

## Key Points

- 10 magnetite shipments were made for 685,000 wet metric tonnes (wmt)
- 19 shipments of hematite DSO were made for 1.04 million wmt
- First ever batches of premium quality 68% Fe magnetite concentrate produced, however a bottleneck has been identified that is currently being addressed
- Former Rio Tinto executive Mr Dale Harris appointed to replace Mr Tim Netscher as Managing Director



*Karara Concentrator*

## Executive Summary

- Premium quality 68% Fe magnetite concentrate was produced for the first time following the completion of the Karara Project's polishing circuit.
- The ramp-up and optimisation program identified restrictions in the process used to extract the water in the plant's dry tailings de-watering system, limiting the plant's ability to produce at nameplate capacity for sustained periods. An engineering solution has been identified and is being installed. In the interim the concentrator will produce magnetite concentrate at a reduced volume and at quality levels below the targeted 68% Fe.
- Karara Mining Limited (KML) expects production of magnetite concentrate to be in the range of 1.5-2.0 million tonnes for the six months to 31 December 2013.
- Shipments of DSO hematite for this period are expected to be in the range of 1.9-2.1 million tonnes, of which approximately 60% will be high grade iron ore.
- To support KML's working capital requirements a US\$230 million funding package has been provided in two stages: firstly, through a concentrate pre-sale agreement with Ansteel; and secondly, through a loan facility provided by Bank of China (and guaranteed by Ansteel).

## **KARARA PROJECT (Ansteel 50%)**

### **Overview**

Gindalbie is developing the world-class Karara Project, 200km east of Geraldton, in joint venture with Ansteel, one of China's largest steel makers and the biggest iron ore producer. The project consists of a substantial, long-life, magnetite concentrate operation with a smaller-scale supporting hematite operation.

### **Commissioning and Ramp-up**

During the period the Karara Project successfully produced its first-ever batches of premium quality 68% Fe magnetite concentrate, following the completion of the Concentrator's polishing circuit.

The filtering problems with the tailings circuit that were referred to in the previous report were overcome following the installation of additional piping and pumping capacity.

Ongoing work largely focussed on integrating all elements of the plant in order to achieve continuous production at the Project's nameplate capacity of 8Mtpa of magnetite concentrate.

While individual areas of the Concentrator successfully operated at their design rate, the ramp-up and optimisation program identified restrictions in the process used to extract the water in the plant's dry tailings de-watering system. This limits the plant's ability to produce at nameplate capacity for sustained periods. This bottleneck is unrelated to the filtering issue with the tailings system referred to above, which has been fully rectified.



*Karara Export Terminal train unloader, Geraldton*

KML opted for a dry tailings management system for the Karara Project utilising technology which differentiates the tailings management system from conventional tailings dams or evaporation ponds. The production of dry tailings allows the Project to significantly reduce its water consumption, providing important environmental benefits.

However, the tailings de-watering slurry system needs to be partially re-engineered to achieve design moisture content in the final tailings product, thereby allowing the tailings filtration circuit to operate at design throughput.

While an engineering solution is being designed and implemented the Concentrator will continue to operate, albeit at a reduced rate of output, while concentrate grades will be below the targeted 68% Fe.

### **Mining and Shipping**

After taking into account the reduced throughput rates while the tailings de-watering system is optimised, KML expects production of magnetite concentrate to be in the range of 1.5-2.0 million tonnes for the six months to 31 December 2013.

Shipments of DSO hematite for this period are expected to be in the range of 1.9-2.1 million tonnes, of which approximately 60% will be high grade iron ore, with the balance roughly split between medium and low grade products.

Gindalbie will provide updated guidance for FY2014 production once the Karara Concentrator achieves nameplate throughput of 8Mtpa and steady state production.

During the period there were 10 magnetite shipments for 685,000t and 19 hematite shipments for 1.04mt.

### *Magnetite*

The mining of magnetite ore from the Karara pit during the Quarter was managed to match the concentrator throughput requirements during the ramp up phase and to ensure that sufficient higher recovery fresh ore feed was available.

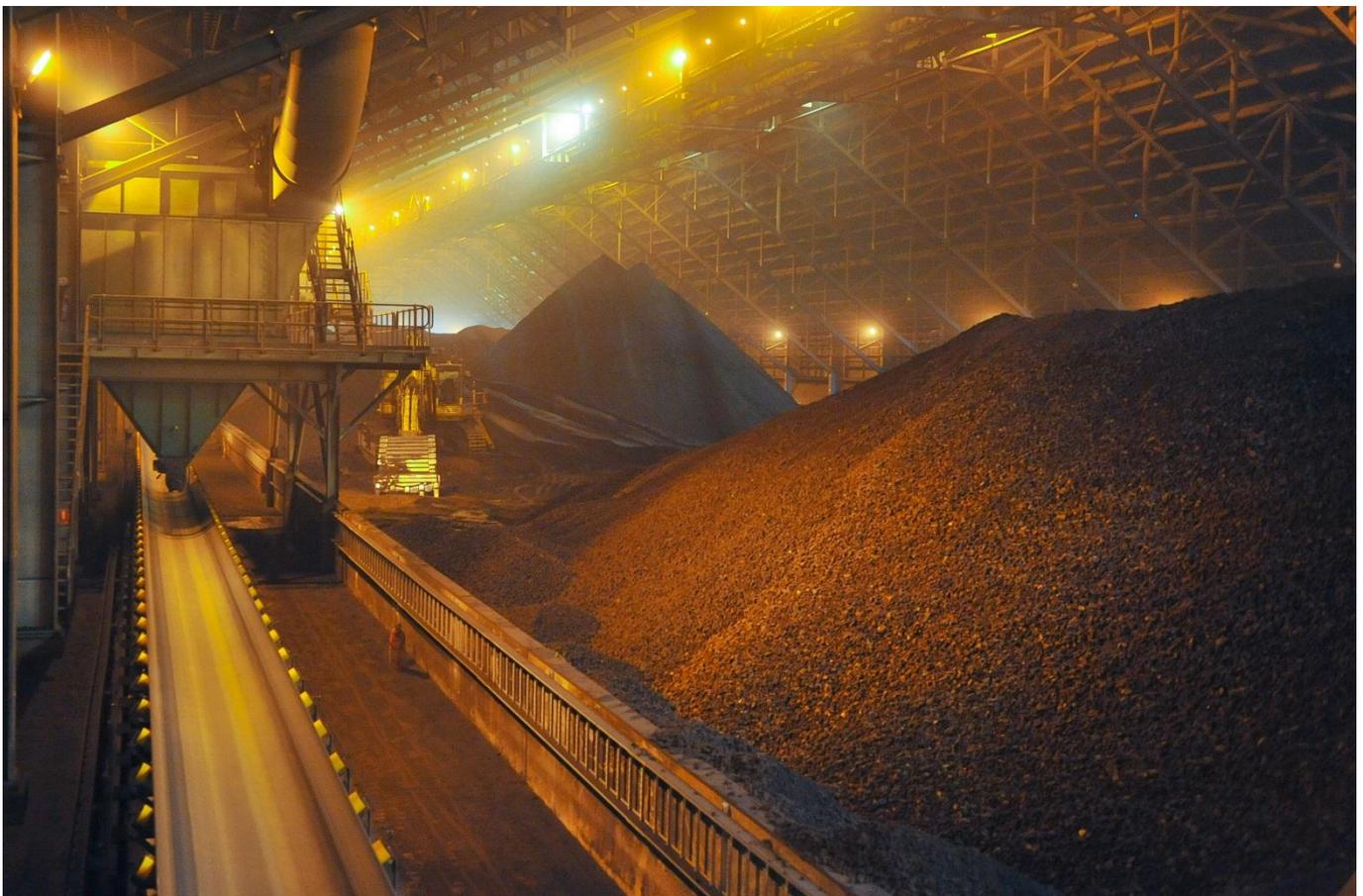
Low Weight Recovery Ore associated with the near surface weathering zone was also mined and stockpiled during the period. Waste movement was maintained to position the pit for uniform supply of ore once the concentrator plant reaches steady-state production.

A small tonnage of higher grade magnetite ore from the Blues Hills North DSO pit was mined and processed during the period to assist with the overall magnetite blending requirements.

Magnetite shipments have achieved competitive market pricing in line with the magnetite concentrate grade.

The following table summarises magnetite mining and shipping details.

<b>Karara Magnetite</b>	
<i>Unit '000 wmt</i>	Sep-13
Ore mined	1815
Concentrate Produced	657
Concentrate Shipped	685



*Karara Export Terminal storage facility, Geraldton*

### Hematite

Hematite DSO production from the Terapod deposits continued at an accelerated rate as part of the DSO strategy to flex production to best utilise rail and shipping capacity during commissioning and ramp-up of the Karara magnetite operation. This strategy resulted in a record production of high grade DSO for the period. The waste to ore strip ratio of both Terapod pits improved during period in line with the overall mining strategy.

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 ore from the Extension Hill mine, operated by Mount Gibson Iron Limited. During the period this amounted to approximately 160,000 wmt of product and is included in the total shipments.

The following table summarises hematite mining and shipping activities.

Karara Hematite DSO	
Unit '000 wmt	Sep-13
Ore Mined:	
High Grade	786
Medium Grade	49
Low Grade	203
Total	1,038
DSO Shipped*:	1,042

*\*Includes ore purchased from Mount Gibson*

### Karara Project Exploration

Exploration activities during the September Quarter involved planning of drilling programs and commencement of environmental and heritage surveys required to gain the necessary approvals to subsequently test targets during the December Quarter 2013.

### Project Funding

Delays in the ramp-up of Karara production and therefore lower-than-forecast product shipment rates have impacted KML's working capital requirements.

This is because the Project is effectively incurring all fixed operating costs and commissioning costs whilst not yet generating full production revenue.

On the 2 July 2013 the consolidated entity announced that under a Binding Memorandum of Cooperation between the joint venture partners Ansteel had undertaken to provide bridging finance to KML to cover forecast working capital requirements for FY2014. The forecast at the time envisaged a maximum of \$275 million. At September 30, 2013 \$200 million in funding had been provided under this facility to KML.

However, as a result of the production ramp-up being further delayed with another tailings circuit issue (referred to in the Commissioning and Ramp-Up section of this report) Gindalbie reached agreement with Ansteel to implement a comprehensive new funding solution to meet the additional working capital requirements.

KML estimated that it would require US\$230 million of funding in addition to the funding being provided under the July agreement referred to above.

Subsequent to the end of the period a US\$230 million funding package has been provided in two stages: first, through a concentrate pre-sale agreement with Ansteel; and secondly, through a loan facility provided by Bank of China (and guaranteed by Ansteel).

Under the terms of the Ansteel has the right to subscribe for new equity in KML to provide KML, if required, with sufficient funds to repay these loans.

If Ansteel elects to convert the entire amount into equity, based on current exchange rates, it would increase its stake in KML to approximately 62 per cent, with Gindalbie retaining approximately 38 per cent ownership.

After assessing the alternative of Gindalbie raising new equity to maintain its ownership interest in KML, the Board of Gindalbie decided that the Ansteel funding solution represented by far the best option for shareholders, as the dilutionary effect of the issue of new GBG shares under an entitlement offer at the current market price would be far greater than the impact on Gindalbie shareholders of issuing new KML shares to Ansteel.



*Karara magnetite open pit*

## Offtakes

Agreement was reached with Ansteel to set the reference benchmark pricing index during the first year of the magnetite concentrate sales agreement from the now obsolete annual Hamersley Iron FOB price to the Platts IODEX 62% Fe CFR index.

Furthermore KML has negotiated the right to sell 30% of magnetite concentrate produced during the first year of the concentrate sales agreement to independent third parties. Ansteel continues to be obliged to purchase the remaining 70% of concentrate under the agreement.

On the first anniversary of the start of the concentrate sales agreement, the pricing mechanism under this agreement will be renegotiated based on the established market price for Karara magnetite concentrate or other similar magnetite concentrate products.

## Karara Corporate

During the Quarter Mr Paul Sims, the KML CFO, was appointed acting CEO of KML.

In line with the transition to steady state operations, GBG non-executive director Mr Paul Hallam replaced GBG non-executive director Mr Robin Marshall, as one of GBG's two nominated directors on the KML board. During the construction phase, Mr Marshall brought his extensive project management expertise to the successful delivery of the KML project. It is expected that Mr Paul Hallam will contribute his extensive operational experience to KML as the project moves to steady state operations.

**GINDALBIE REGIONAL EXPLORATION**

Exploration activities during the September Quarter involved planning of drilling programs and commencement of environmental and heritage surveys required to gain the necessary approvals to subsequently test the targets during the December Quarter 2013.

**Shine Feasibility Study**

Work is continuing on finalising commercial arrangements and addressing funding options prior to a final investment decision being made.

**CORPORATE****Managing Director**

Subsequent to the end of the period former senior Rio Tinto Iron Ore executive Mr Dale Harris was appointed as the Gindalbie's Managing Director to succeed outgoing Managing Director Mr Tim Netscher in line with the Company's previously announced succession plan.

Mr Harris is a highly accomplished mining executive in the global iron ore sector. He most recently held the role of Chief Operating Officer for Rio Tinto Iron Ore (RTIO), where he played a key leadership role in RTIO's expansion plan including the delivery of key safety, operational and financial objectives.

Prior to that, he held a number of senior positions with RTIO including General Manager – Integrated Planning and Operations Centre, General Manager – West Pilbara Operations and General Manager – Asset Management.

Mr Netscher was made Managing Director after originally being appointed a non-executive Director on the Board in 2011, and subsequently oversaw the completion, delivery, commissioning and ramp-up of the Karara Project. Mr Netscher's contract was originally due to expire in June 2013, but he agreed to a six-month extension to continue to assist with the ramp-up of Karara and allow an orderly transition to a new Managing Director.

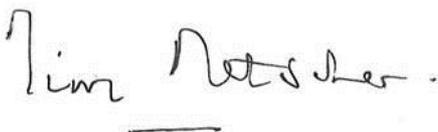
Mr Harris commenced a hand-over period on October 14 and will formally assume duties as Managing Director on November 1.

**Cash Reserves**

At 30 September 2013, Gindalbie Metals Ltd had cash reserves of A\$6.33 million.

**Shareholder Information**

As at 30 September 2013, the Company had 1,493,054,193 shares on issue and 18,282 shareholders. The Top 40 shareholders held 55.95% of the Company.

**GINDALBIE METALS LTD**

**TIM NETSCHER**  
Managing Director and CEO

### Competent Person Compliance Statements

*The information in this report that relates to Exploration Results is based on information compiled by Mr Ian Shackleton who is a Member of the Australasian Institute of Geoscientists. Mr Shackleton is a full-time employee of Gindalbie Metals Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit and to the activity 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". Mr Shackleton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*