

HD Gindalbie Metals Ltd. - Quarterly Activities Report

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The Karara Project, located 200km east of Geraldton, is a joint venture with Ansteel, one of **China's** largest steel-makers and the country's biggest **iron ore** producer.

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The project consists of a long-life, magnetite concentrate operation with a smaller-scale supporting hematite Direct Shipping **Ore** ('DSO') operation.

Production

Karara produced 1.26 **million** wmt of magnetite concentrate during the September Quarter which is an increase of 35.5% when compared to the June 2014 Quarter production of 930,000 wmt.

A total of 35 shipments were completed during the September Quarter totalling approximately 2.18 **million** wmt of combined magnetite concentrate and hematite DSO. Magnetite production quality averaged 66.2% Fe and 6.9% silica during the Quarter.

As previously advised, some shipments included hematite DSO purchased by KML from third parties to maximize the use of installed rail and port capacity. During the Quarter, third party hematite DSO purchases amounted to approximately 1.03 **million** wmt.

Given the ongoing work to assess and improve the production capacity and performance of the Karara operation, the Gindalbie Board is not in a position to provide accurate production guidance or forecast when the Project will achieve positive cash flow. Actual production will continue to be reported on a quarterly basis.

Remedial Actions and Technical Review

Remedial actions (including upgrade of tailings filters, the temporary wet tailings facility and thickener optimisation) to enhance capacity of the concentrator circuit, combined with a series of operational improvements (including feed blending of **ore** and optimisation of wear liners) to increase throughput of the crushing circuit, have resulted in a sizable boost in production of magnetite concentrate for the Quarter (+35.5% above the June 2014 Quarter).

The comprehensive technical review of Karara has continued to assess the design and operation of the magnetite process plant to maximise plant production. Engineering studies and projects were progressed during the Quarter and KML will continue to focus on optimising the plant.

Hinge Project

As advised in the June 2014 Quarterly Report, KML proceeded with development of the HIOP after receiving environmental approval. The HIOP is located 23km north-east of the Karara Project and is forecast to produce approximately 3.5 **million** wmt of hematite DSO.

Hematite DSO will be crushed and screened at the HIOP, with material trucked to the existing rail load-out facility located at Karara. The HIOP is currently being commissioned with first **ore** expected to be delivered to the Karara rail head during the December Quarter 2014. During the Quarter KML executed a contract with MACA Limited for the provision of civil, **mining** and drill & blast services for the HIOP.

Karara Project Exploration

During the September Quarter, environmental and heritage surveys were completed to obtain the necessary approvals to undertake drilling programs to test several near-mine targets during the December Quarter 2014.

Funding

During the Quarter, KML executed a binding Facility Agreement with **China** Development Bank and Bank of **China** for a new US\$400 **million** Fixed Term Loan Facility to provide additional working capital.

The date for repayment of KML's US\$130 **million** term loan facility provided by the Bank of **China** in September 2013 was extended by 12 months to September 2015 on similar terms and conditions.

Karara Power Pty Ltd (a wholly owned subsidiary of KML) completed the **sale** of the 330kV transmission line to Western Power. The net **sale** price was A\$82.6 **million**. KML provided a A\$95 **million** bank guarantee as security for the long term access rights to the electricity supply network.

GINDALBIE REGIONAL EXPLORATION

Exploration activities during the September Quarter centred on the Windine Well target located approximately 2.5 kilometres south south-east of the Shine Deposit. Activities included geological mapping, rock chip sampling, environmental and heritage surveys required to gain the necessary approvals to undertake a drilling program to test the surface **iron**-enrichment previously identified.

Work was also undertaken to complete annual statutory technical reporting on tenure, completion of rehabilitation and environmental and heritage surveys required to undertake focused exploration programs during 2014-15.

CORPORATE

Financial Report for the Year ended 30 June 2014

Following the completion of a review of the carrying value of the **Company**'s investment in KML the **Company** recorded an impairment loss of A\$592.3 **million** in its annual statutory accounts. The impairment recognised the lower than forecast production levels at Karara, lower than forecast **iron ore** price and higher than anticipated Australian Dollar exchange rate.

Gindalbie released its financial accounts for the year ending 30 June 2014 on 23 September 2014.

Shareholder Information

As at 30 September 2014, the **Company** had 1,495,306,811 shares on issue and 16,464 shareholders. The Top 20 shareholders held 52.06% of the **Company**.

Voluntary Suspension

At the request of the **Company** its shares were placed in voluntary suspension for a period of 11 days (31 July 2014 to 11 August 2014) whilst the review of the carrying value of its investment in KML was completed.

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