# Annual Report 2013

GINDALBIE METALS LTD

# History of Karara

The Karara Station was first established in the 1920s by L & WHJ Samson. Believed to have been named after the Acacia tree commonly known as Curara or Kurara, the approximate 400 square mile Karara Station, was farmed by numerous families over 80-odd years. It was a hot, dry, dusty and unforgiving environment.

While iron ore was known to be present in the area, and relatively small-scale mining occurred in the nearby Koolanooka Hills from 1966, it was shortlived as the region became overshadowed by the massive hematite deposits found in the Pilbara.

In 2013, Karara is a vastly different place. While it is still hot, dry, dusty and unforgiving, long gone are the grazing sheep. In their place is a bustling, modern mining operation – the result of a $3 billion investment involving 125,000t of concrete, 14,500t of steel, 800km of cabling, 42km of piping and taking almost 900,000 man days to build.

Today, the remains of the old shearing sheds sit in the shadows of Karara, which is bringing new investment, new jobs, new opportunities and a new future to the Mid West.

GINDALBIE METALS LTD

# Contents



*Photo by Peter Carlsson, Karara Mining Limited*

# Highlights & Achievements


## KARARA

- Construction of the Karara Concentrator and supporting infrastructure chain was completed, with commissioning and ramp-up of the Rail and Port infrastructure.
- The Karara Export Terminal was officially opened on 18 September 2012 by the Hon. Troy Buswell, the WA Minister for Transport, with the first shipment of hematite DSO made on 17 October 2012, marking the start of regular shipments.
- First magnetite concentrate was produced in November 2012 with the first shipment to China occurring on 1 January 2013.

"The Karara Magnetite Concentrator takes low-grade ore and processes it into high-grade, premium quality magnetite concentrate."


- The Karara Project was officially opened on 9 April 2013 by the Hon. Colin Barnett, Premier of Western Australia.
- Commissioning of the Karara Concentrator was undertaken in stages and the first batches of premium quality magnetite concentrate grading 68% Fe were produced in August 2013.
- For the year ended 30 June 2013 there were 11 shipments of magnetite concentrate for 957,000 wet metric tonnes and 53 shipments of hematite DSO for 3.17Mt.

## Corporate

› Gindalbie reached agreement with Ansteel to undertake a key financial and ownership restructure of Karara Mining Limited ("KML") to assist finance requirements as a result of higher capital and working capital requirements associated with the slower than forecast move into full production.

› Subject to final agreement and satisfaction of conditions precedent, this restructure will see Gindalbie debt-free with more than $35 million in cash.

"Karara has invested more that $1 billion building an integrated logistics chain, including Rail and Port facilities, to set the Project up for a long term future."

› In recognition of its funding support, Ansteel will have the option to increase its stake in KML. KML will remain incorporated, headquartered and managed in Australia.

› Keith Jones, the former Managing Partner of the Deloitte Western Australian, succeeded the retiring George Jones AM as Chairman on 10 April 2013.


# Karara Export Terminal

# Chairman's Report

Dear Shareholders,

It has been six months since I joined Gindalbie as Chairman and I have experienced both the highs and the lows that come with commissioning a resource project of the scale and complexity of Karara.

To finance and build a processing plant and supporting infrastructure chain of this nature is in itself an incredible feat. To then demonstrate that it can generate the designated end product – as we have done recently at Karara – is a credit to all those involved in this remarkable journey.

I would like to thank my predecessor, George Jones AM, and the management team at Gindalbie and Karara Mining Limited ("KML") for the ambition, drive and skills which have brought Western Australia's long-held magnetite iron ore processing dream to life at Karara.

In particular, I would like to acknowledge George's strong leadership as Chairman of Gindalbie over the past eight years and his enormous contribution, both to the growth of this Company and to the development of the iron ore industry in Western Australia.

Having come into the role with the construction nearing completion and commissioning in progress it is disappointing that the finalisation of construction and subsequent ramp-up of production at Karara has been slower than forecast.

However, the track record of major resource projects – whether they are undertaken by relatively small companies such as Gindalbie or by the multi-nationals – shows that unforeseen commissioning issues are common and can have a significant impact on project success.

In Karara the commissioning issues are being progressively resolved and the core magnetite processing activities are working effectively. We are working closely with our partner Ansteel and remain confident we will deliver a successful operating project.

During it's relatively short life, Karara has experienced a global financial crisis, periods of extremely negative market sentiment, a high Australian Dollar that has impacted the entire resource sector, an extremely overheated construction market and periods of great volatility in the iron ore price.

I am confident that, throughout these challenges, the decisions the Board has made have been made with our shareholders' best interests in mind.

I believe Karara can and will join the ranks of world-class, long-life Australian resource projects.

The ramp-up of Karara has seen us successfully produce premium iron ore concentrate, meeting the plant's design target of producing a 68 per cent premium grade iron concentrate, proving that the core elements of the magnetite Concentrator work effectively.

Since start-up in the third quarter of 2012, we have produced and shipped over 5.5 million tonnes of hematite DSO and magnetite iron products. From a relatively newcomer's perspective, it was a major achievement to build a new mine and infrastructure chain and deliver this tonnage from a standing start in late 2009.

At the time of writing, we are continuing to optimise key elements of the plant and work through outstanding bottlenecks. I remain confident that we will achieve our key Stage 1 production target of 8Mtpa in the coming months.

While this will be an important milestone, Gindalbie shareholders will understandably share the Board's frustration that this could not have been sooner and at a lower cost.

The construction and commissioning problems have had the effect of postponing cash flow, which has in turn required the injection of additional capital.

After extensive deliberation, your Board opted to accept Ansteel's offer to provide that capital in return for an increase in its equity ownership of Karara.

This solution brought several benefits for Gindalbie, not least of which is that your Company has emerged debt-free with $35 million cash – a strong position in this financial climate. The financial certainty emanating from this restructure heavily outweighed what are the largely symbolic implications of reducing our 50% holding in Karara.

There are compelling precedents in the Australian resource sector – particularly in the petroleum industry – for this strategy, which provides a viable pathway for a junior resource company to retain a significant level of ownership of a world-scale resources project.

The outcome for Gindalbie is that we have a substantial ongoing exposure to the success of Karara while retaining the financial capacity to capitalise on our in-house skills and experience.

The combination of our balance sheet, our know-how and the stressed financial environment in which many parts of the resources industry currently finds itself, means we are well placed to pursue growth opportunities in parallel with the ramp-up of production at our flagship asset. I am confident that this two-pronged strategy will underpin a strong future for Gindalbie.

Our people have been the key to overcoming the challenges thrown up to date and they will be at the heart of unlocking the opportunities of tomorrow. I thank the management team, led by our Managing Director Tim Netscher, together with our staff and contractors. The Board appreciates their commitment and effort in what have often been testing times.

With the transition of KML from project development to operations Steve Murdoch stepped down as CEO and Paul Sims was promoted to acting CEO. I take this opportunity to acknowledge Steve's important contribution during the construction and commissioning phase of the Karara Project and the Karara management team, staff and contractors for their input to the Project.

At the Gindalbie Board level Mr Tang Fuping joined the Board as a non-executive Director on the Board replacing Mr Shao Anlin. I extend my thanks to Mr Shao and look forward to Mr Tang's contribution to the Board and the Company.

Gindalbie's major asset Karara has transitioned from construction to production and overcome numerous challenges in the last year, the Company has good cash reserves and a strong and supportive partner in Ansteel. I take this opportunity to thank the whole Board for their efforts and contribution over the year.

It has been a difficult journey, but I am confident in the future of Gindalbie and believe that we are well positioned to capitalise on our financial position and assets within our control.

I thank shareholders for their support.

Yours faithfully

**Keith Jones**
Chairman

"With a mining requirement of 30Mtpa, Karara ranks as one of the single biggest mining operations in WA."

# Sustainability Report

## Safety Management

Gindalbie Metals Ltd ("Gindalbie") and its joint venture company Karara Mining Limited ("KML", "Karara") value the health and safety of all of its employees, contracting partners, site visitors and the wider community in which they operate, and are committed to a 'zero harm' philosophy relating to safety performance in all areas of the businesses.

As the Karara Project gains momentum, transitioning from construction into an advanced mining operation, a risk based strategy for safety management has been embraced.

The KML Occupational Health and Safety Management System is aligned to the AS/NZS 4801:2001 standard which provides a framework for industry best practice operations.

As standard practice, the Companies:

- Do not compromise on health and safety standards;
- Include health and safety considerations in planning work;
- Identify, assess, mitigate and manage risks;
- Ensure work meets relevant standards and codes of practices;
- Develop, engage and empower;
- Collaborate and communicate with employees with respect to all health and safety endeavours; and
- Maintain a health and safety system based on best industry standards.

Through the above practices, an exceptional level of safety performance at Karara has been achieved. The 12-month rolling total lost time injury frequency rate ("LTIFR") at 30 June 2013 is 0.72, based on combined KML and contracting partners' working hours (5,541,450).

This compares to the 2010-11 LTIFR published by the Department of Mines and Petroleum for the Metal Ore Mining sector of 2.6.

All contractors engaged on the project are required to submit Weekly Safety Reports measuring a variety of leading and lagging statistics, initiatives and proactive behaviour.

Award Winners for the last 12 months are outlined in the table below.

*Karara Safety Award Winners*

| | | | |
|---|---|---|---|
| Jul-12 | Pacific Industrial Company | Jan-13 | Downer Mining |
| Aug-12 | Downer E&I | Feb-13 | Creedence Contracting |
| Sep-12 | Brierty | Mar-13 | S&K Electrical |
| Oct-12 | Central Earthmoving | Apr-13 | G&S Engineering |
| Nov-12 | VDM Construction | May-13 | Downer Mining |
| Dec-12 | Sodexo | Jun-13 | BIS Industries |

Alcohol breath testing for all site personnel prior to the commencement of each shift is mandatory. This is in addition to regular, random drug and alcohol testing. Employees are also required to complete 'Take Five' assessments to seek out and mitigate potential hazards at the start of a new task. Safe Act Observations must also be completed to regularly assess 'business as usual' scenarios for any opportunity to reduce risk or potential hazards further. Formal Job Hazard Analysis' must be completed prior to the commencement of every new task and updated on a regular basis. Figure 1 shows the achievement in these areas.

Fluctuations of the lead indicator values are consistent with the fluctuations in contractor person hours recorded each month.

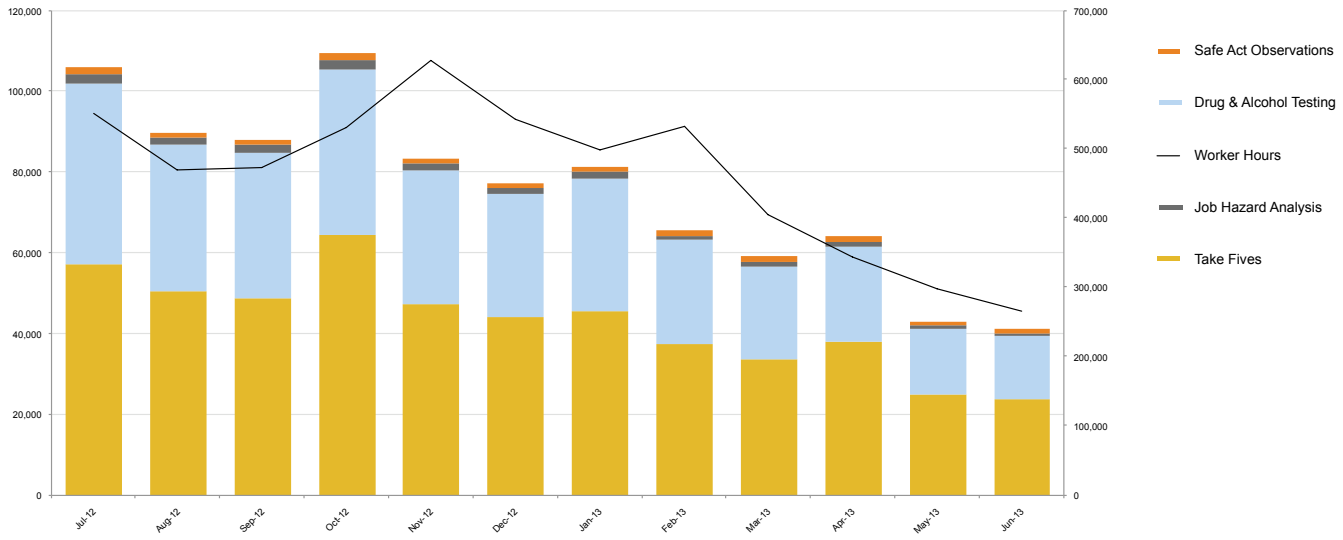



*Figure 1: Lead Safety Indicator*

Forging a strong relationship with contracting partners has enabled a co-operative and positive approach to mine site safety. A joint initiative was undertaken last year whereby a Safety Committee was developed, a Health and Safety Constitution was established and weekly safety performance meetings were introduced. These continued this year. The outcomes of these meetings are subsequently presented at Executive Safety Meetings, regularly held onsite with members of KML's Senior and Project Management.

The Training Section of the Health, Safety & Training ("HS&T") Department has a Certificate III Traineeship program running at Karara Export Terminal ("KET") in Resource Processing. The Training Package was developed at the Port in conjunction with our Registered Training Organisation, Durack Institute of Technology. This program is unique in many ways compared to most other organisations in that the ownership of the program has been placed into the hands of the personnel at the Port. The management of the program is run through HS&T and the generic courses like Working at Heights; and Confined Space Training are developed at Karara Mine Site and implemented through inter-departmental professional sharing and development. The integrating of ownership at the Port has demonstrated a greater commitment to the outcomes of the program and integration of its integrity in the workplace. This same project is being developed at Karara Mine Site as our business is in a continual self-developmental phase of people and processes.

Currently Karara has three Electrical & six Mechanical Apprentices working on-site in the Maintenance Section of Karara Operations. Two of the three Electrical Apprentices have also been entered into a new pilot program run by Energise Oz, which will allow both the Apprentice's Supervisor and the Apprentice to view and monitor the Apprentice's progress.

The Department of Mines and Petroleum ("DMP") conducted two Audits with recommendations and no improvement notices. The DMP also conducted a number of inspections of the mine during the reporting period where four Improvement Notices were issued and actioned immediately:

- IC 06902 Classified Plant Register required updating for non-permanent classified plant;

- IC 06903 Review all Procedures that referenced the Occupational Safety Health Act 1984, reference Mine Safety Inspection Act 1994 and referenced Australian Standards;

- IC 09140 Edge Protection was not adequate near an earth bunded area; and

- IC 09141 Product Build Up in and around the Process Plant during the commissioning phase required a housekeeping plan.

The DMP conducted an investigation into a Mechanical Fitter sustaining facial injuries when the Enerpac hydraulic jack he was using sprang under load. The following Improvement Notices were issued as part of Investigations Corrective Actions Plan:

- IC 06904 Ensure all employees are retrained in working @ heights fall prevention;

- IC 06905 JHA was inadequate for the task: ensure all Process Plant employees are retrained in Job Hazard Analysis;

- IC 06906 Enerpac: Develop a Verification of Competency for the use of an Enerpac hydraulic jack. Train all Mechanical Fitters in the use of an Enerpac hydraulic jack; and

- IC 06907 Isolations: Isolations Points must be documented in the JHA and per KML JHA procedure (refer to JHA retraining).


*Train unloader at the Karara Export Terminal*

# Human Resources Management

Gindalbie recognises that the workforce underpins the success of the business. The existing workforce and ongoing recruitment strategy supports an ability to attract and retain an engaged, diverse and high performance workforce whose values align to the Company's.

KML shares the same core values and commitment to its people.

## Workforce

With an expected mine life of more than 30 years, the Karara Project will sustain an estimated 600 direct and indirect employment opportunities. With the successful completion of construction and with production ramp-up well advanced, the Project has moved from a project to production based organisation.

As a result, the Gindalbie and KML combined workforce has grown by more than 50% during 2013. The company, where possible, has sourced the workforce from the Mid West region and Western Australia, as part of its Local Preference Policy. To date, 42% of the workforce is sourced from these areas.

## Investing In Our Future

Gindalbie and KML are committed to providing a professional and rewarding environment where employees can grow and develop their careers. The Companies offer opportunities across a wide range of career disciplines. People are sought who not only have the right skills, experiences and abilities, but also possess a high level of motivation and are eager to exceed their capabilities.

Developing and retaining a skilled employee group is critical to business performance. Performance management and learning development provides employees the opportunity to enhance their current skill set while identifying high performers. This process allowed the Company to promote 34 internal employees during the reporting period.

The Karara Mid West university scholarship program has been enhanced to provide students with work experience in their relevant areas of discipline along with providing financial support. KML has 10 students who currently participate in this program.

KML's high school scholarship program for Mechanical and Electrical apprentices, launched in 2011, employed the first round of its scholarship students in full time apprenticeship positions. 6 Mechanical Fitters and 1 Electrical Apprentice commenced their three year program in January 2013. A further 9 Mid West high school students were offered the two year scholarship program. This program was also enhanced to include work experience during the term breaks. KML has partnered with several Geraldton businesses that provide invaluable work experience and practical hands on guidance.

KML's commitment to local and indigenous employment will continue over the coming year; with ongoing assistance to identifying local business and direct employment opportunities. KML is progressing with negotiations with the Mid West Employment and Economic Development Aboriginal Corporation ("MEEDAC") to develop employment opportunities at the Company's Geoff Wedlock Innovation Park.

Please refer to the Community Engagement section for more information.

## Remuneration Strategy

Gindalbie and KML offer competitive remuneration packages that foster a performance orientated culture which aims to attract, retain and motivate employees, whilst encouraging them to meet their full potential.

## Outlook

Recognising the need to retain a skilled workforce, Gindalbie and KML will continue to focus on training and development to ensure we have an engaged and capable workforce.

# Karara Magnetite Concentrator

# Community Engagement

The development and enhancement of Mid West communities is a key commitment of Gindalbie and KML. The objective of developing long-term, sustainable businesses that deliver local benefits, such as employment and local business opportunities has continued.

Community investment activities focus around the key pillars of regional health, education, youth development and housing. Additional leverage is gained by forging partnerships with key associations with organisations that enhance our financial investment.

Under the Local Content Policy, of the 1,680 businesses engaged to date in the construction and development of the Karara Project, 98% are Australian and nearly 20% of these businesses have been from the Mid West itself, as illustrated in the table on the right. This amounts to approximately $350 million being spent within the Mid West, compared with approximately $300 million spent overseas and more than $2.15 billion spent in Australia, most of which was spent in Western Australia.

Breakdown of Businesses associated with Karara Project

| Locality | Number of suppliers | Total spend ($M) |
|---|---|---|
| Mid West | 321 | 349 |
| Rest of WA | 1,035 | 2,154 |
| Rest of Australia | 286 | 627 |
| TOTAL AUSTRALIA | 1,642 | 3,130 |
| Others | 38 | 303 |
| TOTAL | 1,680 | 3,433 |

Gindalbie, through KML, has continued to develop community initiatives to return investment to the local community:

- **The Karara Community Farm** - developed in 2011 on 600 acres of KML-owned land, is an agricultural resource for community groups to utilise to generate their own profits as an alternative means of fundraising. Regional groups are welcome to submit an application for the farm which is awarded by KML annually based on merit. Successful applicants include the Morawa Winter Sports Group who, in 2011, raised $90,000 through a successful wheat crop. This money was used to improve their sporting facilities. In 2012, the use of the Farm was awarded to the Morawa Golf and Bowls Club. The club raised $68,000 and used the money to install a renewable solar system to reduce power costs. This year's successful applicant was the Morawa Education and Industry Training Alliance ("MEITA").

- **Educational Scholarships** – Funding has been provided for 9 apprenticeships, 12 tertiary scholarships, 10 university scholarships and 6 traineeships. Please refer to the Human Resources Management section for more information.

- **Karara Community Health Fund** - In June 2012, the Karara Community Health Fund was officially launched. The Fund was underpinned by an initial $300,000 investment coming from a range of sources, including contractor partners and local government, employee fundraising activities, and recycling and innovation programs conducted by Gindalbie and KML staff.

  The flagship project to emerge from the Health Fund is the partnership with the Royal Flying Doctor Service ("RFDS"). This partnership has involved the development of a Mobile Dental Clinic. The state-of-the-art mobile clinic – which has been purchased and equipped by KML and to be operated by the RFDS – will operate in a number of Mid West Shires which have been closely involved with, and supportive, of the development of the Karara Project. A key focus of the mobile clinic will be the provision of mobile dental healthcare services to these Shires,

which will be covered on a yearly schedule centred on a certain number of weeks across the year. Contracting partner Rapids Crushing joined with Karara as a key corporate partner, while valuable support was received by local Mid West Shires.

Another key project from the Health Fund involves Parkerville Children and Youth Care Inc.

Karara, and two of its key contract partners have joined forces with Parkerville Children and Youth Care Inc. ("Parkerville") to co-fund and assist in the establishment of a new Murchison Family Support Network in Geraldton.

The landmark partnership has seen the Karara Community Health Fund, together with Aurizon and with support from Bis Industries, help to source a building to house the new Murchison Family Support Network while also contributing to the operating costs for the facility, estimated at $250,000 a year.

Parkerville had had services in Geraldton for the previous 18 months caring for and treating children experiencing trauma from abuse with just 5 staff. They have now been relocated to the upgraded premises and expanded to 15 staff.

As a result of this partnership, Parkerville – which is one of Western Australia's oldest non-government organisations dedicated to providing care and protection to children and young people in need – will be able to significantly expand and improve its Mid West services.
The Murchison Family Support Network will be the second of its kind in WA, following the establishment of Australia's first Child Advocacy Centre by Parkerville in Armadale in 2011, and a joint government and non-government Family Support Network in 2012. The services will be tailored to suit the specific needs of Geraldton and its surrounding communities.

- **Mingenew Housing Project** – A new community housing project designed to attract professionals and other high-calibre people to take up employment opportunities with Mingenew Shire has been launched by KML as part of an innovative arrangement with a local landowner who put up land or some of the Karara Project's water bores. The two houses were provided at a total cost of $688,000.
- **Morawa General Practitioner ("GP") Flights** – KML has provided 26 return flights to Perth per year on the Company's regular fly-in, fly-out charter service to assist in attracting and retaining good quality GP's in the Shires of Morawa, Perenjori and Mingenew.

## Geraldton Iron Ore Alliance

Gindalbie is a member of the Geraldton Iron Ore Alliance, which is dedicated to promoting the development of a viable and sustainable iron ore industry in the Mid West region. While the key objectives of the Alliance involve securing broad support and Government commitment to achieve public policy settings to facilitate and promote industry growth in the region, the Alliance companies also recognise that the area's youth of today are the employees of the future. As such, the Alliance has pledged its support to community and youth initiatives such as:

- Midwest Economic and Resources Summit (event partner);

- Community Careers and Training Expo (event partner);
- Midwest Business Excellence Awards (award sponsor); and
- Youth-N-Motion (partnership sponsor).

## Geoff Wedlock Innovation Park

The Geoff Wedlock Innovation Park, a KML–owned ex-farming property, is earmarked by KML as an opportunity to develop environmental and socially sustainable projects.

The property is located in a unique landscape, positioned between the Koolanooka range to the east and ex-pastoral leases managed by the Department of Parks and Wildlife to the west. This locality provides an opportunity to undertake innovative landscape rehabilitation; enhancing the unique, and threatened habitat that abuts the park. Gindalbie, through KML, has begun the development of a rehabilitation program for the property, with the aim to return the cleared farmland to its original floristic values. To date, KML has planted approximately 10,000 seedlings on the property.

KML has also worked with MEEDAC in developing vegetable and egg production programs on the property. The programs currently produce over 300 eggs per day, and has the potential to produce over 4 tonne of vegetables per week, that are sold back to the local community. The aim is to develop a self-sufficient community project that provides training and employment opportunities, identify additional business opportunities, as well as fresh produce to the local area, including the Karara Village.

## Indigenous Affairs

### Heritage

The Aboriginal Heritage Management Plan was updated and approved by the Department of Aboriginal Affairs ("DAA") within the past 12 months. The following milestones have also been achieved:

- A comprehensive compliance survey was undertaken by DAA consisting of several Section 18 Conditions & Consent Approvals. DAA found that KML & Gindalbie were compliant with all aspects of the Conditions & Consents;
- Heritage Agreements were revised;
- Compliance with all Approved Section 18 Notices of Consent and Conditions (undertaken by Amangu, Badimia, Binyardi, West Badimia and Widi);
- Monthly Progress Reports provided to local indigenous groups; and
- Commencement of permanent protection for DAA registered heritage sites is underway.

### Indigenous Employment

Assistance continued for local business initiatives and in identifying employment opportunities for Indigenous people. Negotiations are progressing with MEEDAC to develop local employment initiatives within the Geoff Wedlock Innovation Park, such as the continuing success of the vegetable garden and egg facilities. Gindalbie and KML are in regular contact with contractors and suppliers to maximise Indigenous employment opportunities.

### Cross Cultural Awareness Training

Cross cultural awareness training has been developed internally and approved by Traditional Owner Groups with the first session undertaken by staff in Perth. Site based training will be undertaken now that production is underway.

## Environmental Management

Gindalbie and KML recognise the value, qualities and biodiversity present within the Mid West region in which they operate.

### Environmental Benefits of Magnetite

Key environmental advantages of magnetite concentrate are its purity and chemical composition, which lead to less energy consumption and lower carbon emissions in steel production.

Magnetite concentrate is exothermic, meaning it releases heat during processing and, therefore, requires less energy in the processing phase.

An independent report[1] has quantified the net environmental benefit of using magnetite rather than DSO - for steel production. Over the full steel production cycle (ie, from in-ground orebody to finished steel), each tonne of magnetite concentrate used saves about 108 kilograms of $CO_2$ emissions when compared to using DSO hematite fines.

*1 The Crucible Group, "Implications for the Australian magnetite industry of the introduction of a price/tax on carbon", June 2011.*

## Project Environmental Approval Milestones

The key approval milestones obtained in the past 12 months include receiving all the key environmental approvals for the Shine Iron Ore Project, a satellite mining proposal located 40km north of the Karara Project.

In addition to continued work in developing Karara's satellite deposits, KML has also obtained approval under Part IV of the Environmental Protection Act 1986 for the expansion of the Karara Project to 37.4Mtpa.

## Environmental Programs

Environmental programs utilising innovative management strategies continued to be developed. Some major programs have been finalised and implemented in the past 12 months including the following:

- **Malleefowl Protection Program** – KML has engaged in a multi-faceted project to improve the understanding of the Malleefowl within the Mid West region. Works include the release of two birds in December 2011, motion sensor cameras established at active malleefowl mounds, training and awareness, site mound monitoring and intensive surveys undertaken by the Malleefowl Preservation Group on Badja station;

- **Rehabilitation and Restoration of Threatened Species** – KML, in consultation with the Department of Parks and Wildlife, has undertaken considerable works to ensure the ongoing recovery of the threatened species, Acacia Woodmaniorum. Along with developing a Translocation Plan for the species, environmental staff at KML recently collected over 3,000 cuttings of the species, as well as over 150 specimens. KML is currently working on returning these plants back to disturbed areas within the project footprint; including a pit that was backfilled earlier this year;

- **Aquaponics** – KML has continued its innovation through the construction of an aquaponics system onsite. Aquaponics is the process of utilising garden beds to treat nutrient laden water from fish ponds. KML is currently trialling the propagation of native seedlings within its aquaponics system, with initial results showing positive results;

- **Biodiesel** – In October 2012, KML commissioned a waste oil reuse facility within the landfill precinct onsite. The system converts waste vegetable oil to biodiesel that KML plans to utilise in generators, vehicles and potentially blasting. The recycling of the waste oil will provide both financial and environmental benefits to the Company, by reducing transport costs of waste oil offsite, reducing the volume of diesel transported onto site and reduced diesel usage. Four KML vehicles and a generator are now running on biodiesel from recycled waste kitchen oils with scope to expand in the future by implementing a regional waste oil collection and recycling service;

- **Waste Management** – KML has undertaken to minimise the overall waste from the project as far as reasonably practical, with fantastic results. Through positive consultation with its contractors, KML has been able to efficiently separate its putrescible and non-putrescible wastes, minimising landfill and producing compost for the purpose of rehabilitation. In addition, KML continue to collect scrap material for the purpose of recycling, with the proceeds collected going towards the Karara Community Health Fund;

- **Rehabilitation Works** – KML continues to undertake progressive rehabilitation of its minesite footprint; and

- **Feral Fauna Control** – Controlling feral fauna onsite protects both native flora, fauna, habitats and food sources. A feral fauna specialist annually conducts an intensive eradication program. All site personnel have a responsibility to report fauna sightings, including ferals, as a targeted trapping program is conducted all year round. Motion sensor cameras have also been established at trapping sites to learn more about what species are attracted to the food lures and how they are learning to manipulate the traps. A training program was also rolled out to site personnel to increase awareness and management of ferals at or near site.

"Karara has stringent environmental practices in place, while magnetite itself has key environmental properties, leading to lower energy consumption and lower carbon emissions in steel production."

# Directors' Report

**Gindalbie Metals Ltd and Controlled Entities**

For the Year Ended 30 June 2013

# Directors' Report

## For the Year Ended 30 June 2013

## Gindalbie Metals Ltd and Controlled Entities

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 |
| | 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 Non-Executive Director Gryphon Minerals Ltd (Mar 13 - Jul 13) |
| Independent Non-Executive Director | Former Western Australian General Manager of ANZ Bank |
| | Extensive banking and finance experience |
| | Chair of Audit and Risk Committee & Remuneration and Nomination Committee |
| | Director since April 2006 |
| | |
| Mr Timothy C Netscher | Chairman Deep Yellow Ltd (Jul 13) |
| BSc(Eng), BCom, MBA, FIChE, CEng, MAICD | Former Non-Executive Director of Industrea Ltd (Feb 02 - Nov 12) & Bullabulling Gold (Aug 12 - May 13) |
| Managing Director and CEO | |
| | Former Director of the Minerals Council of Australia |
| | 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 |

### 1. DIRECTORS (CONTINUED)

| Name & Qualifications | Experience and Special Responsibilities |
|---|---|
| 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 |
| | |
| 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 (Oct 10) |
| | 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 Enterprise Metals Limited (Nov 11) |
| | Non-Executive Director of Altona Mining Limited (Mar 13) |
| | Non-Executive Director of Sandfire Resources NL (May 13) |
| | 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 (Jul 10) |
| 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 |

### 1. DIRECTORS (CONTINUED)

| Name & Qualifications | Experience and Special Responsibilities |
|---|---|
| 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 |

### 2. COMPANY SECRETARY

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

Mr Gerrard has a 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. He 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 non-cash impairment charge related to exploration assets ($5.4 million) partially offset by interest income ($2.0 million).

**4. RESULT OF OPERATIONS (CONTINUED)**

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.

### 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 :-<br>(year ended 30 June 2013) | 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 |

**4. RESULT OF OPERATIONS (CONTINUED)**

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.

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 capitalised. 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; and
- 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 $60 million loan amount into KML equity. Under the agreed conversion rate, and assuming the entire $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).

## 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 the 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 of 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% 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.

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:
  - a dedicated 4th railway line inside the Port;
  - a twin-car rotary dumper (or train unloader);
  - a 297m long storage facility with a capacity of 255,000t;
  - a dedicated Berth 7 which can accommodate Panamax vessels (loaded to approximately 60,000t); and
  - a 5,000tph ("tonnes per hour") ship-loader.

**5. REVIEW OF THE KARARA IRON ORE PROJECT (CONTINUED)**

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.

## 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 utilised.

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.

Hematite DSO 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 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.

**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 |
| Terapod | | | | | |
| 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 and is detailed on page 101-102.

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.

### 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:

| Director | Directors Meetings | | Audit & Risk Committee Meetings | | Remuneration & Nomination Committee Meetings | | Project Oversight Committee (POC) Meetings | | Operations Oversight Committee (OOC) Meetings | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B |
| Mr G F Jones | 3 | 3 | - | - | - | - | - | - | - | - |
| Mr K F Jones | 8 | 8 | - | - | - | - | | | - | - |
| Mr T Netscher | 10 | 10 | - | - | - | - | 9 | 9 | 9 | 9 |
| Mr MJ O'Neill | 10 | 10 | 3 | 3 | 1 | 1 | - | - | - | - |
| Mr Y Wanyuan | 9 | 10 | - | - | 1 | 1 | - | - | - | - |
| Mr C Ping | 8 | 10 | - | - | - | - | - | - | - | - |
| Mr S Anlin | 7 | 9 | 2 | 3 | - | - | - | - | - | - |
| Mr T Fuping | 1 | 1 | - | - | - | - | - | - | - | - |

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 & 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.

### 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 utilise 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$^2$ tenement package in the Mid West 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, on page 101-102.

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.

***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, which is detailed on page 101-102.

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 Mid West 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; and
- monitoring of licence requirements, with performance against licence conditions reported to the various State regulators on a regular basis.

**9. ENVIRONMENTAL REGULATION (CONTINUED)**

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.

**10. EVENTS SUBSEQUENT TO REPORTING DATE**

In September 2013 KML joint venture partner Ansteel made an incomplete non-binding offer to provide up to US$230 million 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 US$230 million 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.

**11. REMUNERATION REPORT - AUDITED (CONTINUED)**

**11.2 Principles of compensation (continued)**
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.

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;and
- 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 Indicators (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 KPIs to determine the overall performance score.

**11. REMUNERATION REPORT - AUDITED (CONTINUED)**

**11.2 Principles of compensation (continued)**
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.

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 :-

| KPI | 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).

**11. REMUNERATION REPORT - AUDITED (CONTINUED)**

**11.2 Principles of compensation (continued)**
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.

***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 comprehensive 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% |

* 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).

**11. REMUNERATION REPORT - AUDITED (CONTINUED)**

**11.2 Principles of compensation (continued)**

***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.

***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 one 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. REMUNERATION REPORT - AUDITED (CONTINUED)**

**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 bonus | |
|---|---|---|---|
| | $ A | % vested in year | % forfeited in year |
| Director | | | |
| Mr T Netscher | 82,383 | 30% | 70% |
| | | | |
| Executives | | | |
| Mr C Gerrard | 25,016 | 30% | 70% |
| Mr D Richardson | 29,033 | 30% | 70% |

**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.

**11. REMUNERATION REPORT - Audited (continued)**

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

| | | Short term | | Post-employment | Other long term | | | Other compensation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & fees | Cash bonus | Superannuation benefits | Long term incentive | Other long term (LSL) | Share based payments Value of options (b) | Termination benefits | Insurance premiums (c) | Total | Value of options as proportion of remuneration | Total performance related remuneration |
| | | $ | $ | $ | $ | | $ | $ | $ | $ | % | % |
| **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 | - | - |

**11. REMUNERATION REPORT - AUDITED (CONTINUED)**

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

| | | Short term | | Post-employment | Other long term | | | Other compensation | | | Value of options as proportion of remuneration | Total performance related remuneration |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & fees | Cash bonus | Superannuation benefits | Long term incentive | Other long term (LSL) | Share based payments Value of options (b) | Termination benefits | Insurance premiums (c) | Total | | |
| | | $ | $ | $ | $ | | $ | $ | $ | $ | % | % |
| **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 | 10,246 | 29,851 | 4,955 | | - | | 516 | 70,567 | - | 22% |
| Mr D Richardson (Chief Financial Officer) | 2013 | 360,982 | 29,033 | 25,000 | - | - | 90,838 | | 3,246 | 509,098 | 18% | 24% |
| (commenced 21 February 2011) | 2012 | 351,047 | 72,491 | 35,800 | 60,314 | | | | 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 realise should the equity instrument vest (refer to 12.4(a)&(b)).

**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***
(a) 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.

(b) 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 realise 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 |
|---|---|---|---|---|---|---|---|
| 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.

**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 $(a) | Value of Options exercised in year $(b) | Value of Options lapsed/forfeited in year $(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 | 5,216,963 |
| | | 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 Security 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 | - |

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

The Lead Auditor's Independence Declaration is set out on page 45 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:

| | Consolidated | |
|---|---|---|
| | 2013<br>$ | 2012<br>$ |
| 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 thousand 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:

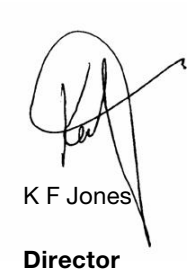
- has not indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer or auditor.
- paid a premium of $39,916 for a policy of insurance to cover legal liability and expenses for the directors and executive officers in the event of any legal action against them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



K F Jones

**Director**

# Auditor's Independence Declaration

For the Year Ended 30 June 2013

***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.

KPMG

KPMG

Brent Steedman
*Partner*

Perth

25 September 2013

# Independent Auditor's Report

For the Year Ended 30 June 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*.

*Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) 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*.

KPMG

Brent Steedman
*Partner*

Perth

25 September 2013

# Directors' Declarations

## For the Year Ended 30 June 2013

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.

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**

KF Jones

**Director**

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2013

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'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) | | (133,548) | (27,554) |
| | | | |
| **(Loss)/profit before income tax** | | (144,381) | (28,342) |
| | | | |
| 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 | - |
| **Total other comprehensive income for the period net of tax** | 19(c) | 7,738 | (9,030) |
| | | | |
| **Total comprehensive (loss)/income** | | (136,643) | (37,372) |
| | | | |
| **(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) |
| | | | |
| **Earnings per share** | | | |
| Basic earnings/(loss) per share - cents | 24 | (10.62) | (2.42) |
| Diluted earnings/(loss) per share - cents | 24 | (10.62) | (2.42) |

* 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 53 to 91.

# Consolidated Statement of Changes in Equity

## For the year ended 30 June 2013

| | Consolidated | | | |
|---|---|---|---|---|
| | Issued capital | Retained earnings | Reserves | Total |
| | $'000 | $'000 | $'000 | $'000 |
| 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 | - | (143,381) | 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 |

## 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 | - | - | (9,030) | (9,030) |
| Total comprehensive income for the period | - | (28,342) | (9,030) | (37,372) |
| | | | | |
| **Transactions with owners of the Company, recognised directly in equity** | | | | |
| Shares issued | | | | |
| - Issue of ordinary shares | 208,954 | - | - | 208,954 |
| - Transaction costs | (4,081) | - | - | (4,081) |
| - Share based payments expense | - | - | 6 | 6 |
| Closing balance at 30 June 2012 | 693,173 | 28,063 | (1,201) | 720,035 |

* 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).

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 53 to 91.

# Consolidated Balance Sheet

For the year ended 30 June 2013

| | | Consolidated | |
|---|---|---|---|
| | 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 | 59,931 | - |
| Joint venture accounted for using the equity method | 17 | 550,604 | 653,000 |
| **TOTAL NON CURRENT ASSETS** | | 637,172 | 681,029 |
| **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** | | | |
| Issued capital | 19 | 753,965 | 693,173 |
| Reserves | 19 | 8,118 | (1,201) |
| Retained earnings | 18 | (116,318) | 28,063 |
| **TOTAL EQUITY** | | 645,765 | 720,035 |

* 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 53 to 91.

# Consolidated Statement of Cash Flow

For the year ended 30 June 2013

| | | Consolidated | |
|---|---|---|---|
| | Note | 30-Jun-13 $'000 | 30-Jun-12 $'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** | | | |
| Proceeds from the issue of shares | | 62,390 | 208,954 |
| Payment of capital raising costs | | (1,598) | (4,081) |
| **Net cash used in financing activities** | | 60,792 | 204,873 |
| Net increase in cash and cash equivalents | | (31,351) | (108,818) |
| 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 53 to 91.

# Notes to the Financial Statements

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.

**2. BASIS OF PREPARATION (CONTINUED)**

**(c) Going Concern - Joint Venture Entity (continued)**
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; and
- KML has historically received support from Ansteel and its financiers for additional funding facilities and has successfully arranged these facilities as required.

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 thousand 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.

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.

## 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.

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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Financial instruments (continued)**
*(i) Non-derivative financial instruments (continued)*
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).

*(ii) 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.

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

*(iv) 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.

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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(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.

*(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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(e) Impairment (continued)**

*(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 pre-tax 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.

**(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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(l) 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.

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 recognised.

**(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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Goods and Services Tax (continued)**
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:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(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.

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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(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.

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (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.

### (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.

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (j) Price risk

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

## 6. REVENUE AND EXPENSES

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| **(a) Other income** | | |
| Other income | 57 | 48 |
| Total other income | 57 | 48 |
| | | |
| **(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 | (1,345) | (1,423) |
| Total administration expenses | (6,935) | (7,218) |
| | | |
| **(c) Other expenses** | | |
| Depreciation | | |
| Property, plant & equipment | (225) | (214) |
| Equity-settled share-based payments transactions | (312) | (6) |
| Impairment of exploration & evaluation assets | (5,452) | (2,565) |
| Total other expenses | (5,989) | (2,785) |
| | | |
| **(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 | (170) | (192) |
| Increase in liability for long service leave | (19) | (1) |
| Increase in liability for bonuses | (141) | (548) |
| Equity Settled share based payment transaction | (312) | (6) |
| | (3,412) | (3,454) |
| **(f) Expenses by nature** | | |
| 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) |

## 7. INCOME TAX EXPENSE

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'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) | - | - |

* 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).

## 7. INCOME TAX EXPENSE (CONTINUED)

**Tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 | 30 June 2013 $'000 | 30 June 2012 $'000 | 30 June 2013 $'000 | 30 June 2012 $'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 | - | - | - | - | - | - |

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

| | Consolidated | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Net carrying forward tax losses (30%) | 27,880 | 22,635 |

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.

| | Consolidated | |
|---|---|---|
| | 30 June 2013 $ | 30 June 2012 $ |
| **8. AUDITOR'S REMUNERATION** | | |
| 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 |
| 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 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 |
| | 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).

| | Consolidated | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| **13. PROPERTY, PLANT AND EQUIPMENT** | | |
| Land & buildings | | |
| At cost | 2,016 | 1,854 |
| Accumulated depreciation | (499) | (416) |
| | 1,517 | 1,438 |
| Plant & equipment | | |
| At cost | 2,546 | 2,513 |
| Accumulated depreciation | (2,184) | (1,968) |
| | 362 | 545 |
| Mine infrastructure | | |
| At cost | 357 | 357 |
| Accumulated depreciation | (350) | (335) |
| | 7 | 22 |
| Under construction | - | 161 |
| 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 |

### 14. EXPLORATION AND EVALUATION ASSETS

| | Consolidated | |
|---|---|---|
| | 30 June 2013 $'000 | 30 June 2012 $'000 |
| Costs carried forward in respect of areas of interest in: | | |
| Exploration and evaluation assets | | |
| 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.

### 15. TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| **Current** | | |
| Trade creditors | 372 | 905 |
| Other creditors and accruals | 994 | 864 |
| | 1,366 | 1,769 |

### 16. CONSOLIDATED ENTITIES

| | Ownership 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 22.

## 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 | Ownership interest 2013 % | Ownership interest 2012 % |
|---|---|---|---|---|---|
| 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 Power 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 US$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 utilisation 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

| | 2013<br>$'000 | 2012<br>$'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 $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 $'000 | 2012 $'000 Restated* |
| **Continuing Operations** | | |
| Revenue | 249,259 | 34,851 |
| Cost of Sales | (256,060) | (29,041) |
| Gross Profit | (6,801) | 5,810 |
| Other Income | 6,805 | 364 |
| Other expenses | (5,533) | (4,835) |
| Take or pay obligations | (26,938) | (51,765) |
| Depreciation & Amortisation | (15,897) | (6,176) |
| Other Expenses/(income) | - | - |
| **Results from operating activities** | (48,364) | (62,412) |
| Financial income ** | 3,042 | 18,746 |
| Financial expenses*** | (220,420) | (39,907) |
| **Net financing income** | (217,378) | (21,160) |
| **Profit / (Loss) before tax** | (265,742) | (77,763) |
| 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) |

* 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)

### (d) Joint Venture entity financial statements (continued)

**KARARA MINING LIMITED AND CONTROLLED ENTITIES**
**STATEMENTS OF FINANCIAL POSITION**

**As at 30 June 2013**

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'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 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 | 0 |
| **TOTAL NON CURRENT LIABILITIES** | 1,946,402 | 1,529,088 |
| | | |
| **TOTAL LIABILITIES** | 2,534,512 | 1,747,222 |

## 17. INVESTMENT IN JOINT VENTURE (CONTINUED)

### (d) Joint Venture entity financial statements (continued)

**KARARA MINING LIMITED AND CONTROLLED ENTITIES**
**STATEMENTS OF FINANCIAL POSITION**

**As at 30 June 2013**

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| **NET ASSETS** | 1,117,571 | 1,322,363 |
| | | |
| **EQUITY** | | |
| Share Capital | 1,419,104 | 1,372,275 |
| Reserves | (3,357) | (18,832) |
| Retained earnings / (Accumulated losses) | (298,176) | (31,081) |
| | | |
| **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 venture Opening balance | 653,000 | 389,584 |
| Loss for the period | (133,584) | (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 |

* 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)

### (d) Joint Venture entity financial statements (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) | (88,663) |
| 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 | (427,452) | (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 | (391,421) | 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 |

## 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(l) (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.

## 18. RETAINED EARNINGS

| | Consolidated | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| Retained earnings at beginning of year | 28,063 | 56,405 |
| Net (loss)/profit attributable to members of the consolidated entity | (144,381) | (28,342) |
| Retained earnings at end of year | (116,318) | 28,063 |

* 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 |
| **Ordinary shares** | | | | |
| Movements during the year | | | | |
| Balance at beginning of year | 1,247,487,454 | 935,615,590 | 693,173 | 488,300 |
| Shares issued | | | | |
| - Issue of ordinary shares | 244,666,847 | 311,871,864 | 62,390 | 208,954 |
| - Exercise of options | - | - | - | - |
| - Transaction costs of share issues | - | - | (1,598) | (4,081) |
| Balance at end of year | 1,492,154,301 | 1,247,487,454 | 753,965 | 693,173 |

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.

## 19. CAPITAL AND RESERVES (CONTINUED)

**(a) Issued Capital (continued)**
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.

**(b) Equity Settled Share Based Payments Reserve**

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'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.

**(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 hedge foreign currency contracts.

## 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:

| | | |
|---|---|---|
| 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

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| **Leases as lessee** | | |
| Non-cancellable operating lease rentals are payable as follows: | | |
| | | |
| 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 | Equity Interest | | Activities |
|---|---|---|---|
| | 2013<br>% | 2012<br>% | |
| 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.

## 23. SEGMENT INFORMATION (CONTINUED)

### Reconciliation of reportable segment assets and liabilities

***Information about reportable segments***

| | Karara Iron Ore Project | | All other segments | | Total | |
|---|---|---|---|---|---|---|
| | 30-Jun-13 $'000 | 30-Jun-12 $'000 | 30-Jun-13 $'000 | 30-Jun-12 $'000 | 30-Jun-13 $'000 | 30-Jun-12 $'000 |
| | | Restated* | | | | |
| External revenues | - | - | 57 | 48 | 57 | 48 |
| Inter-segment revenue | - | - | - | - | - | - |
| Interest income | - | - | 2,034 | 9,167 | 2,034 | 9,167 |
| Depreciation and amortisation | - | - | | (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) | | | | |
| | | | | | | |
| | | | | | | 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) |

* 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).

| | Karara Iron Ore Project | | All other segments | | Total | |
|---|---|---|---|---|---|---|
| | 30-Jun-13 $'000 | 30-Jun-12 $'000 | 30-Jun-13 $'000 | 30-Jun-12 $'000 | 30-Jun-13 $'000 | 30-Jun-12 $'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 |

* 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) |

## 23. SEGMENT INFORMATION (CONTINUED)

**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 loss is $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:

| | Consolidated | |
|---|---|---|
| Basic earnings per share | 2013 $'000 | 2012 $'000 |
| | | Restated* |
| **(Loss)/profit attributable to ordinary shareholders** | (144,381) | (28,342) |
| | | |
| **Weighted average number of ordinary shares** | 2013 No. of shares | 2012 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 |

* 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:

| | | Consolidated | |
|---|---|---|---|
| Diluted earnings per share | Note | 2013 $'000 | 2012 $'000 |
| | | | Restated* |
| **(Loss)/profit attributable to ordinary shareholders (diluted)** | | (144,381) | (28,342) |
| | | | |
| **Weighted average number of ordinary shares** | | 2013 No. of shares | 2012 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 |

* 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).

## 24. EARNINGS PER SHARE (CONTINUED)

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

## 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:

| | | Consolidated | |
|---|---|---|---|
| | Note | 30 June 2013 $'000 | 30 June 2012 $'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 2013 | | Consolidated 2012 | |
|---|---|---|---|---|
| | Carrying amount $'000 | 6 mths or less $'000 | Carrying amount $'000 | 6 mths or less $'000 |
| Trade and other payables | 1,366 | (1,366) | 1,769 | (1,769) |

## 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 $'000 | 30 June 2012 $'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 | | | |
|---|---|---|---|---|---|
| | Carrying amount | -100bps | | + 100 bps | |
| | | Equity | Profit or loss | Equity | Profit or loss |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **30 June 2013** | | | | | |
| Cash performance bonds | 36 | - | (0) | - | 0 |
| Cash | 2,166 | - | (22) | - | 22 |
| **Total increase/(Decrease)** | | - | (22) | - | 22 |
| | | | | | |
| **30 June 2012** | | | | | |
| Cash performance bonds | 303 | - | (3) | - | 3 |
| Cash | 5,517 | - | (55) | - | 55 |
| **Total increase/(Decrease)** | | - | (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 2013 | | 30 June 2012 | |
|---|---|---|---|---|---|
| | Note | Carrying amount $'000 | Fair value $'000 | Carrying amount $'000 | Fair value $'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

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| **Reconciliation of cash flows from operating activities** | | 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 | 135,548 | 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 |

* 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 $'000 | 30 June 2012 $'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.

## 27. EMPLOYEE BENEFITS (CONTINUED)

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

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 | 1 years service | |
| | 333 | 2 years service | 5 years |
| | 333 | 3 years service | |
| Options granted to senior employees on 10 April 2008 | 333 | 1 years service | |
| | 333 | 2 years service | 5 years |
| | 333 | 3 years service | |
| Options granted to senior employees on 10 April 2008 | 167 | 1 years service | |
| | 167 | 2 years service | 5 years |
| | 167 | 3 years service | |
| 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 |
| Options granted to senior employees on 16 Nov 2012 | 1739 | 1 years service | 4 years |
| | 1739 | 2 years service | |
| | 1739 | 3 years service | |
| | 8,566 | | |

**27. EMPLOYEE BENEFITS (CONTINUED)**

**(b) Share based payments (continued)**

Reconciliation of outstanding share options:

| Expiry date | Exercise price $ | Number of options at beginning of year | Options granted | Options expired | Options lapsed | Options exercised | Options forfeited | Number of options on issue at end of year Vested | Number of options on issue at end of year Unvested | Proceeds received $ | Number of shares issued | Share price at date of exercise $ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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 | - | 1,750,000 | - | (1,750,000) | - | - | - | - | - | - | - |
| 9-May-16 | $1.17 | - | 1,000,000 | - | (400,000) | - | (600,000) | - | - | - | - | - |
| | | 8,300,000 | 2,750,000 | (2,800,000) | (3,700,000) | - | (1,200,000) | 2,750,000 | 600,000 | - | - | - |

## 27. EMPLOYEE BENEFITS (CONTINUED)

**(b) Share based payments (continued)**
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 used in the pricing modelling) (%) | 82.93% |
| Option life (expressed as weighted average life used in the pricing modelling) (years) | 4 |
| 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. 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<br>$ | 2012<br>$ |
|---|---|---|
| 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 | - |
| | 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 1 Jul 2012 | Purchases or held at date of employment | Received on exercise of options | Sales | Less balance held upon resignation | Held at 30 Jun 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 1 Jul 2011 | Purchases or held at date of employment | Received on exercise of options | Sales | Less balance held upon resignation | Held at 30 Jun 2012 |
|---|---|---|---|---|---|---|
| **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 P D Hallam | - | 100,000 | - | - | - | 100,000 |
| **Executives** | | | | | | |
| Mr D Richardson | 8,000 | 2,000 | - | - | - | 10,000 |

**28. 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 1-Jul 2012 | Granted as remuneration | Exercised | Other Changes* | Held at 30-Jun 2013 | Vested during the year | Vested and exercisable at 30 June 2013 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mr T Netscher | - | 1,148,822 | - | - | 1,148,822 | - | - |
| **Executives** | | | | | | | |
| Mr C Gerrard | - | 187,935 | - | - | 187,935 | - | - |
| Mr D Richardson | - | 487,356 | - | - | 487,356 | - | - |

| Number of options 2012 | Held at 1-Jul 2011 | Granted as remuneration | Exercised | Other Changes* | Held at 30-Jun 2012 | Vested during the year | Vested and exercisable at 30 June 2012 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mr GJ Dixon | 2,500,000 | - | | (2,500,000) | - | - | - |
| **Executives** | | | | | | | |
| Mr D Richardson | - | 1,000,000 | - | (1,000,000) | - | - | - |

* 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).

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.

## 28. PARTIES DISCLOSURES (CONTINUED)

**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.

| | Consolidated | |
|---|---|---|
| | 2013<br>$'000 | 2012<br>$'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.

## 30. PARENT ENTITY DISCLOSURES (CONTINUED)

### Result of the parent entity

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| | | Restated* |
| Profit/(Loss) for the period | (144,381) | (28,342) |
| Other comprehensive income | 7,738 | (9,030) |
| Total comprehensive Profit/(Loss) for the period | (137,197) | (37,372) |
| | | |
| **Financial position of parent entity at year end** | | |
| Current assets | 10,713 | 41,973 |
| Total assets | 647,885 | 723,002 |
| | | |
| Current liabilities | 2,052 | 2,918 |
| Total liabilities | 2,120 | 2,967 |
| | | |
| **Total equity of the parent entity comprising of:** | | |
| Share capital | 753,965 | 693,173 |
| Reserve for own shares | 8,118 | (1,201) |
| Retained earnings | (116,318) | 28,063 |
| **Total Equity** | 645,765 | 720,035 |

* 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.

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| Payable no later than one year: | | |
| 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.

### 30. PARENT ENTITY DISCLOSURES (CONTINUED)

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

**Parent entity contingent liabilities**
Pursuant to a US$1.786 billion 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 - US$768 million).

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 US$230 million 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 US$230 million 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.

# Corporate Governance Statement

Gindalbie is committed to creating and building sustainable value for shareholders and protecting stakeholder interests.

Gindalbie recognises that high standards of corporate governance are essential to achieving that objective. The Company continues to develop and review its corporate governance practices by reference to the ASX Corporate Governance Principles and Recommendations ("Governance Principles").

The specific elements of Gindalbie's corporate governance practices are set out below.

## Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. The Board takes responsibility for the Company's corporate governance program and oversees its strategic direction and conduct of business activities.

## Board Functions

The Company has established the functions reserved for the Board. These functions are provided in the Board Charter. The Board Charter recognises that the following overall powers and responsibilities are reserved for the Board.

- Corporate governance;
- Approving strategic direction;
- Approving and monitoring capital expenditure;
- Monitoring of financial performance and integrity with financial reporting;
- Reviewing and monitoring the systems of risk management, internal controls and compliance;
- Appointing, removing and setting succession policies for the Board and Executives; and
- Establishing and monitoring the achievement of management's goals.

A copy of the Board Charter is available on the Company's website (www. gindalbie.com.au).

## Management Functions

The Company has established the functions that are reserved for management. These reserved functions are provided for in the Board Charter.

The Board Charter recognises that the actual implementation of corporate strategy and day to day management of project development and exploration has been delegated by the Board to the Managing Director and executive management. Responsibilities are delineated by formal authority delegations and detailed in relevant executive contracts of employment.

A copy of the Board Charter is available on the Company's website (www. gindalbie.com.au).

## Board Composition

The composition of the Board provides the Company with a broad base of industry, business, financial, technical and corporate skills and experience considered necessary to represent shareholders and fulfill the business objectives of the Company.

The Board currently comprises one Executive and seven Non-Executive Directors. During the majority of the reporting period there was one Executive and seven Non-Executive Directors. During the reporting period Mr George Jones AM and Mr Shao Anlin resigned and Mr Keith Jones and Mr Tang Fuping were appointed as Directors.

The Company is required to comment on Recommendation 2 of the Governance Principles as relates to the "independence" of the Chair and the Board. The Company agrees in principle with the definition of "independence" proposed by Recommendation 2.

Mr George Jones AM resigned as a Director and as Chair during the reporting period. Mr Keith Jones was appointed as a Director and was elected as Chair. Mr George Jones AM met and Mr Keith Jones meets the definition of "independence" under Recommendation 2 as neither had (or has) served as an Executive Director for over three years.

As concerns the overall composition of the other Non-Executive Directors, the Company recognises that the Board does not currently have a majority

of Directors who meet the test of "independence" under Recommendation 2 of the ASX Corporate Governance Principles and Recommendations. Of the Board's seven current Non-Executive Directors, four are considered independent by the Company: Mr Keith Jones, Mr Michael O'Neill, Mr Robin Marshall and Mr Paul Hallam. As Mr Yu Wanyuan, Mr Chen Ping, and Mr Tang Fuping, are all representative Directors of major shareholder Ansteel, these Directors are not considered "independent" for the purposes of Recommendation 2.

The Board is mindful of the Governance Principles and the preference for a majority of independent Directors. The Board is considering the further appointment of one or more independent Non-Executive Directors. The Board will continue to monitor and review its composition as it moves from a development company and establishes itself as an operating company and will consider further changes where that will deliver greater shareholder value than the existing Board structure.

Mr Tim Netscher is currently the Managing Director of the Company.

The skills, experience and expertise relevant to each Director is provided in the Directors' Report on pages 23-25. The Board selects Board members by reference to the relevance of their overall industry experience and ultimately their ability to contribute towards the strategic direction of the Company. The Board assesses the skills and diversity of its existing Board members when considering selecting new Board appointees and will engage with external search providers where appropriate. The Board has developed a diversity policy and understands the importance of ensuring diversity of Board members and employees as concerns, age, gender, ethnicity and cultural background.

## Board Meetings and Committees

The Board currently holds eight scheduled meetings during the year together with additional meetings for strategic planning and special matters. During the reporting period ten formal Board meetings were held. These were supplemented by nine additional specific Karara Project Oversight Committee meetings, nine additional specific Karara Operations Oversight Committee meetings and six Karara Mining Limited Board meetings. The Chairman manages the conduct of Gindalbie meetings and strives to ensure open and constructive discussions between Board members and management.

Standing agenda items include:

- Managing Director's report (strategy, corporate, project development, EH&S);
- Disclosure and Compliance – ASX & ASIC;
- Chief Financial Officer's report;
- Legal, Risk and Compliance; and
- Corporate Affairs.

During the reporting period there were four different Board Committees assisting in the execution of the Board's responsibilities. The current membership and function of each of the Committees is provided below.

## Current Committees

### Audit and Risk Committee

***Current Members:***
Michael O'Neill (Chairman), Keith Jones, Yu Wanyuan, Robin Marshall and Paul Hallam

***Function:***

- Reviews and oversees integrity of financial reporting;
- Evaluates and recommends the appointment of the external auditor on an annual basis, in particular by reference to skills and knowledge of the team involved, quality of work, and continuing independence of the audit firm;
- Reviews the independence of the external auditor;
- Ensures Managing Director and Chief Financial Officer provide statutory financial reporting declarations as to true and fair accounts; and
- Scope of Audit Committee was extended from Audit to Audit and Risk to take over the functions of the former Risk, Compliance and Sustainability Committee.

***Meetings:***
Objective is to meet a minimum four times per year (see Directors' Report for FY2013 attendance).

***Charter:***
A copy is available on the Company's website (www.gindalbie.com.au).

### Remuneration and Nomination Committee

***Current Members:***
Michael O'Neill (Chairman), Robin Marshall and Tang Fuping

***Function:***

- Develop remuneration and nomination strategy to deliver sustainable shareholder value;
- Performance measurement and review of key executives and Directors;
- Succession planning for key executives; and
- Review and recommend terms of appointment for key executives and Directors.

***Meetings:***
Objective is to meet a minimum four times per year (see Directors' Report for FY2013 attendance).

***Charter:***
A copy is available on the Company's website (www.gindalbie.com.au).

### Project Oversight Committee

***Members:***
Robin Marshall (Chairman), Paul Hallam and Tim Netscher

***Function:***
Provide strategic direction, guidance and oversight to Karara's project managers in connection with matters relating to governance, project risk issues, major contracts, commitments and overall project execution and planning for the Karara Project.

***Meetings:***
Objective is to meet two weeks prior to every Board meeting (see Directors' Report for FY2013 attendance). Meetings of this Committee were suspended by the Board on 19 June 2013. The Committee is expected to resume meetings when future project/study work commences.

***Charter:***
A copy is available on the Company's website (www.gindalbie.com.au).

### Operations Oversight Committee

***Members:***
Paul Hallam (Chairman), Robin Marshall and Tim Netscher

***Function:***
Provide assistance to the Board in overseeing the operations stage of the Karara Project, ensure that its associated projects are being effectively managed and to provide expert support to the Karara management team when required. The initial function of the Committee is operational readiness, followed by commissioning, operational ramp-up, and operations management. The Committee's focus will then transition to steady state operations.

***Meetings:***
Objective is to meet two weeks prior to every Board meeting (see Directors' Report for FY2013 attendance). Meetings of this Committee were suspended by the Board on 19 June 2013. The Committee is expected to resume meetings when future project/study work commences.

***Charter:***
A copy is available on the Company's website (www.gindalbie.com.au).

## Evaluation of Board, Committees and Senior Executives

The performance of the Board, its Committees and senior executives is reviewed on an ongoing basis to ensure alignment to the Company's corporate objectives.

In particular the assessment of senior executives is conducted by reference to agreed key performance indicators which are agreed at the start of each year, discussed monthly and formally reviewed at the end of the relevant year. The evaluation of the Board is overseen by the Chairman and Board members are required to complete questionnaires providing feedback on the Board's performance. The review process for Committees is undertaken by way of regular feedback from the Board during the year. Committees are regularly adapted and changed as required to oversee the Company's highest priorities.

The review process for the Board, its Committees and Senior Executives was undertaken either during or shortly following the end of the reporting period in accordance with the process disclosed.

## Board Education

The Company has a process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of Directors. Directors also have the opportunity to visit all operations and meet with management to gain a better understanding of each business unit. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

## Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant Company information, to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense.

## Code of Conduct

The Board is responsible for setting the tone of legal, ethical and moral conduct to ensure the Company is considered reputable by the industry and outside entities. Gindalbie has adopted a Code of Conduct setting out minimum standards for Directors, managers and employees as to the practices necessary to maintain confidence in the Company's integrity and to take into account the Company's legal obligations and expectations of stakeholders. The Code of Conduct sets out responsibility and accountability for reporting and investigating any unethical practices.

The key elements of the Code include:

- Obligation to abide by laws and regulations where the Company operates;
- Responsibility to community and broader stakeholder interests;
- Mandatory compliance with breaches reportable to relevant managers; and
- Ongoing disclosure in respect of any conflicts of interest.

## Trading in Company Securities by Directors and Senior Executives

To safeguard against insider trading, Gindalbie's Policy on Trading in Company Securities prevents Directors and employees trading if they are aware of any information that would be expected to have a material effect on the price of Company securities.

A copy of the Code of Conduct is on the Company's website (www.gindalbie.com.au).

The key elements of the Policy include:

- Explanation of insider trading provisions and consequences;
- Additional restrictions on trading by Directors and senior executives requiring disclosure;
- Hedging restrictions in respect of unvested remuneration entitlements;
- Restrictions on trading by Directors and senior executives within periods leading up to and following ASX announcements; and
- Restrictions on trading by Directors and senior executives within nominated 'black out' periods prior to reporting of statutory accounts.

A copy of the Policy on Trading in Company Securities is available on the Company's website (www.gindalbie.com.au).

## Continuous Disclosure

Gindalbie is committed to ensuring compliance with the continuous disclosure obligations under the ASX Listing Rules and the Corporations Act. The Board has implemented a Continuous Disclosure Policy.

The Managing Director and Company Secretary have responsibility to oversee compliance with the Policy.

The key elements of the Policy include:

- Overview of continuous disclosure obligations;
- Reporting to Managing Director and Company Secretary for factual assessment and release as ASX announcement; and
- Restrictions on Directors, senior managers and employees governing market sensitive information prior to release of ASX announcements.

A copy of the Policy is available on the Company's website (www.gindalbie.com.au).

## Shareholder Communication

Gindalbie is committed to promoting effective communications with shareholders. The Board has implemented a Policy to promote effective communication with shareholders.

The key elements of the Policy include:

- Production of annual report, quarterly reports, and release of ASX announcements;
- Release of information on Company website – including announcements, policies and Charter documents;
- Release of shareholder communications by email;
- Question time encouraging participation by shareholders at the Annual General Meeting;
- Corporate Affairs and Investor Relations Manager provides central contact point within Gindalbie;
- Attendance of external auditor at Annual General Meeting; and
- Shareholder voting on key issues impacting Directors' remuneration and other matters.

A copy of the Policy is available on the Company's website (www.gindalbie.com.au).

## Risk Management

Gindalbie is committed to ensuring it has effective risk management systems in place. The Board oversees the establishment, implementation, and annual review of the Company's risk management process through the Audit & Risk Committee.

The Charter for the Audit & Risk Committee is available on the Company's website (www.gindalbie.com.au). The Charter establishes responsibility on the Committee to ensure oversight and management of material business risks.

The Committee ensures that management designs and operates a risk management and internal control system to manage the Company's material business risks. Through the Committee, management provides updates on those risks to confirm if those risks are being managed effectively. The Committee reports to the Board on any matters of significance. Based on management's reports during the financial year, the Board considers that the Company's material business risks are being properly managed.

The key elements of the risk management process include:

- Undertaking periodic risk assessments of material business risks;
- Developing reporting systems to the Board to provide assurance that key business risks are being managed effectively;
- Audit & Risk Committee provides Board with assurance as to integrity of financial reporting and Auditor performance;
- Managing Director and Chief Financial Officer provide the Board with assurance that their section 295A Corporations Act declaration is based on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks. This assurance has been provided for this reporting period;
- Risk management and reporting systems to oversee control of occupational, health and safety obligations risks;
- Risk management and reporting systems to oversee control of environmental and sustainability risks;
- Regular assessment by the Audit & Risk Committee of material business risks and relevant controls on a formal risk register; and
- Reporting of the highest level material business risks and updates to risk controls by the Audit & Risk Committee at each Board meeting.

## Remuneration

Gindalbie is committed to developing effective remuneration policies that are aligned to the Governance Principles. The Board has implemented a remuneration policy within its Remuneration and Nomination Committee Charter and a copy of the Charter is available on the Company's website (www.gindalbie.com.au).

An overview of the Company's strategy towards remuneration is set out on pages 33-41 of the Annual Report. The Remuneration and Nomination Committee has a majority of independent Directors (current members are set out above).

## Diversity Policy

Gindalbie understands the value inherent in a diverse workforce and promotes a high performance culture that draws on the diverse and relevant experience, skills, expertise, perspectives and the unique personal attributes of its Board members and employees.

### Gender Diversity Measurable Objectives Performance

| Measurable Objective | Measurable Objective | Proportion of female employees | Progress towards target |
|---|---|---|---|
| Female employees in Gindalbie and Karara Mining Limited (KML) | 20% | 21% (86 of 415) | Exceed |
| Female employees in combined executive and senior management positions within Gindalbie and KML | 10% | 5% (1 of 18) | Progressing towards target |
| Female members on Boards of Gindalbie and KML | 0% | 0% | No target |

Gindalbie has no barriers to diversity and supports equality of opportunity to all in employment, based on ability and merit irrespective of their gender, race, ethnic origin, disability, age, nationality, national origin, sexuality, religion or belief, marital status and social class.

The Company sets out above its Board approved measurable objectives and targets in connection with gender diversity for the reporting period.

The Company has set targets that it considers reasonably achievable within the mining industry for a project at the stage of Karara taking into account the higher proportion of male employees working in this segment of the market. The Company will consider alteration of gender diversity at a Board level in future years as the project moves to a steady state operational environment.

A copy of the Diversity Policy is available on the Company's website (www.gindalbie.com.au).

# Shareholder Information

## 1. SHAREHOLDER INFORMATION AT 19 SEPTEMBER 2013

(a) Distribution of Shareholders

| Size of Holding | Number of Holders | Shares Held |
|---|---|---|
| 1 - 1,000 | 1,790 | 1,063,232 |
| 1,001 - 5,000 | 4,872 | 15,070,189 |
| 5,001 - 10,000 | 3,290 | 26,582,533 |
| 10,001 - 100,000 | 7,017 | 245,581,740 |
| 100,001 and over | 1,384 | 1,204,685,097 |
| Total | 18,353 | 1,492,982,791 |

There are 4,891 shareholders who hold less than a marketable parcel of 3,571 shares.

(b) The twenty largest shareholders hold 53.02% of the issued fully paid capital of the Company.

(c) Substantial Shareholders

| | Number of Shares | % |
|---|---|---|
| Angang Group Hong Kong (Holdings) Limited | 535,492,521 | 35.867 |

## 2. VOTING RIGHTS

The voting rights attaching to ordinary shares are:

(a) at meetings of members each member entitled to vote may vote in person or by proxy or attorney or in the case of a member which is a body corporate, by a representative, duly appointed; and

(b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy has one vote for each ordinary share held.

### 3. TWENTY LARGEST SHAREHOLDERS AS AT 19 SEPTEMBER 2013

| Rank | Shareholder | Number of Shares | % |
|---|---|---|---|
| 1 | Angang Group Hong Kong (Holdings) Limited | 535,492,521 | 35.867 |
| 2 | HSBC Custody Nominees (Australia) Limited | 48,842,556 | 3.271 |
| 3 | Citicorp Nominees Pty Limited | 46,198,727 | 3.094 |
| 4 | JP Morgan Nominees Australia Limited | 37,079,758 | 2.484 |
| 5 | BNP Paribas Nominees (NZ) Ltd | 22,549,090 | 1.510 |
| 6 | Bond Street Custodians Limited | 13,964,358 | 0.935 |
| 7 | Connemara Investments Pty Ltd | 11,300,000 | 0.757 |
| 8 | RBC Investor Services Australia Nominees Pty Ltd | 10,645,103 | 0.713 |
| 9 | UBS Wealth Management Australia Nominees Pty Ltd | 9,628,106 | 0.645 |
| 10 | National Nominees Limited | 8,963,328 | 0.600 |
| 11 | Nefco Nominees Pty Ltd | 6,399,571 | 0.429 |
| 12 | Dr Myra Seeto | 6,300,000 | 0.422 |
| 13 | Sun Loong Corporation Pty Ltd | 6,250,851 | 0.419 |
| 14 | Enugu Pty Ltd | 6,100,000 | 0.409 |
| 15 | QIC Limited | 5,418,998 | 0.363 |
| 16 | Bell Potter Nominees Ltd | 3,483,333 | 0.233 |
| 17 | DMG & Partners Securities Pte Ltd | 3,402,739 | 0.228 |
| 18 | Terina Pty Ltd | 3,280,000 | 0.220 |
| 19 | Credit Risk Management Services Pty Ltd | 3,250,000 | 0.218 |
| 20 | Ms Qiuxia Meng | 2,985,800 | 0.200 |
| | | 701,447,952 | 46.983 |
| | Total issued shares | 1,492,982,791 | 100 |

# Summary Resources Statements

## For the Year Ended 30 June 2013

***Table 1: Karara Mining Limited Hematite Resources Inclusive of Ore Reserves at 30 June 2013***

| Deposit | Classification JORC 2004 | Tonnes Mt | Fe % | $SiO_2$ % | $Al_2O_3$ % | P % | S % | LOI % |
|---|---|---|---|---|---|---|---|---|
| Blue Hills | | | | | | | | |
| Blue Hills North | Indicated | 1.7 | 59.3 | 10.3 | 0.5 | 0.14 | 0.01 | 1.9 |
| | Inferred | 0.7 | 58.8 | 9.1 | 0.6 | 0.16 | 0.01 | 1.9 |
| Terapod | Indicated | 0.5 | 60.2 | 8.7 | 1.1 | 0.08 | 0.08 | 4.6 |
| Terapod West | Indicated | 0.8 | 60.3 | 6.5 | 1.6 | 0.06 | 0.20 | 5.3 |
| | Inferred | 0.8 | 60.0 | 6.6 | 1.5 | 0.06 | 0.25 | 5.5 |
| | **Total** | **4.5** | **59.6** | **8.6** | **0.9** | **0.11** | **0.10** | **3.4** |
| Mungada Ridge[1] | | | | | | | | |
| Gully | Inferred | 5.1 | 60.3 | 5.1 | 2.4 | 0.23 | 0.37 | 5.7 |
| Mungada South | Inferred | 1.5 | 63.0 | 3.8 | 1.6 | 0.13 | 0.05 | 3.5 |
| Skyhook | Inferred | 3.2 | 61.4 | 6.7 | 1.5 | 0.06 | 0.04 | 2.8 |
| Tor | Inferred | 1.6 | 61.3 | 10.9 | 0.8 | 0.08 | 0.03 | 1.6 |
| Wagon Wheel | Inferred | 1.7 | 61.3 | 7.1 | 3.5 | 0.05 | 0.02 | 3.0 |
| | **Total** | **13.1** | **61.1** | **6.3** | **2.0** | **0.14** | **0.17** | **3.9** |
| Hinge[2] | | | | | | | | |
| | Measured | 1.4 | 60.6 | 6.6 | 1.7 | 0.07 | 0.02 | 4.5 |
| | Indicated | 0.02 | 58.4 | 8.6 | 2.1 | 0.06 | 0.01 | 5.1 |
| | Inferred | 1.3 | 60.6 | 7.6 | 0.8 | 0.06 | 0.01 | 2.9 |
| | **Total** | **2.7** | **60.6** | **7.1** | **1.3** | **0.07** | **0.01** | **3.7** |
| | **Grand Total** | **20.3** | **60.7** | **6.9** | **1.7** | **0.1** | **0.1** | **3.7** |

*Gindalbie Metals Limited has a 50% attributable interest in KML Hematite Resources*
*All Hematite Resource estimates are reported above a 57% Fe cut-off grade*
[1] *The extrapolated portion of the five Mungada Ridge deposits represents approximately between 10% and 20% of the total tonnage. The extrapolated mineralisation is along strike and down dip and typically extends about 50m from the last sample. The along strike and down dip drillhole spacing ranges from about 50m to 100m.*
[2] *Inferred resource contains hematite, transitional and magnetite DSO above a 57% Fe cut-off grade.*

***Table 2: Gindalbie Metals Limited Hematite Resources Inclusive of Ore Reserves at 30 June 2013***

| Deposit | Classification JORC 2004 | Tonnes Mt | Fe % | $SiO_2$ % | $Al_2O_3$ % | P % | S % | LOI % |
|---|---|---|---|---|---|---|---|---|
| Shine | Measured | 2.2 | 60.5 | 6.8 | 2.0 | 0.08 | 0.01 | 4.0 |
| | Indicated | 3.2 | 59.6 | 8.2 | 1.6 | 0.07 | 0.02 | 3.9 |
| | Inferred | 0.7 | 58.6 | 9.0 | 1.4 | 0.08 | 0.03 | 4.6 |
| **Grand Total** | | **6.1** | **59.8** | **7.8** | **1.7** | **0.07** | **0.02** | **4.0** |

*Gindalbie Metals Limited has a 100% attributable interest in Shine Hemtatite Resource*
*Small discrepancies may occur due to the affects of rounding*
*All Hematite Resource estimates are reported above a 57% Fe cut-off grade*

***Table 3: Karara Mining Limited Magnetite Resources Inclusive of Ore Reserves as at 30 June 2013***

Karara Magnetite Resource (reported above 0% Fe cut-off grade)

| Deposit | Classification JORC 2004 | Oxidation State | Tonnes Mt | Fe % | $SiO_2$ % | $Al_2O_3$ % | P % | S % | LOI % |
|---|---|---|---|---|---|---|---|---|---|
| Karara | Indicated | Oxide | 134 | 36.4 | 41.8 | 1.7 | 0.06 | 0.04 | 2.9 |
| | | Transitional | 59 | 36.0 | 42.4 | 1.3 | 0.08 | 0.11 | 0.8 |
| | | Fresh | 1,482 | 36.1 | 42.8 | 0.9 | 0.09 | 0.12 | -0.8 |
| | | **Total** | **1,676** | **36.1** | **42.7** | **1.0** | **0.09** | **0.11** | **-0.4** |
| | Inferred | Oxide | 13 | 35.5 | 42.6 | 2.4 | 0.06 | 0.07 | 2.8 |
| | | Transitional | 6 | 28.5 | 44.8 | 5.9 | 0.08 | 0.77 | 3.8 |
| | | Fresh | 683 | 35.3 | 43.4 | 1.3 | 0.09 | 0.14 | -0.8 |
| | | **Total** | **702** | **35.3** | **43.4** | **1.3** | **0.09** | **0.14** | **-0.7** |
| | | **Grand Total** | **2,378** | **35.8** | **42.9** | **1.1** | **0.09** | **0.12** | **-0.5** |

*Small discrepancies may occur due to the affects of rounding*

Karara Magnetite Resource (reported above a 20% Weight Recovery cut-off grade)

| Deposit | Classification JORC 2004 | Tonnes Mt | Fe % | $SiO_2$ % | $Al_2O_3$ % | P % | S % | LOI % |
|---|---|---|---|---|---|---|---|---|
| Karara | Indicated | 1,450 | 36.1 | 42.8 | 1.0 | 0.09 | 0.12 | -0.7 |
| | Inferred | 317 | 35.5 | 43.2 | 1.2 | 0.09 | 0.11 | -0.8 |
| | **Grand Total** | **1,768** | **36.0** | **42.9** | **1.0** | **0.09** | **0.12** | **-0.7** |

*Weight Recovery as determined by Davis Tube Recovery (DTR)*
*Small discrepancies may occur due to the affects of rounding*

Blue Hills[3]

| Deposit | Classification JORC 2004 | Tonnes Mt | Fe % | $SiO_2$ % | $Al_2O_3$ % | P % | S % | LOI % |
|---|---|---|---|---|---|---|---|---|
| Blue Hills North | Inferred | 45.5 | 41.4 | 35.6 | 0.5 | 0.09 | 0.03 | -0.1 |
| | **Grand Total** | **45.5** | **41.4** | **35.6** | **0.5** | **0.09** | **0.03** | **-0.1** |

*Gindalbie Metals Limited has a 50% attributable interest in KML Magnetite Resources*

*[3] The extrapolated portion of the Blue Hills North Magnetite Inferred Resource around the edges of the mineralised horizon represents approximately 10% of the total tonnage.*
*The extrapolated mineralisation is mainly along strike and typically extends about 50m from the last sample. The along strike and down dip drillhole spacing is about 50m by 30m.*

***Table 4: Gindalbie Metals Limited Magnetite Resources Inclusive of Ore Reserves as at 30 June 2013***

| Deposit | Classification JORC 2004 | Oxide State | Tonnes Mt | Fe % | $SiO_2$ % | $Al_2O_3$ % | P % | S % | LOI % |
|---|---|---|---|---|---|---|---|---|---|
| Lodestone[4] | Inferred | Oxide | 215 | 29.2 | 44.4 | 5.9 | 0.03 | 0.05 | 4.1 |
| | Inferred | Fresh | 1,267 | 26.8 | 46.3 | 5.4 | 0.05 | 1.07 | 2.1 |
| | **Grand Total** | | **1,482** | **27.1** | **46.0** | **5.5** | **0.05** | **0.92** | **2.4** |

| Deposit | Classification JORC 2012 | Oxidation State | Tonnes Mt | Fe % | $SiO_2$ % | $Al_2O_3$ % | P % | S % | LOI % |
|---|---|---|---|---|---|---|---|---|---|
| Shine | Inferred | Fresh | 4 | 41.1 | 28.0 | 2.6 | 0.05 | 0.44 | 6.4 |
| | **Grand Total** | | **4** | **41.1** | **28.0** | **2.6** | **0.05** | **0.44** | **6.4** |

*Gindalbie Metals Limited has a 100% attributable interest in the Lodesone and Shine Magnetite Resources*
*All Magnetite Resource estimates are reported above a 0% Fe cut-off grade*
*Small discrepancies may occur due to the affects of rounding*
*[4] The extrapolated portion of the Lodestone Magnetite Inferred Resource, below the drilling data, represents approximately 20% of the total tonnage.*

***Table 5: Karara Mining Limited Hematite Reserve at 30 June 2013***

| Deposit | Classification JORC 2004 | Tonnes Mt | Fe % | $SiO_2$ % | $Al_2O_3$ % | P % | S % | LOI % |
|---|---|---|---|---|---|---|---|---|
| Blue Hills | | | | | | | | |
| Blue Hills North | Probable | 0.1 | 59.1 | 11.6 | 0.3 | 0.12 | 0.01 | 1.3 |
| Terapod | Probable | 0.3 | 60.2 | 7.8 | 1.3 | 0.08 | 0.02 | 4.5 |
| Terapod West | Probable | 0.7 | 60.3 | 6.5 | 1.6 | 0.06 | 0.19 | 5.1 |
| | **Grand Total** | **1.1** | **60.2** | **7.2** | **1.4** | **0.07** | **0.14** | **4.7** |

*Gindalbie Metals Limited has a 50% attributable interest in KML Hematite Reserves*
*All hematite reserve estimates are reported above a 57% Fe cut-off grade*
*Small discrepancies may occur due to the affects of rounding*

***Table 6: Karara Mining Limited Magnetite Reserves as at 30 June 2013***

| Deposit | Classification JORC 2004 | Tonnes Mt | Fe % | $SiO_2$ % | $Al_2O_3$ % | P % | S % | LOI % |
|---|---|---|---|---|---|---|---|---|
| Karara | Probable | 950.8 | 36.2 | 42.8 | 0.9 | 0.09 | 0.10 | -0.71 |
| | **Grand Total** | **950.8** | **36.2** | **42.8** | **0.9** | **0.09** | **0.10** | **-0.71** |

*Gindalbie Metals Limited has a 50% attributable interest in KML Magnetite Reserves*
*All Magnetite Reserve estimates are reported above a 20% DTR cut-off grade*
*Small discrepancies may occur due to the affects of rounding*

# Competent Person's Statement

## For the Year Ended 30 June 2013

The information in this report that relates to the Exploration results and data that was used to compile the Gindalbie Metals Limited Mineral Resource estimates for Lodestone and Shine deposits is based upon information compiled by Ian Shackleton. Ian Shackleton is a member of the Australasian Institute of Geoscientists (MAIG) and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity to which he is undertaking to qualify as a competent person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Ian Shackleton is a full-time employee of Gindalbie Metals Limited. Ian Shackleton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to the Gindalbie Metals Limited Mineral Resources for Lodestone and Shine deposits is based upon information compiled by John Graindorge. John Graindorge is a member of the Australasian Institute of Mining and Metallurgy (MAusIMM) and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity to which he is undertaking to qualify as a competent person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". John Graindorge is a full-time employee of Snowden Mining Industry Consultants Pty Ltd. John Graindorge consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to the Exploration Results, Mineral Resources and Ore Reserves for Karara Mining Limited is based upon information compiled by Xianglin Cheng. Xianglin Cheng is a member of the Australasian Institute of Mining and Metallurgy (MAusIMM) and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity to which he is undertaking to qualify as a competent person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Xianglin Cheng is a full-time employee of Karara Mining Limited. Xianglin Cheng consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

# Tenement Schedule

## For the Year Ended 30 June 2013

| Lease | Status | Holder | Ownership |
|---|---|---|---|
| **Gindalie Metals Ltd** | | | |
| Gindalbie 100% | | | |
| E59/1421 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1422 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1522 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1535 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1536 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1573 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1581 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1582 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1583 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1584 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1585 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1586 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1587 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1588 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1589 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1606 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1785 | Application | Gindalbie Metals Ltd | 100% |
| E59/1791 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1798 | Application | Gindalbie Metals Ltd | 100% |
| E59/1950 | Application | Gindalbie Metals Ltd | 100% |
| E59/1955 | Application | Gindalbie Metals Ltd | 100% |
| L59/115 | Granted | Gindalbie Metals Ltd | 100% |
| L59/120 | Granted | Gindalbie Metals Ltd | 100% |
| L59/126 | Application | Gindalbie Metals Ltd | 100% |
| L59/72 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1845 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1847 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1850 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1859 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1881 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1882 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1902 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1913 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1915 | Granted | Gindalbie Metals Ltd | 100% |
| **Karara Mining Ltd** | | | |
| Ansteel 50%; Gindalbie 50% | | | |
| E59/1068 | Granted | DSO Ventures Pty Ltd | 50% |
| E59/1138 | Granted | DSO Ventures Pty Ltd | 50% |
| E59/1170 | Granted | Karara Mining Ltd | 50% |
| E59/1496 | Granted | Karara Mining Ltd | 50% |
| E59/1497 | Granted | Karara Mining Ltd | 50% |
| E59/1498 | Granted | Karara Mining Ltd | 50% |
| E59/1499 | Granted | Karara Mining Ltd | 50% |
| E59/1500 | Granted | Karara Mining Ltd | 50% |
| E59/1533 | Granted | Karara Mining Ltd | 50% |
| E59/1534 | Granted | Karara Mining Ltd | 50% |
| E59/1607 | Granted | Karara Mining Ltd | 50% |

| Lease | Status | Holder | Ownership |
|---|---|---|---|
| E59/1690 | Granted | Karara Mining Ltd | 50% |
| E59/1969 | Application | Karara Mining Ltd | 50% |
| E59/1970 | Application | Karara Mining Ltd | 50% |
| E59/1971 | Application | Karara Mining Ltd | 50% |
| E59/1972 | Application | Karara Mining Ltd | 50% |
| E59/1973 | Application | Karara Mining Ltd | 50% |
| E59/1974 | Application | Karara Mining Ltd | 50% |
| E59/1975 | Application | Karara Mining Ltd | 50% |
| E59/1976 | Application | Karara Mining Ltd | 50% |
| E59/817 | Granted | Karara Mining Ltd | 50% |
| G59/37 | Granted | Karara Mining Ltd | 50% |
| G59/38 | Granted | Karara Mining Ltd | 50% |
| G59/39 | Granted | Karara Mining Ltd | 50% |
| G59/44 | Granted | Karara Mining Ltd | 50% |
| G59/46 | Application | Karara Mining Ltd | 50% |
| L59/101 | Granted | Karara Mining Ltd | 50% |
| L59/103 | Granted | Karara Mining Ltd | 50% |
| L59/104 | Granted | Karara Mining Ltd | 50% |
| L59/107 | Granted | Karara Mining Ltd | 50% |
| L59/108 | Granted | Karara Mining Ltd | 50% |
| L59/109 | Granted | Karara Mining Ltd | 50% |
| L59/110 | Granted | Karara Mining Ltd | 50% |
| L59/112 | Granted | Karara Mining Ltd | 50% |
| L59/113 | Granted | Karara Mining Ltd | 50% |
| L59/114 | Granted | Karara Mining Ltd | 50% |
| L59/116 | Application | Karara Mining Ltd | 50% |
| L59/128 | Granted | Karara Mining Ltd | 50% |
| L59/129 | Granted | Karara Mining Ltd | 50% |
| L59/136 | Application | Karara Mining Ltd | 50% |
| L59/74 | Granted | Karara Mining Ltd | 50% |
| L59/76 | Granted | Karara Mining Ltd | 50% |
| L59/77 | Granted | Karara Mining Ltd | 50% |
| L59/78 | Granted | Karara Mining Ltd | 50% |
| L59/79 | Granted | Karara Mining Ltd | 50% |
| L59/80 | Granted | Karara Mining Ltd | 50% |
| L59/81 | Granted | Karara Mining Ltd | 50% |
| L59/82 | Granted | Karara Mining Ltd | 50% |
| L59/83 | Granted | Karara Mining Ltd | 50% |
| L59/84 | Granted | Karara Mining Ltd | 50% |
| L59/85 | Granted | Karara Mining Ltd | 50% |
| L59/86 | Granted | Karara Mining Ltd | 50% |
| L59/90 | Granted | Karara Mining Ltd | 50% |
| L59/92 | Granted | Karara Mining Ltd | 50% |
| L59/93 | Granted | Karara Mining Ltd | 50% |
| L59/98 | Granted | Karara Mining Ltd | 50% |
| L59/99 | Granted | Karara Mining Ltd | 50% |
| L70/103 | Granted | DSO Ventures Pty Ltd | 50% |
| L70/104 | Granted | DSO Ventures Pty Ltd | 50% |
| L70/105 | Granted | DSO Ventures Pty Ltd | 50% |
| L70/112 | Granted | Karara Mining Ltd | 50% |

| Lease | Status | Holder | Ownership |
|---|---|---|---|
| L70/116 | Granted | Karara Mining Ltd | 50% |
| L70/126 | Granted | Karara Mining Ltd | 50% |
| L70/130 | Granted | Karara Mining Ltd | 50% |
| M59/644 | Granted | Karara Mining Ltd | 50% |
| M59/645 | Granted | Karara Mining Ltd | 50% |
| M59/649 | Granted | DSO Ventures Pty Ltd | 50% |
| M59/650 | Granted | DSO Ventures Pty Ltd | 50% |
| M59/721 | Granted | Karara Mining Ltd | 50% |
| M59/729 | Granted | Karara Mining Ltd | 50% |
| M59/730 | Granted | Karara Mining Ltd | 50% |
| M59/735 | Granted | Karara Mining Ltd | 50% |
| M59/736 | Granted | Karara Mining Ltd | 50% |
| M59/748 | Application | Karara Mining Ltd | 50% |
| P59/1830 | Granted | DSO Ventures Pty Ltd | 50% |
| P59/1831 | Granted | DSO Ventures Pty Ltd | 50% |
| P59/1842 | Granted | DSO Ventures Pty Ltd | 50% |
| P59/1843 | Granted | DSO Ventures Pty Ltd | 50% |
| P59/1844 | Granted | DSO Ventures Pty Ltd | 50% |
| P59/1846 | Granted | DSO Ventures Pty Ltd | 50% |
| P59/1874 | Granted | Karara Mining Ltd | 50% |
| P59/1903 | Granted | DSO Ventures Pty Ltd | 50% |
| P59/1912 | Granted | Karara Mining Ltd | 50% |
| P59/1920 | Granted | Karara Mining Ltd | 50% |

**Minjar Gold JV**

Gindalbie 100% Fe; Minjar Gold 100% Gold and Base Metals

| | | | |
|---|---|---|---|
| E59/1012 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1021 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1023 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1042 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1070 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1152 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1169 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1181 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1189 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1199 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1200 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1201 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1202 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1327 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1328 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1329 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1330 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1331 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1332 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1333 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/887 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/888 | Granted | Mawson West Ltd | 100% |
| E59/935 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/985 | Granted | Minjar Gold Pty Ltd | 100% |
| L59/44 | Granted | Minjar Gold Pty Ltd | 100% |
| L59/54 | Granted | Minjar Gold Pty Ltd | 100% |
| L59/56 | Granted | Minjar Gold Pty Ltd | 100% |
| L59/61 | Granted | Minjar Gold Pty Ltd | 100% |
| M59/219 | Granted | Minjar Gold Pty Ltd | 100% |
| M59/406 | Granted | Minjar Gold Pty Ltd | 100% |
| M59/420 | Granted | Minjar Gold Pty Ltd | 100% |
| M59/421 | Granted | Minjar Gold Pty Ltd | 100% |
| M59/431 | Granted | Minjar Gold Pty Ltd | 100% |
| M59/457 | Granted | Minjar Gold Pty Ltd | 100% |
| M59/458 | Granted | Minjar Gold Pty Ltd | 100% |
| M59/497 | Granted | Minjar Gold Pty Ltd | 100% |
| M59/591 | Granted | Minjar Gold Pty Ltd | 100% |
| M59/731 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1706 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1707 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1758 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1759 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1760 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1761 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1763 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1791 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1793 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1794 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1796 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1797 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1798 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1799 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1800 | Granted | Minjar Gold Pty Ltd | 100% |
| P59/1803 | Granted | Minjar Gold Pty Ltd | 100% |
| E59/1002 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1136 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1139 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1180 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1203 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1210 | Granted | Gindalbie Metals Ltd | 100% |
| M59/460 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1781 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1782 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1783 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1784 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1787 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1790 | Granted | Gindalbie Metals Ltd | 100% |

**Mt Mulgine**

Hazelwood Resources 70% Tungsten Rights; Gindalbie 30% Tungsten and 100% Iron Ore Rights; Minjar Gold 100% Gold and Base Metal Rights

| | | | |
|---|---|---|---|
| E59/1057 | Granted | Gindalbie Metals Ltd | 100% |
| E59/1324 | Granted | Gindalbie Metals Ltd | 100% |
| M59/386 | Granted | Gindalbie Metals Ltd | 100% |
| M59/387 | Granted | Gindalbie Metals Ltd | 100% |
| M59/425 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1785 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1786 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1788 | Granted | Gindalbie Metals Ltd | 100% |
| P59/1789 | Granted | Gindalbie Metals Ltd | 100% |

**Windaning JV**

Gindalbie 78.47%; Falcon Minerals 21.53%

| | | | |
|---|---|---|---|
| M59/379 | Granted | Falcon Minerals Ltd & Gindalbie Metals Ltd | 78.47% |
| M59/380 | Granted | Falcon Minerals Ltd & Gindalbie Metals Ltd | 78.47% |

# Corporate Directory

## Directors

Keith Jones - **Chairman**
Tim Netscher - **Managing Director and CEO**
Michael O'Neill - **Non-Executive Director**
Yu Wanyuan - **Non-Executive Director**
Chen Ping - **Non-Executive Director**
Robin Marshall - **Non-Executive Director**
Paul Hallam - **Non-Executive Director**
Tang Fuping - **Non-Executive Director**

## Company Secretary

Christopher Gerrard

## Registered Office & Administration

Gindalbie Metals Limited
Level 9, London House
216 St Georges Terrace
Perth WA 6000
AUSTRALIA

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**Phone:** +61 8 9480 8700
**Fax:** +61 8 9480 8799

**Email:** gbg@gindalbie.com.au
**Website:** www.gindalbie.com.au

## Auditors

KPMG
235 St Georges Terrace
Perth WA 6000
AUSTRALIA

## Share Registry

**Advanced Share Registry Limited**
150 Stirling Highway
Nedlands WA 6009
AUSTRALIA

PO Box 1156
Nedlands WA 6909
AUSTRALIA

**Phone:** +61 8 9389 8033
**Fax:** +61 8 9389 7871

Level 6, 225 Clarence Street
Sydney NSW 2000
AUSTRALIA

PO Box Q1736
Queen Victoria Building NSW 1230
AUSTRALIA

**Phone:** +61 2 8096 3502
**Website:** www.advancedshare.com.au

**ASX CODE:** GBG
**ABN:** 24 060 857 614

www.gindalbie.com.au