

ANSTEEL STEPS UP SUPPORT FOR KARARA

Gindalbie Metals Limited (ASX: **GBG** – “Gindalbie”) advises that it has reached agreement in principle, subject to the conclusion of a Binding Memorandum of Understanding, with its joint venture partner Ansteel to implement a comprehensive new funding solution to meet the additional working capital requirements for the Karara Project arising from recently announced delays in ramping up production.

The US\$230 million funding package will be provided in two stages: first, through a concentrate pre-sale agreement; and secondly, through a loan facility to be provided by Bank of China (and guaranteed by Ansteel).

Subject to various regulatory approvals, Ansteel will be granted the option to subscribe for new equity in Karara Mining Limited (**KML**) to provide KML with sufficient funds to repay these loans.

If Ansteel elects to convert the entire amount into equity, based on current exchange rates, it would increase its stake in KML to approximately 62 per cent, with Gindalbie retaining approximately 38 per cent ownership. Further details of the new funding package are outlined below.

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

The Ansteel funding solution will leave Gindalbie cashed up, debt-free and well placed to take advantage of future opportunities while still retaining a significant stake in the Karara Project.

New Funding Package

Gindalbie intends to sign a Binding Memorandum of Understanding with Ansteel to implement the new funding arrangement for KML. The arrangement is to cover KML's re-estimated working capital requirements through to the end of the year in light of the decision to temporarily reduce Concentrator throughput to enable modifications to be made to the dry tailings management system (see ASX Announcement – 2 September 2013).

KML estimates that it will require US\$230 million of funding in addition to the funding being provided under the July 2013 agreement (see ASX Announcements – 10 June 2013 and 2 July 2013).

As a result, Gindalbie and Ansteel have agreed in principle to a two-step funding solution, comprising:

- **Step 1** – Ansteel to provide US\$100 million in immediate funding in the form of a concentrate pre-sale agreement with KML under similar terms and conditions to the two previous pre-sale agreements executed earlier this year. Ansteel will have the option to convert the debt represented by the pre-sale agreement into KML equity instead of taking delivery of the pre-purchased magnetite concentrate.
- **Step 2** – Bank of China (**BOC**) will provide a US\$130 million term loan to KML, subject to receiving an unconditional guarantee from Ansteel in relation to this loan. Gindalbie will provide Ansteel with a corporate cross-guarantee from Gindalbie for a percentage of this loan facility, proportionate to Gindalbie's equity share in KML. The approval of the term loan facility will be subject to various conditions precedent including Chinese and Australian Government approvals, and consent from KML's existing banking syndicate. Ansteel will have an option to subscribe for new KML equity, to provide KML with sufficient funds to repay the debt.

When and if the debt facilities are converted to equity, KML shares will be issued at A\$3.02 per share, which effectively implies a significant premium to the current market value of Gindalbie's existing 50% stake in KML, and therefore provides a far superior outcome for Gindalbie shareholders in comparison to a further equity issue by Gindalbie.

Operations and Production Update

Work is progressing well to implement the engineering solution to address the previously announced bottleneck with the tailings management system. The timeframe for completion of this work remains within previous guidance of three months.

Product shipments are continuing with total exports of approximately 4.2 million tonnes of DSO hematite and 1.5 million tonnes of magnetite concentrate.

Production guidance for Karara for the six months to 31 December 2013 remains in the range of 1.5-2.0 million tonnes for magnetite concentrate and 1.9-2.1 million tonnes for DSO.

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