



ABN 24 060 857 614

**GINDALBIE METALS LTD
AND ITS ASSOCIATED ENTITIES**

**INTERIM FINANCIAL REPORT
31 DECEMBER 2014**

GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES

DIRECTORS' REPORT

The directors present their report together with the financial report for the half-year ended 31 December 2014 and the auditor's review report thereon.

DIRECTORS

The Directors of the Company during or since the end of the half-year are:

Name & Qualifications	Period of Directorship
Mr Keith F Jones B.Bus, FCA, FAICD Non-Executive Chairman	Director since March 2013 Appointed as Chairman April 2013
Mr Tang Fuping Non-Executive Director	Director since June 2013 Resigned March 2015
Mr Michael J O'Neill Dip Bus Admin, SFFin, FAICD Independent Non-Executive Director Acting Managing Director	Director since April 2006 Acting Managing Director April 2014
Mr Yu Wanyuan B.Eng Non-Executive Director	Director since June 2009 Resigned March 2015
Mr Chen Ping B.Eng Non-Executive Director	Director since June 2009
Mr Andrew R Marshall I. Eng, MAICD Independent Non-Executive Director	Director since December 2010
Mr Paul D Hallam BE (Hons) Mining, Grad Cert Mineral Economics, FAICD, FAUSIMM Independent Non-Executive Director	Director since December 2011
Mr Shao An Lin PHD Mining Non-Executive Director	Director since March 2015
Mr Li Je B.Fin Non-Executive Director	Director since March 2015

GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES

DIRECTORS' REPORT

REVIEW OF OPERATIONS

Key events for the half year ended 31 December 2014:

- Production from the Karara Project ("Project") for the six months ended 31 December 2014 totalled 2.67 million wet metric tonne (wmt) of magnetite concentrate and 2.03 million wmt of DSO hematite shipped.
- A total of 77 shipments were completed through the Karara Export Terminal in Geraldton.
- Mr Andrew (Robin) Marshall, Mr Yu Wanyuan and Mr Chen Ping were all re-elected as Directors of the Company at the Company's Annual General Meeting that was held on 21 November 2014. All resolutions were passed by shareholders at this meeting.
- On 3 December 2014 Mr Andrew (Robin) Marshall and Mr Paul Hallam resigned as Directors of Karara Mining Ltd. Gindalbie is currently considering its position with regard to nominate Directors on the board of Karara Mining Ltd.
- Gindalbie has continued to rationalise its corporate head office to reduce overheads and costs.
- At 31 December 2014, Gindalbie Metals Ltd had cash reserves of \$1.39 million and \$40 million in term deposits.

RESULTS OF OPERATIONS

The net loss for the six months ended 31 December 2014 was \$3.2 million, compared with a net profit of \$2.9 million for the six months ended 31 December 2013, which included one off \$8.1m profit on loan repayment.

KARARA PROJECT (Ansteel 52.16%, Gindalbie 47.84%)

The Karara Project, which is located 200km east of Geraldton in Western Australia, is owned and operated by Karara Mining Limited ("KML", "Karara"), which is a joint venture between Gindalbie Metals Ltd ("Gindalbie") and Anshan Iron and Steel Group Corporation (Ansteel), one of the largest steel-makers and the biggest iron ore producer in China. The Karara Project consists of a long-life, magnetite concentrate operation with a smaller-scale supporting hematite Direct Shipping Ore ("DSO") operation.

Karara is continuing to work to increase production at the Karara Project. The Project is currently unable to operate at the production levels originally forecast without further rectification work being undertaken. As a result, the Project has not yet become cash flow positive.

Ansteel, as the majority shareholder, has continued to provide ongoing technical and financial support to the Project.

GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES

DIRECTORS' REPORT

Production

A total of 77 shipments were made during the half year totalling 4.6 million wet metric tonnes (wmt) of combined magnetite concentrate and hematite Direct Shipping Ore ("DSO").

Karara Magnetite			
<i>Unit '000 wmt</i>	Sep-14 Qtr	Dec-14 Qtr	Total
Ore mined	2,885	3,208	6,093
Concentrate Produced	1,260	1,411	2,671
Concentrate Shipped	1,142	1,524	2,666

In addition, in order to fully utilise rail and port capacity, agreements were entered into for the purchase of limited quantities of hematite DSO ore from third parties. During the half year third party purchases amounted to approximately 1.68 million wmt.

Karara Hematite DSO			
<i>Unit '000 wmt</i>	Sep-14 Qtr	Dec-14 Qtr	Total
Ore Mined:			
High Grade	56	261	317
Medium Grade	0	0	0
Low Grade	51	151	202
Total Mined	107	412	519
DSO Shipped	1,040	993	2,033

KML continues to focus on optimising the plant and reducing operating costs. In light of the significant fall in iron ore prices KML is focussed on low cost options to debottleneck the plant and capital expenditure will be kept to a minimum unless already approved.

KML Funding and Ownership Restructure

A combination of recent significant reduction in iron ore prices and delays in the ramp-up of Karara production and therefore lower-than-forecast product shipment rates have impacted KML's working capital requirements with the Project effectively incurring all fixed operating costs plus commissioning costs while not yet generating full production revenue.

KML has required significant levels of bridging finance to cover working capital requirements. Funding has been received from a variety of sources including additional bank debt guaranteed by Ansteel, subordinated shareholder loans from Ansteel, and prepayments under concentrate presale agreements with Ansteel.

In accordance with previously announced funding arrangements agreed with Ansteel, Ansteel has the right to subscribe for new equity in KML to provide KML, if required, with sufficient funds to repay the Bank of China term loan (US\$130m) and an Ansteel presale agreement (US\$100m).

If Ansteel elects to subscribe for new equity in KML to extinguish the US\$230 million working capital facility into equity, based on current exchange rates, Ansteel would increase its stake in KML to approximately 62 per cent, with Gindalbie retaining approximately 38 per cent ownership (for further details please refer to Note 9).

GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES

DIRECTORS' REPORT

Excluding trade and other creditors, as at 31 December 2014 KML had the following funding related obligations:

KML debt obligations	
Debt type	\$'000
Bank debt	2,703,361
Subordinated shareholder loans	260,292
Concentrate presale agreements	243,843
Total	3,207,496

As outlined in Note 1(d) Going Concern, KML requires additional funding to meet the forecast 2015 funding shortfall and to enable KML to meet currently forecast financial obligations, including the impending debt repayment obligations and costs of completion of the Karara project including capital expenditure. Ansteel has advised the Directors of Gindalbie that Ansteel is currently in advanced negotiations with the Chinese Banking Syndicate to provide the facility necessary to meet these obligations subject to appropriate documentation and approvals. The Directors believe that the going concern basis for the preparation of the financial statements is appropriate for the reasons outlined in Note 1(d).

GINDALBIE REGIONAL EXPLORATION

Gindalbie has a large portfolio of regional exploration tenements in the Mid West region of Western Australia. The Company is reviewing its portfolio of exploration tenements and divesting those it believes have little prospectivity.

CORPORATE

In light of the current market conditions, the production levels at the Karara project and the Company's low share price, the Board is reviewing the Company's strategy and investment options.

Chief Financial Officer

Subsequent to the end of the reporting period, Gindalbie announced the appointment of experienced corporate finance manager Mrs Rebecca Moylan as its new Chief Financial Officer, effective from 1 July 2014.

Ms Moylan replaces Mr Zekulich who left Gindalbie at the end of June 2014 to take up a position with another company.

Cash Reserves

At 31 December 2014, Gindalbie Metals Ltd had cash reserves of \$1.39 million and \$40 million in term deposits.

GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES

DIRECTORS' REPORT

Shareholder Information

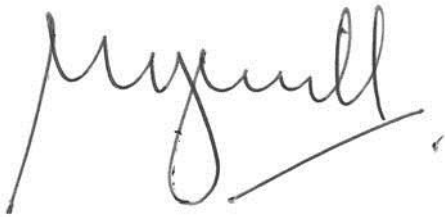
As at 31 December 2014, the Company had 1,495,306,811 shares on issue and 16,154 shareholders. The Top 20 shareholders held 52.01% of the Company.

Subsequent Events

There have been no events subsequent to reporting date which would have a material effect on the Company's financial statements at 31 December 2014.

Dated this 12th day of March 2015.

Signed in accordance with a resolution of the directors.



M O'Neill
Director



K 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 review for the half-year ended 31 December 2014 there have been:

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

KPMC

KPMG

Brent Steedman
Partner

Perth

12 March 2015



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

Report on the financial report

We have reviewed the accompanying interim financial report of Gindalbie Metals Ltd (the company), which comprises the condensed statement of financial position as at 31 December 2014, condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Gindalbie Metals Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Gindalbie Metals Ltd is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the company's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without modification to the conclusion expressed above, attention is drawn to note 1(d) to the interim financial report. The company's principal asset is a 47.84% equity interest in Karara Mining Ltd (KML). As stated in note 1(d), the company's ability to continue as a going concern is dependent on Anshan Iron and Steel Group Corporation (Ansteel), the 52.16% equity owner of KML, to either provide or arrange for additional financing to KML to meet its current and future financial obligations and the continued support of the Chinese Banking Syndicate to maintain the Senior Debt Facility. Due to a combination of agreements explained in note 1(d), should KML default on its debt facility, the company may become liable under guarantees to the Chinese Banking Syndicate for 47.84% of the secured debts of KML. The continued support from Ansteel and the Chinese Banking Syndicate cannot be determined with certainty, although as outlined in note 1(d), the Directors believe that Ansteel and the Chinese Banking Syndicate will continue to financially support KML and, accordingly, the interim financial report has been prepared on a going concern basis.

The existence of this material uncertainty, and the other material uncertainties set out in note 1(d) may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the interim financial report.

Kpue

KPMG

Brent Steedman
Partner

Perth

12 March 2015

**GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES
DIRECTORS' DECLARATIONS**

In the opinion of the Directors of Gindalbie Metals Ltd ("the Company"):

1. the financial statements and notes set out on pages 10 to 22 are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the Company as at 31 December 2014 and of its performance for the six months period ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. for the reasons set out in note 1(d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 12th day of March 2015.

Signed in accordance with a resolution of the directors.



M O'Neill
Acting Managing Director



K Jones
Director

GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES
CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 December 2014

	Note	31-Dec-14 \$'000	31-Dec-13 \$'000
Other income	3(a)	11	-
Administration expenses		(1,952)	(3,668)
Other expenses	3(b)	(1,971)	(264)
Results from operating activities		(3,912)	(3,932)
Finance income		707	8,390
Net financing income	4	707	8,390
Share of (loss) from equity accounted Associate (net of tax)	9	-	(1,565)
(Loss)/profit before income tax		(3,205)	2,893
Income tax expense		-	-
(Loss)/profit for the period		(3,205)	2,893
Other Comprehensive Income Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of cash flow hedges - equity accounted Associate (net of tax)		-	1,016
Total other comprehensive income for the period net of tax		-	1,016
Total comprehensive (loss)/income		(3,205)	3,909
(Loss)/profit attributable to:			
Owners of the Company		(3,205)	2,893
(Loss)/profit for the period		(3,205)	2,893
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(3,205)	3,909
Total comprehensive (loss)/income for the period		(3,205)	3,909
(Loss)/earnings per share			
Basic (loss)/earnings per share – cents		(0.21)	0.26
Diluted (loss)/earnings per share – cents		(0.21)	0.26

The condensed notes on pages 14 to 22 are an integral part of these interim financial statements.

GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES
CONDENSED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 December 2014

	Issued capital \$'000	Accumulated Losses \$'000	Reserves \$'000	Total \$'000
Six months ended 31 December 2014				
Opening balance at 1 July 2014	753,965	(701,947)	4,984	57,002
Loss for the period	-	(3,205)	-	(3,205)
Changes in fair value of cash flow hedges - equity accounted Associate	-	-	-	-
Total comprehensive loss for the period	-	(3,205)	-	(3,205)
Transactions with owners of the Company, recognised directly in equity				
Shares issued				
- Share based payments expense	-	-	(31)	(31)
Closing balance at 31 December 2014	753,965	(705,152)	4,953	53,766
Six months ended 31 December 2013				
Opening balance at 1 July 2013	753,965	(116,318)	8,118	645,765
Profit for the period	-	2,893	-	2,893
Changes in fair value of cash flow hedges - equity accounted Associate	-	-	1,016	1,016
Total comprehensive income for the period	-	2,893	1,016	3,909
Transactions with owners of the Company, recognised directly in equity				
Shares issued				
- Share based payments expense	-	-	119	119
Closing balance at 31 December 2013	753,965	(113,425)	9,253	649,793

The condensed notes on pages 14 to 22 are an integral part of these interim financial statements.

GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES
CONDENSED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Note	31-Dec-14 \$'000	30-Jun-14 \$'000
ASSETS			
Cash and cash equivalents		13,399	18,505
Term Deposits		28,000	24,500
Other receivables		297	1,497
Prepayments		99	191
Inventories		3	3
TOTAL CURRENT ASSETS		41,798	44,696
Investment in Associates	9	-	-
Other receivables		331	331
Property, plant and equipment		1,046	1,599
Exploration and evaluation assets	5	11,757	11,778
TOTAL NON CURRENT ASSETS		13,134	13,708
TOTAL ASSETS		54,932	58,404
LIABILITIES			
Trade and other payables		1,035	1,023
Employee benefits		50	290
TOTAL CURRENT LIABILITIES		1,085	1,313
Employee benefits		81	89
TOTAL NON CURRENT LIABILITIES		81	89
TOTAL LIABILITIES		1,166	1,402
NET ASSETS		53,766	57,002
EQUITY			
Issued capital	6	753,965	753,965
Reserves		4,953	4,984
Accumulated losses		(705,152)	(701,947)
TOTAL EQUITY		53,766	57,002

The condensed notes on pages 14 to 22 are an integral part of these interim financial statements.

GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES
CONDENSED STATEMENT OF CASH FLOWS
For the six months ended 31 December 2014

	31-Dec-14 \$'000	31-Dec-13 \$'000
Cash flows from operating activities		
Cash payments to suppliers and employees	(2,085)	(3,541)
Interest received	619	172
Cash payments from customers and associate for intercompany transactions	263	239
Net cash used in operating activities	(1,203)	(3,130)
Cash flows from investing activities		
Payments for term deposits	(3,500)	(23,000)
Exploration and evaluation expenditure	(403)	(1,944)
Proceeds from sale of exploration assets	-	430
Loan repayments from Associate	-	30,000
Net cash (used in) from investing activities	(3,903)	5,486
Cash flows from financing activities		
Proceeds from the issue of shares	-	-
Payment of capital raising costs	-	-
Net cash used in financing activities	-	-
Net (decrease)/increase in cash and cash equivalents	(5,106)	2,356
Cash and cash equivalents at 1 July	18,505	9,166
Cash and cash equivalents at 31 December	13,399	11,522

The condensed notes on pages 14 to 22 are an integral part of these interim financial statements

GINDALBIE METALS LTD AND ITS ASSOCIATED ENTITIES
Notes to the condensed interim financial statements
For the six months ended 31 December 2014

1) BASIS OF PREPARATION

(a) Reporting Company

Gindalbie Metals Limited (the "Company") is a company domiciled in Australia. The condensed interim financial report of the Company as at and for the six months ended 31 December 2014 comprises the Company and its interest in Associated entities.

The annual financial report of the Company as at and for the year ended 30 June 2014 is available upon request from the Company's registered office at Level 9, 216 St George's Terrace, Perth WA or at www.gindalbie.com.au.

(b) Statement of compliance

The condensed interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The condensed interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Company as at and for the year ended 30 June 2014.

This condensed interim financial report was approved by the Board of Directors on 12th March 2015.

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 have been rounded off to the nearest thousand dollars, unless otherwise stated.

(c) Basis of measurement

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

(d) Going Concern

The condensed interim financial statements of the Company have been prepared on the going concern basis. As at 31 December 2014 available cash balances and term deposits totalled \$41 million. Based on the current corporate overhead and exploration budget, these funds are expected to continue to support operations for approximately 10 years, and it is reasonable to assume that Gindalbie will be able to pay all debts as and when payable over the next year.

The primary asset of Gindalbie is a 47.84% associate equity interest in KML, a special purpose company established to develop and operate the Karara Project in Western Australia. The remaining 52.16% is ultimately owned by Ansteel. Further details of the Gindalbie equity investment in KML, including security, indemnities and guarantees provided by Gindalbie in relation to KML and defined capitalised terms below are included in Note 9 to this condensed interim financial report.

At the date of this report the financial position, including debt obligations of KML, create an inherent uncertainty with respect to Gindalbie's ability to continue as a going concern and realise the carrying value of its assets, in the normal course of business.

Through a combination of the provisions of the Senior Debt Facility, the shareholder guarantee and share mortgage provided by Gindalbie to the Chinese Banking Syndicate and the indemnity and share mortgage provided by Gindalbie to Ansteel, if there is an Event of Default by KML under the Senior Debt Facility and a call by the Chinese Banking Syndicate for repayment of the Senior Debt by KML which is not met in full by KML, or by Gindalbie or Ansteel under the shareholders' guarantees, then the Chinese Banking Syndicate (or Ansteel as sponsor if Ansteel has paid the outstanding loans under its sponsor guarantee) has the right to take ownership of Gindalbie's shares in KML under their respective share mortgages. Under the indemnity provided by Gindalbie to Ansteel, where Ansteel has repaid the total loans outstanding, Ansteel also has the right to recover from Gindalbie (as an unsecured creditor) any loss it may have suffered after sale of Gindalbie's KML shares.

The total of the loans outstanding under the Senior Debt Facility as at 31 December 2014 was USD \$1.547 million.

If Gindalbie is required to repay its proportional share of the Senior Debt, either to the Chinese Banking Syndicate or to Ansteel, the potential obligation is currently in excess of the value of the shares in KML and net assets of Gindalbie.

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

- Karara achieving production quantities and cost profiles in accordance with the current cost reduction programme and planned ramp up schedule;
- Future Australian dollar iron ore prices;
- The ability of KML to either deliver into existing prepaid sale agreements, settle these within the prescribed terms of the agreement or else renegotiate the settlement terms of the prepaid sales agreements;
- The continued support of the Chinese Banking Syndicate to maintain the Senior Debt Facility and to waive any breach or breaches of cover ratios which are not met; and
- A decision by Ansteel as the majority shareholder of KML to agree to continue to arrange or provide financial support to meet KML's ongoing debt repayment obligations and working capital requirements, or alternatively to suspend production (on a 'care and maintenance' basis) or to wind up the operation.

The Directors acknowledge KML's future funding requirements have the potential to impact Gindalbie. If KML defaults under the Senior Debt Facility, Gindalbie will be required, if called on, to meet the shareholder guarantee provided to the Chinese Banking Syndicate or the indemnity provided to Ansteel. Failure to do so may result in the loss and/or sale of its mortgaged shares in KML and a claim or claims for amounts in excess of the net assets of Gindalbie.

KML's has forecast a funding shortfall in 2015-2016. However, the Directors believe that the going concern basis of preparation remains appropriate for the following reasons:

- Ansteel and KML are currently negotiating with the Chinese Banking Syndicate and other Chinese banks to provide additional bank debt.
- KML has historically received financial support from Ansteel and the Chinese Banking Syndicate (or a member or members of the syndicate) for provision of additional funding facilities and Ansteel has successfully arranged necessary facilities as and when required in the past including the following:
 - A member of the Chinese Banking Syndicate provided an AUD\$95 million bank guarantee facility to KML in August 2014 for the purpose of completion of sale of the transmission line by KML to Western Power.
 - Two members of the Chinese Banking Syndicate provided an additional US\$400m working capital funding facility to KML in August 2014.

- Waivers of breaches of cover ratio covenants under the Senior Debt Facility have been granted by the Chinese Banking Syndicate to KML on previous occasions.
- Ansteel Directors of KML have recently approved substantial multi-year capital expenditure projects for the Karara mine site.

The Directors acknowledge that KML is reliant on Ansteel to either provide or arrange for provision of additional financing to KML to meet KML's current forecast 2015-2016 funding shortfall and to enable KML to meet currently forecast financial obligations, including the impending debt repayment obligations.

An inherent uncertainty therefore exists that KML and Ansteel may not be successful in efforts to negotiate additional new debt facilities or revised terms of the Senior Debt Facility or raise further additional equity, or that Ansteel will not provide or arrange for provision of additional funding to KML (or a combination of the foregoing).

If the funding needed is not raised and KML defaults under the Senior Debt Facility, the Company may become liable under the guarantees to the Chinese Banking Syndicate and Ansteel for its proportional share of the secured debts of KML. This may impact on Gindalbie's ability to continue as a going concern and therefore it may be unable to realise its assets and extinguish its liabilities in the normal course of business and of the amounts stated in the financial report.

2) SIGNIFICANT POLICIES

(a) Significant accounting policies

The accounting policies applied in these condensed interim financial statements are the same as those applied in the Company's annual financial statements as at and for the year ended 30 June 2014.

(b) Estimates

The preparation of the condensed interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report as at and for the year ended 30 June 2014.

3) INCOME AND EXPENSES

	31-Dec-14 \$'000	31-Dec-13 \$'000
(a) Other income		
Other income	11	-
Total other income	11	-
(b) Other expenses		
Provision for loan impairment	-	(2)
Relinquishment of exploration and evaluation assets	(417)	-
Impairment of property, plant & equipment	(465)	-
Depreciation – property, plant & equipment	(45)	(111)
Employee option expense	(44)	(89)
Loss on sale of exploration tenements	(1,000)	(62)
Total other expenses	(1,971)	(264)

4) NET FINANCING INCOME

Interest income	707	8,390
Net finance income	707	8,390

In 2013 interest income includes income of \$8.1 million, which represents the discount received from the unwind of an interest free loan to KML due to early prepayment by KML.

5) EXPLORATION AND EVALUATION ASSETS

Costs carried forward in respect of areas of interest in: <i>Exploration and evaluation assets</i>	31-Dec-14 \$'000	30-Jun-14 \$'000
Carrying amount at beginning of period	11,778	24,715
Additions	396	2,774
Reclassification to assets held for sale	-	(13,327)
Expenditure written off	(417)	(2,384)
	11,757	11,778

The recoverability of the carrying amounts of exploration and evaluation assets is dependent upon the successful development and commercial exploitation or sale of the respective area of interest.

In order to maintain current rights to exploration tenements, the Company is required to perform minimum exploration work to meet expenditure requirements specified by the West Australian state government. These requirements are subject to renegotiation when an application for a mining lease is made and at other times.

Exploration expenditure commitments	31-Dec-14 \$'000	30-Jun-14 \$'000
Payable no later than one year		
Rents and rates	103	333
Exploration	650	1,059
	753	1,392

6) ISSUED CAPITAL

Share capital

	Ordinary shares		Share capital	
	31-Dec-14 No.	30-Jun-14 No.	31-Dec-14 \$'000	30-Jun-14 \$'000
On issue at 1 July	1,494,007,381	1,492,154,301	753,965	753,965
Issue of ordinary shares	-	-	-	-
Exercise of options	1,299,430	1,853,080	-	-
Capital raising costs	-	-	-	-
On issue at 31 December	1,495,306,811	1,494,007,381	753,965	753,965

1,299,430 ordinary shares were issued on the exercise of employee options. Options were exercised at a price of \$nil per share.

7) OPERATING SEGMENTS

The Company has two reportable segments, as described below, which are the Company's strategic business units. The strategic business units have different ownership and operating structures and are managed separately for this reason. The Managing Director reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Company's reportable segments:

- The Company's investment in the Karara Project (the company accounts for its share of this incorporated Associate using the equity method).
- All other segments – includes all other projects.

Reconciliation of reportable segment profit or loss

	Karara Project		All other segments		Total	
	31-Dec-14 \$'000	31-Dec-13 \$'000	31-Dec-14 \$'000	31-Dec-13 \$'000	31-Dec-14 \$'000	31-Dec-13 \$'000
Other income	-	-	11	-	11	-
Depreciation and amortisation	-	-	(45)	(111)	(45)	(111)
Interest income	-	8,289	707	101	707	8,390
Other corporate expenses	-	-	(3,878)	(3,821)	(3,878)	(3,821)
Share of loss of equity-accounted investee (net of tax)	-	(1,565)	-	-	-	(1,565)
Net Profit/ (loss)	-	6,724	(3,205)	(3,831)	(3,205)	2,893

Segment assets

	All other segments		Total	
	31-Dec-14 \$'000	30-Jun-14 \$'000	31-Dec-14 \$'000	30-Jun-14 \$'000
Assets	54,932	58,404	54,932	58,404
Liabilities	(1,166)	(1,402)	(1,166)	(1,402)
Reportable segment net assets	53,766	57,002	53,766	57,002

8) CONTINGENT LIABILITIES

There has been no material change in the contingent liabilities of the Company since 30 June 2014 Refer to note 9 (b) with respect to the project financing facility.

9) INVESTMENT IN ASSOCIATE

(a) Associate investments and principal activities

The Company has a 47.84% (Dec 2013: 50%) interest in Karara Mining Ltd (KML) and its unincorporated subsidiaries.

KML is a company incorporated and domiciled in Australia, owned by Gindalbie Metals Ltd and Ansteel, a major Chinese state owned iron and steel producer.

The principal activities of KML during the course of the period were the exploration, development and operation of the Karara Project. There were no significant changes in the nature of the activities of KML during the period.

At 30 June 2014 the Company fair valued its investment in KML and recorded an investment impairment expense of \$592 million and loan impairment expense of \$39 million, a total impairment in net investment of Associate of \$631 million. For the six month period ended 31 December 2014 Gindalbie's share of the KML loss has not been recorded as AASB 128 "Investments in Associates and Joint Ventures" does not permit the investment to be recorded at less than nil.

	31-Dec-14 \$'000	30-Jun-14 \$'000
Company's 47.84% interest	-	-
Less: intercompany eliminations	-	-
Carrying value of Associate net assets	-	-
	31-Dec-14 \$'000	30-Jun-14 \$'000
Investment in Associate accounted for using the equity method		
Associate opening balance	-	550,604
Share of (loss)/profit	(352,375)	48,177
Other Comprehensive income/(loss)	1,162	(3,163)
Loss on dilution	-	(3,340)
Impairment of investment	-	(592,278)
Associated loss not recognised in the condensed statement of comprehensive income	351,213	-
Associate accounted for using the equity method	-	-
Loan to Associate Company		
Carrying amount at beginning of year	-	59,931
Repayments	-	(30,000)
Fair Value adjustment (refer below)	-	8,681
Impairment of loan	-	(38,612)
Carrying amount at end of period	-	-

INVESTMENT IN ASSOCIATE (CONT)

(b) Associate Project Finance Facility

On 21 June 2010, KML entered into a project finance agreement with the Chinese Banking Syndicate in respect of a US\$1.2 billion facility for the development of Karara. Pursuant to an amendment agreement entered into in February 2013, the size of the facility was increased to US\$1.786 billion (Senior Debt Facility). The full amount of (Senior Debt Facility) provided by the Chinese Banking Syndicate has been drawn by KML.

Under the terms of the Senior Debt Facility, KML is required to comply and report compliance with specified cover ratios comprising the (i) debt equity ratio (ii) debt service cover ratio, and (iii) life of loan cover ratio ("LLCR"). KML did not comply with the debt service cover ratio (DSCR) or the LLCR for the quarter ended 30 September 2014 and 31 December 2014 and obtained a waivers of these non-compliances from the Facility Agent on behalf of the Chinese Banking Syndicate.

KML is forecast not to comply with the LLCR on 31 March 2015 and 30 June 2015 and KML is forecast not to comply with the DSCR on 31 March 2015 and 30 June 2015. If KML is in breach of a cover ratio for two consecutive quarterly dates, and one (or both) of which is not waived by the Facility Agent, or cured by an equity contribution from shareholders within 30 days of notification from the Facility Agent, this is an Event of Default under the Senior Debt Facility and the Facility Agent has the right to call for repayment by KML of the total loans outstanding. Requests for waivers of these non-compliances have been submitted to the Facility Agent.

Security under Senior Debt Facility

The following security arrangements are in place to secure repayment of the Senior Debt Facility:

- i) KML has granted a charge over all of its assets in favour of the Chinese Banking Syndicate.
- ii) Gindalbie and Ansteel subsidiary Angang Group Investment (Australia) Pty Ltd (Angang) have each provided a several undertaking to fund any shortfall if project costs exceed the funds available to KML until project completion occurs, the Shareholder Guarantee.
- iii) Gindalbie and Angang have each severally guaranteed KML's obligations under the facility until project completion occurs, the Shareholder Guarantee.
- iv) Ansteel has provided a sponsor guarantee, under which it guarantees Gindalbie's and Angang's payment obligations under the undertakings and guarantees referred to in paragraphs (ii) and (iii) above, until project completion occurs, the Sponsor Guarantee.
- v) Gindalbie and Angang have each provided a limited recourse first ranking share mortgage in favour of the Chinese Banking Syndicate over all of their shares in KML.
- vi) Gindalbie has provided an indemnity to Ansteel in order to pay Ansteel any amount paid by Ansteel on Gindalbie's behalf pursuant to the sponsor guarantee, and has granted a second ranking share mortgage over its shares in KML in favour of Ansteel to secure any amounts owing under the indemnity. The indemnity and second ranking share mortgage will both expire once the undertaking and guarantee given by Gindalbie to the Chinese Banking Syndicate falls away at project completion.
- vii) Gindalbie has granted a featherweight charge, which only becomes operative if a default occurs and an administrator is appointed over Gindalbie. The featherweight charge allows the Chinese Banking Syndicate to appoint a receiver and enforce their rights under the share mortgage.

INVESTMENT IN ASSOCIATE (CONT)

(b) Associate Project Finance Facility (Continued)

- viii) Gindalbie and Angang have each provided a cross charge to the other over their shares in KML to secure their obligations under the joint development agreement, and to ensure that the undertakings and guarantees above are effectively confined to each party's respective proportional interest in KML (Gindalbie: 47.84%).

If an Event of Default occurred under the Senior Debt Facility and the Chinese Banking Syndicate were to accelerate the repayment of project finance debt prior to project completion occurring, then the Chinese Banking Syndicate or Ansteel could act under the share mortgage security. Gindalbie has a contingent liability by reason of an indemnity given to Ansteel so that if there is a loss after exercise of the security, Ansteel could seek to recover the loss from Gindalbie.

No dividends have been received from KML during the period. Under the terms of the Senior Debt Facility, KML is prohibited from paying dividends to shareholders or making loans to shareholders if the Company is in breach of financial covenants. Further, no dividend payments or loans to shareholders are permitted until after the fourth anniversary of the first utilisation date under the Senior Debt Facility (6 August 2010).

(c) Associate Company financial statements

The summarised financial information of KML below represents amounts shown in the associate's management accounts for the 6 months ended 31 December 2014.

	Consolidated	
	31-Dec-14	31-Dec-13
	\$'000	\$'000
Continuing Operations		
Revenue	164,685	267,597
Loss after tax	(736,569)	(3,130)
Other comprehensive Income		
Effective portion of changes in fair value of cash flow hedge net of tax	2,430	2,032
Total comprehensive Loss	(734,139)	(1,098)
	31-Dec-14	30-Jun-14
	\$'000	\$'000
Total Current Assets	296,184	194,889
Total Non-Current Assets	3,766,625	3,973,349
Total Current Liabilities	(770,130)	(708,317)
Total Non-Current Liabilities	(2,771,678)	(2,204,781)
NET ASSETS	521,001	1,255,140

Gindalbie's net share of the investment and loans in KML was written down to nil as at 30 June 2014. The above KML loss includes unrealised foreign exchange losses on USD debt of \$255m and project impairment charges of \$363m.

INVESTMENT IN ASSOCIATE (CONT)

(d) Ansteel Funding and Options for Equity Conversion and Subscription

In September 2013 Ansteel arranged the provision of US\$230 million of additional short term funding to KML. This working capital facility was made available through a prepaid sales agreement for delivery of magnetite concentrate to an Ansteel subsidiary (US\$100 million) and a new US\$130 million bank debt facility (guaranteed by Ansteel). A condition to arrangement of this additional working capital facility was that at Ansteel's option KML's financial obligations under the prepaid sales agreement and the bank debt facility could be repaid using proceeds received by KML through issue of new KML equity share capital to Ansteel at \$3.02 per share. The potential impact of the conversion is KML issuing 80,848,132 new shares to Ansteel which would decrease Gindalbie's equity by ~9.60%.

In August 2014, KML obtained a bank loan facility of US\$400 million on terms and conditions including security arrangements substantially similar to those of existing finance facilities. As at 31 December 2014 US\$160 million is still available to be drawn down. Based on current cash forecasts the facility is expected to be fully drawn by April 2015.

10) RELATED PARTIES

Transactions with Karara were of a similar nature to those disclosed in the financial statements as at and for the year ended 30 June 2014.

11) SUBSEQUENT EVENTS

There have been no events subsequent to reporting date which would have a material effect on the Company's financial statements at 31 December 2014.