The Company Announcements Officer
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The following is an *Inside Briefing* interview with Gindalbie Metals Managing Director, Mr Tim Netscher

In this interview, Tim Netscher provides an update on Gindalbie Metals (ASX: GBG – market capitalisation: $420 million) and recent progress at the Karara Project, located 225km east of Geraldton in Western Australia (a 50:50 joint venture between Gindalbie and Ansteel Group).

Highlights of this interview include:

- The ramp-up of DSO hematite operations and the Karara logistics chain;
- The commissioning and ramp-up of the Karara magnetite operations, including the first shipments;
- The Karara Stage 2 feasibility study; and
- The DSO hematite growth strategy.

Inside Briefing: The Karara Project shipped a total of 1.2mt of DSO hematite in the December Quarter, implying an annualized run rate of over 5mtpa. What sort of pricing have you been able to achieve in the market for these early sales? Are the DSO operations currently generating positive cash flow?

Tim Netscher: The early DSO mining has always been an important part of our strategy. First and foremost, it enabled Karara to establish, commission, fully test and operate all elements of the integrated logistics chain – helping to de-risk the Mine, Rail and Port operations prior to the start-up of magnetite operations and also taking up our take-or-pay rail obligations. We've also been able to find a market for very low grade material of around 55% Fe, which made up about half of those sales. This material had to be mined anyway because it formed part of the pre-strip activities, and would otherwise have been classified as waste.

The pricing for that material is in line with what other producers are achieving for similar quality products. However, as I've said, cash margin was not the primary driver for making these DSO shipments: the main benefit was derived from testing and proving up our logistics chain ahead of commissioning the magnetite plant and from using our rail take-or-pay obligations, thereby achieving an overall very positive outcome for Karara.

Inside Briefing: What is your guidance for DSO shipments for the full financial year to 30 June 2013? What is the longer term targeted production level for the DSO business?

Tim Netscher: There are many variables in the ramp-up and commissioning of a project, so it is impossible to provide production guidance during this period. Where we have guided the market is that we are currently forecasting to be at the Stage 1 production rate of close to 8 million tonnes per annum (mtpa) for magnetite concentrate by the end of April. On the DSO side, we have already shown that we can mine and ship at the proposed Stage 1 capacity of 2mtpa. We have provided a cash cost estimate (excluding royalties) for the total Stage 1 production capacity (10mtpa) of A$72-$76/tonne. It is important to stress that this is our expected cash operating cost at full production. This is a blended cost for our total production of both hematite and magnetite (10mtpa).

Inside Briefing: The commissioning and ramp-up plan for magnetite involves sequentially completing different parts of the Concentrator to progressively increase concentrate grades and production rates as additional circuits are introduced. How far advanced is this process and what sort of hurdles have been encountered to date? What are the key remaining risks through to completion of the ramp-up by April 2013?

Tim Netscher: The Karara Concentrator is a very large plant involving crushing and grinding stages, various stages of magnetic separation, as well as thickening and filtration stages – requiring the commissioning and ramp-up to be carefully managed. The best way to picture it is we have effectively laid a grid over the plant and we are commissioning each area at a time. At this stage we have commissioned four of nine areas of the plant. Pleasingly, we have encountered no material issues and, with the commissioning of each area, we have progressively eliminated potential risks. However, I acknowledge that we do still have a way to go.

In the past week we have successfully started the commissioning of the High Pressure Grinding Rolls (HPGRs) which will lead to an upward step-change in feed rates through the plant. I view the HPGRs as one of the remaining key risk areas and so far the commissioning has gone without material issues.

Inside Briefing: How many shipments of magnetite concentrate have been completed so far? What sort of concentrate grades and pricing have been achieved so far?

Tim Netscher: We have made two magnetite shipments to date with a third actually due out today, and those shipments will continue to increase as production increases. The grade we are achieving is about 64% Fe, which is entirely within our plan, and is priced accordingly. Under our commissioning and ramp-up plan, one of the last areas that we bring on line is the final polishing circuit, and it is this area that will allow us to achieve our premium quality, premium priced concentrate.

Inside Briefing: As at 31 December 2012, all three tranches of the project loan facility for the Karara Project were fully drawn-down, amounting to a total of US$1.786 billion. When are the first interest and principal repayments due on these facilities? What other terms and conditions apply to the debt facilities?

Tim Netscher: We have had a huge amount of support from our Chinese banking partners and I think it's fair to say a small company like Gindalbie would not have been able to build such a large and complex project without their backing. The full terms and conditions are commercial-in-confidence, but broadly it is a 10-year facility. The interest rate is based on the US LIBOR rate plus a highly competitive margin, which means Karara has secured an interest rate that would normally only be available to a company many, many times its size. The first major repayment is a $US63 million payment in November this year.

Inside Briefing: What pricing level do you expect to achieve for your premium grade 68% Fe magnetite concentrate based on current benchmark iron ore prices?

Tim Netscher: Our magnetite concentrate is a premium quality product and commands a premium price. Basically, we use the benchmark price for 62% iron ore as a reference, then adjust for grade plus a premium adjustment giving us an approximate 20% premium. This premium price means that, even though we have additional processing costs for magnetite, we are still able to generate a competitive margin compared to DSO producers with lower costs but lower quality products.

Inside Briefing: When will the Feasibility Study on the Stage 2 expansion be completed? Can you provide broad guidance on the capital required to undertake this expansion? What are the key benefits of undertaking the expansion?

Tim Netscher: The Feasibility Study is at an advanced stage and will be considered by the Board sometime this Quarter. Until that has been completed, I'm not able to speculate around capital costs. However, there are clear benefits for proceeding with Stage 2. Firstly it allows us to fully utilize the 16mtpa infrastructure capacity we have already built through Stage 1. And secondly, we expect the economies of scale of Stage 2 will lead to a healthy reduction in cash operating costs. Therefore, for the Board I suspect it will be more a question of "How do we fund it and what is the timing?" rather than "Should we proceed?"

Inside Briefing: The Karara infrastructure and logistics chain has been ramping up better than expected with no material issues encountered. How confident are you that the rail and port can accommodate tonnages of up to 16Mtpa? What impact will the delays being experienced with the Oakajee Port & Rail Project have on Karara?

Tim Netscher: The fact that we shipped 1.2 million tonnes in the December Quarter from basically a standing start with a new logistics chain has been nothing short of amazing. The rail and port infrastructure has been designed to handle 16mtpa and, after our first quarter's performance, I have no reason to doubt that can be achieved. This has always been our strategy, so we are not reliant on Oakajee. We have adequate capacity for Stage 1 and 2 and we continue to look at other alternatives outside of Oakajee that may give us additional capacity beyond Stage 2.

Inside Briefing: What growth opportunities are there for the DSO business? How actively is Gindalbie exploring its 100 per cent owned tenements in the Midwest region? What are your plans to progress the Shine and Lodestone projects?

Tim Netscher: Our focus to date has really been on the magnetite project and we have viewed our hematite business, although substantial in its own right, as more of a risk mitigation strategy to mitigate against our rail take-or-pay obligations during the commissioning phase of the project. However, we are quietly assembling a significant pipeline of DSO projects that are now getting further attention and we are currently reassessing our DSO strategy.

We certainly now have the confidence to maintain a rate of about 2mtpa into the foreseeable future. The geological nature of the region means these are typically small-scale orebodies around a few million tonnes, but we have multiple targets.

Gindalbie's Shine Project will likely form part of our revised DSO strategy. Our feasibility study on Shine is basically complete and shows robust economics at current market prices, and we are currently looking at the best way to fund the relatively low capex. The Lodestone Magnetite Project is really surplus to our requirements. It is a very good orebody but we already have an exceptionally large and long-life project with Karara. We are currently testing the market for Lodestone and if we can get a suitable price we will look to sell. Several parties have expressed interest in this deposit.

ENDS

See overleaf for contact details and disclaimers.

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