contracts for rail haulage, electricity supply and a tailings management facility. Pursuant to the Joint Venture Development Agreement Ansteel has agreed to stand behind 50% of these liabilities, pending Chinese regulatory approval.

#### 31. EVENTS SUBSEQUENT TO REPORTING DATE

In September 2013 KML joint venture partner Ansteel made an incomplete non-binding offer to provide up to \$230 million USD of additional short term debt funding available to KML, to meet the latest forecast additional working capital requirements of KML for the remainder of the current financial year. This working capital facility if required will be made available through either a prepaid sales agreement(s) and/or Ansteel guarantees for additional bank debt facilities. A condition precedent to the provision of this additional working capital facility is that at Ansteel's option this new debt can be extinguished through the issue of new KML equity share capital to Ansteel. The independent directors of the consolidated entity have agreed in principal to this proposed additional funding arrangement for KML, and are negotiating with Ansteel to document and execute the proposal as at the date of this report.

Under this funding proposal should Ansteel ultimately exercise its' option to subscribe to new equity in KML to extinguish the proposed working capital facility, the consolidated entity's equity ownership position in the joint venture entity KML would be diluted. The level of dilution would be dependent upon the actual amount of debt extinguished, and the prevailing USD/AUD exchange rate at the time Ansteel exercised its option. Assuming a total of \$230 million USD of debt was converted to equity, at the current approximate USD/AUD exchange rate 0.9100, the consolidated entity's ownership interest in KML would be diluted down to approximately 38%. In the event that the consolidated entity's equity ownership of KML is diluted, under Australian Accounting Standards a gain or loss would be reported based on the difference between the carrying value of the investment in KML at the time of dilution, and the fair value of the remaining equity interest retained. The potential gain or loss upon dilution cannot currently be reliably estimated, as it will be dependent upon prevailing circumstances and market conditions that impact the fair value of KML at the date of dilution, as well as any change in the carrying value of the investment as at the date of dilution.