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## Chairman's Letter

24 May 2019

Dear fellow Gindalbie Shareholder

On behalf of the Independent Directors of Gindalbie Metals Limited (**Gindalbie**), I am writing to provide you with the Acquisition Scheme Booklet, which contains important information for you to consider about the proposed acquisition of your Gindalbie Shares by Angang Group Hong Kong (Holdings) Limited (**Ansteel**).

On 11 March 2019, Gindalbie announced that it had entered into two transactions that, if implemented, will lead to the acquisition by Ansteel of all of the Gindalbie Shares that it does not already own for cash consideration of \$0.026 per Gindalbie Share, and the demerger of Gindalbie's wholly owned subsidiary, Coda Minerals Limited (**Coda**), to Eligible Gindalbie Shareholders.

Coda is an exploration company focused on generating shareholder value from the highly prospective Mt Gunson Copper-Cobalt Project in South Australia (**Mt Gunson**), in which it has a right to earn up to 75%. Coda is currently wholly owned by Gindalbie.

In this letter, I will summarise what your Independent Directors of Gindalbie (**Independent Directors**) believe to be the critical issues facing Gindalbie. I will also explain the reasons why the Independent Directors unanimously recommend that you vote in favour of the Acquisition Scheme Resolution and the Demerger, subject to the qualifications stated throughout the Acquisition Scheme Booklet.

Gindalbie has an interest in the Karara Iron-Ore Project (**Karara**). Karara is an incorporated joint venture between Ansteel (currently ~52%) and Gindalbie (currently ~48%). Karara is currently carrying over US\$3 billion of debt and the Independent Directors consider it is highly unlikely that Karara will ever generate sufficient free cash flow to repay this debt, or profits to return dividends to its shareholders, under the current financial and operating structures. For this reason, the Gindalbie Board took the prudent step of reducing the carrying value of Karara to nil (\$0) in the 2014 audited financial statements.

Please refer to page 32 of the Acquisition Scheme Booklet for answers to frequently asked questions regarding Karara's valuation and operations.

Karara has made an operating loss in each year since it commenced operations and continues to make operating losses. Karara's ongoing sustaining capital requirements, and the need to service its substantial debt burden, have placed enormous pressure on Karara's shareholders, Gindalbie and Ansteel. Future cash calls from Karara could, at any time, significantly reduce Gindalbie's shareholding in Karara if they involve the subscription of equity and if Gindalbie did not, or could not, participate.

While Gindalbie currently retains a significant cash balance and is actively advancing feasibility work on Mt Gunson, Gindalbie Shares have traded significantly below Gindalbie's cash backing for the majority of the past two years. The Independent Directors believe this is due to the lack of liquidity and the continued presence of Ansteel as a 35.71% Gindalbie Shareholder. Gindalbie's significant contingent liability exposure to Karara, in the opinion of the Independent Directors, also prevents Gindalbie from being able to secure significant debt funding and detrimentally affects the company's ability to raise equity capital. This may adversely affect Gindalbie's ability to fund the continued development of Mt Gunson.

Accordingly, the Independent Directors believe an exit from Karara and a focus on new shareholder value-generating opportunities, such as Coda, are in the best interests of Gindalbie Shareholders. The Independent Directors consider that the Acquisition Scheme and the Demerger Scheme (together with the Capital Reduction, the **Transaction**) achieve these outcomes.

We believe that the Acquisition Scheme provides Gindalbie Shareholders with an opportunity to step away from the overhang of the liabilities from Karara – an asset that the Independent Directors believe is unlikely to ever deliver a financial return to Gindalbie or Gindalbie Shareholders – in exchange for \$0.026 per Gindalbie Share, which is a significant premium relative to Gindalbie's VWAPs leading up to the Announcement Date.

The Independent Directors believe that the Transaction delivers significant value for all Gindalbie Shareholders. Importantly, if the Transaction is implemented, Gindalbie Shareholders will be able to exit all exposure to Gindalbie's significant contingent liabilities and Eligible Gindalbie Shareholders will also benefit from Coda's ownership and farm-in rights relating to Mt Gunson, plus the cash holdings being injected in Coda from Gindalbie, and any additional exploration opportunities Coda pursues. Coda intends to apply for admission to the official list of the ASX as soon as practicable after the implementation of the Demerger (though listing is not guaranteed).

While the Independent Directors appreciate Ansteel as a valued and supportive Gindalbie Shareholder, as part of the Transaction Ansteel has agreed not to participate in the first Equity Capital Raising undertaken by Coda within 12 months after the Demerger is implemented. This means Ansteel will be diluted if Coda undertakes the Equity Capital Raising in that period.

The Equity Capital Raising structures currently being considered by Coda would, if successfully implemented, result in a dilution of Ansteel's interest in Coda to below 20% as a result of Ansteel's agreement not to participate. Subject to applicable laws, other Coda Shareholders are intended to be given the opportunity to participate in the Equity Capital Raising. Please refer to the Demerger Scheme Booklet for further information on the Equity Capital Raising.

More information in relation to Coda and the Demerger can be found in the Demerger Scheme Booklet, which was sent to you at the same time as the Acquisition Scheme Booklet.

### **Independent Expert's opinion**

To assist Gindalbie Shareholders in assessing the Acquisition Scheme, Gindalbie appointed BDO to prepare an Independent Expert's Report. In its report, the Independent Expert has concluded that, in the absence of a superior offer, the Acquisition Scheme is fair and reasonable and therefore in the best interests of Gindalbie Shareholders. The Independent Expert has assessed the value of a Gindalbie Share, inclusive of a premium for control (but excluding Coda and the cash allocated to Coda under the Demerger), to lie in the range of \$0.017 to \$0.022. The Acquisition Scheme Consideration of \$0.026 per Gindalbie Share exceeds the Independent Expert's assessed value range.

A full copy of the Independent Expert's Report is set out in Annexure A of the Acquisition Scheme Booklet. This is an important document and I encourage you to read it in full.

### **Your vote will affect the future value of your investment**

Your vote is important. I encourage you to vote by completing the Proxy Form accompanying the Acquisition Scheme Booklet, or alternatively by attending the Acquisition Scheme Meeting to be held at 9.30 am (Perth time) on 3 July 2019 at the Perth Convention and Exhibition Centre, Meeting Room 8.

For the Acquisition Scheme to be approved by Gindalbie Shareholders, votes in favour of the Acquisition Scheme Resolution must be received from a majority in number (more than 50%) of Gindalbie Shareholders present and voting at the Acquisition Scheme Meeting (unless the Court orders otherwise) and at least 75% of the total number of votes cast on the Acquisition Scheme Resolution by Gindalbie Shareholders. Ansteel will not be voting on the Acquisition Scheme.

**If the Acquisition Scheme is not approved and implemented**, you will not receive the cash consideration offered under the Acquisition Scheme and the trading price of Gindalbie Shares is likely to fall in the near-term in the absence of a Superior Proposal. In that circumstance, the inter-conditional nature of the Transaction means that the Demerger will also not proceed. This means that **no Gindalbie Shareholders will receive Coda Shares under the Demerger.**

#### Further information

The Acquisition Scheme Booklet sets out important information relating to the Acquisition Scheme including the conditions precedent, the reasons why the Independent Directors have recommended that Gindalbie Shareholders vote in favour of the Acquisition Scheme Resolution, and the Independent Expert's Report. It also sets out reasons why Gindalbie Shareholders may wish to vote against the Acquisition Scheme Resolution.

If you have any questions about the Acquisition Scheme, please contact the Gindalbie Shareholder Information Line on 1300 308 375 (for callers within Australia) or +61 8 6314 6314 (for callers outside Australia) between 9.00 am and 5.00 pm (Perth time) Monday to Friday.

On behalf of the Gindalbie Board, I would like to take this opportunity to thank you for your ongoing support of Gindalbie, and I look forward to your participation at the Acquisition Scheme Meeting.

Yours sincerely

A handwritten signature in black ink, appearing to be 'K. Jones', written over a circular stamp or seal.

**Keith Jones**  
**Non-Executive Chairman**  
Gindalbie Metals Limited