

GINDALBIE TO EMERGE CASHED-UP AND REMAIN DEBT-FREE FOLLOWING KARARA RESTRUCTURE

Key Points

- **Gindalbie to remain debt-free with more than A\$35M cash following a proposed financial and ownership restructure of Karara Mining Limited (KML).**
- **Subject to final agreements and satisfaction of conditions precedent, the restructure will see Ansteel undertake to provide all required bridging loan finance to KML to fund any cashflow requirements.**
- **In recognition of funding support Ansteel will have the option to increase its stake in KML to a maximum of 52.16% by converting existing loans to equity.**
- **Ansteel will work with Gindalbie and KML to secure a new long-term working capital facility for KML from China Development Bank (CDB).**
- **KML will remain incorporated, headquartered and managed in Australia.**
- **Gindalbie will have the financial and technical capability to progress its 100%-owned projects including development of the Shine DSO hematite deposit in WA's Mid West.**

Gindalbie Metals Limited (ASX: **GBG** – “Gindalbie”) is pleased to announce that it has agreed in principle with its joint venture partner Ansteel to a restructure of the Karara Project in Western Australia in a move which will leave Gindalbie ideally positioned to take advantage of growth opportunities.

Subject to final agreements and satisfaction of conditions precedent, including Foreign Investment Review Board (FIRB) approval, Chinese regulatory approvals and bank consent, Gindalbie's stake in Karara Mining Limited (KML) may be reduced from 50 per cent to a minimum of 47.84 per cent as Ansteel undertakes to provide all required bridging loan finance to KML to fund any cash shortfalls over the next 12 months.

During this period, Ansteel and Gindalbie will assist KML to secure a new longer-term working capital facility for KML from China Development Bank.

The new arrangement and funding mechanism removes the need for Gindalbie to raise further equity capital to support KML's working capital requirements, leaving the Company with more than A\$35 million in cash and no debt.

Short-term KML Funding

Subject to the conditions noted above, Ansteel has undertaken to provide all of the required bridging finance to KML to fund any cash requirements over the next 12 months until a new longer-term working capital facility can be secured and finalized with China Development Bank (and/or other third party lenders).

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

Under a previous funding arrangement announced last month (*see ASX announcement - 30 April 2013*):

- Gindalbie and Ansteel each advanced separate A\$30 million loans to KML for working capital in April 2013.
- Ansteel agreed (subject to FIRB approval) to advance KML another A\$30 million loan to allow repayment by KML of Gindalbie's A\$30 million loan.
- Ansteel granted Gindalbie an option to purchase Ansteel's second A\$30 million loan,
- If Gindalbie elected not to do so, Ansteel could convert all or part of both of its loans, totaling up to A\$60 million, into KML equity.

In terms of the new arrangement and subject to the finalisation of all documentation, Gindalbie has now 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%.

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

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

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

KML Working Capital Funding

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

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

Operational Update

As outlined to the market last month, the shortfall in working capital is due to delays in the general ramp-up of Karara and product shipment rates being below internal forecasts.

While there continue to be no material issues with the commissioning and ramp-up, the delays and therefore reduction in shipment volumes together with the volatility of iron ore pricing, has had an impact on KML's working capital funding position.

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

The rectification of the previously-advised tailings filtration issue together with the completion of the polishing circuit are well advanced and Gindalbie maintains its guidance of achieving nameplate capacity of 8Mtpa and premium (68%Fe) concentrate specifications in July. This should allow Karara to become operating cash-flow positive during the September Quarter.

Management Comment

Gindalbie's Managing Director, Mr Tim Netscher, said the new funding arrangements represented a major breakthrough for the Karara Project and a strong vindication of the strength and durability of the joint venture.

"The combination of short-term bridging finance and a longer-term working capital facility secures Karara's financial position, putting the Project on a much stronger footing for the future. From Gindalbie's perspective, this removes the overhang of an impending equity raising, leaving us with cash of over A\$35 million and no debt, whilst enabling us to retain at least 47.84 per cent ownership of a world-class iron ore project which is completing its ramp-up to full production," he said.

"The advantage of this arrangement is it avoids the need for us to call on shareholders or the market for more funding for Karara's ramp-up and effectively marks the beginning of a new chapter for Gindalbie," Mr Netscher continued. "We will now work diligently with Ansteel to complete and execute all relevant documents."

“KML will remain an Australian domiciled and headquartered company which will continue to operate on a commercial basis with its primary objective being to generate long-term profitability and value for shareholders,” he added. “This is a very positive outcome for Gindalbie shareholders, and for all Karara stakeholders. I would once again like to take this opportunity to acknowledge and thank Ansteel for the constructive, positive and far-sighted view they have adopted throughout the recent negotiations. Ansteel remain a rock-solid partner in the Karara Project and I firmly believe that this represents a great outcome for both parties.”

ENDS

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