

KARARA OPERATIONS UPDATE

Key Points

- **Target to achieve nameplate 8Mtpa in July 2013, in the absence of further issues.**
- **Commissioning of final two components of the Karara Concentrator, the polishing circuit and tailings circuit continues.**
- **Two thirds of the polishing circuit has been commissioned and is operational, resulting in improvements in magnetite concentrate grade of up to 65% Fe. Full product specification of 68% Fe is expected to be achieved with the completion of the circuit.**
- **A filtering issue with the tailings systems has temporarily restricted plant throughput. Rectification work is currently underway to address the problem.**
- **Shipments are continuing with 57 completed to date for 3.4 million tonnes since start-up in October 2012, comprising 2.7Mt of DSO (46 shipments) and 700,000t of magnetite concentrate (11 shipments).**

Gindalbie Metals Limited (ASX: **GBG** – “Gindalbie”) advises that the ramp-up of the Karara Project in Western Australia is continuing to progress with no material issues encountered with the commissioning of the plant.

Karara Concentrator

As advised previously, commissioning of the Karara Concentrator is being undertaken in stages with commissioning of seven of nine key areas complete. These include the major components of the critical front-end crushing and grinding circuit of the plant – the primary and secondary crushers, high pressure grinding rolls (HPGRs) and ball mills.

All of these components have now been commissioned and have successfully operated at up to their design throughput rate.

The project team is currently focusing on commissioning the final two remaining areas – the polishing circuit and a group of ancillary functions including the tailings circuit.

Two thirds of the polishing circuit has been commissioned and is operational, resulting in initial improvements to the magnetite concentrate grade up to 65% Fe. The final concentrate grade of 68% Fe is expected to be achieved with the commissioning of the flotation circuit.

After the initial ramp-up of the plant to 70% production throughput capacity, some relatively minor filtering problems have been encountered with the tailings circuit which have temporarily restricted plant throughput. To overcome these issues, a troubleshooting process was undertaken which identified an immediate resolution through the installation of additional piping and pumping capacity.

The necessary additional equipment has been ordered and the rectification work will be progressively completed during the second half of June 2013.

The project team is targeting to achieve nameplate capacity of 8Mtpa and premium concentrate specifications in July 2013, subject to the timely installation of the new equipment and in the absence of further issues.

57 Shipments Completed

Product shipments are continuing and the Karara Project has now shipped 3.4 million tonnes through the Karara Export Terminal in Geraldton.

46 shipments of DSO hematite have been completed for a total of 2.7 million tonnes. 11 shipments of magnetite concentrate have been completed for a total of 700,000 tonnes.

Funding Update

As the project has not achieved commercial production levels or been declared cash-flow positive, the slower-than-expected shipping schedule will have an impact on the forecast working capital requirements of the joint venture company Karara Mining Limited (KML).

KML is currently working on a number of potential funding solutions to assist with short-term working capital requirements. KML has completed a \$US44 million magnetite concentrate pre-payment agreement with Ansteel and is working to progress further prepayment agreements. KML has also started discussions regarding a potential restructure of its debt repayment schedule.

Management Comment

Gindalbie's Managing Director, Mr Tim Netscher, said the commissioning and ramp-up was progressing well, particularly considering the large-scale complex nature of the Karara Concentrator.

"Importantly, all of the major components of the plant – which are the biggest risk area in terms of achieving full plant performance - have operated at up to design capacity," Mr Netscher said. "The types of minor issues we have dealt with, such as the adjustments required to bring the tailings circuit up to full operating capacity, are well within the parameters of what might normally be expected during the commissioning and ramp-up phase of a major project such as Karara.

"The project team has done a commendable job in quickly identifying and addressing this and other small issues, and we are working towards having the new equipment installed and operating by the end of the Quarter, subject to timely arrival of the required components. We are targeting to achieve full design throughput in July, but if there happen to be any delays I anticipate it will only be measured in weeks.

"The working capital funding issue is a frustrating reality for so many new operations. A great deal has been achieved with the construction and development of this major mining and infrastructure project. We still believe Karara has enormous value and potential. We just need to clear this final hurdle to get to full production levels and we remain committed to assisting KML to source suitable short-term funding options, to try to avoid the need to call on its shareholders again."

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