

KARARA PROJECT OPERATIONS AND PRODUCTION UPDATE

Gindalbie Metals Limited (ASX: **GBG** – “Gindalbie”) advises that magnetite concentrate output from the Karara Project is expected to achieve approximately 75% of nameplate capacity by the end of March 2014 following completion of the tailings filters refurbishment program and the construction of a temporary tailings facility.

At current iron ore prices and exchange rates, and subject to hitting production guidance, Karara Mining Limited (KML) should be operating cashflow positive during the March Quarter 2014.

KML continues to investigate options to further debottleneck the plant to achieve nameplate capacity and operational improvement work will be ongoing as part of the ramp-up and optimisation program through 2014. DSO production and shipments will continue to supplement concentrate production during 2014 and ensure that rail and port operations are running at Phase 1 design capacity levels.

The program of work KML is undertaking is overseen by the KML Operations Committee, a committee of the KML board, with representation and input from both Gindalbie and Ansteel. KML expects to have a clear plan in place by the March Quarter 2014 to achieve nameplate capacity. It is likely that additional capital investment will be needed and the timeframe from approval to full implementation will be 9-12 months.

Tailings Remediation Update & Technical Review

The magnetite concentrating process involves multiple stages of processing including magnetic separation and tailings disposal. The proportion of coarse tails being rejected in the early stage of the process is significantly below design resulting in a higher proportion of fine tailings being produced.

As a result, the tailings thickener and tailings filters are seeing approximately 54 per cent more fines tailings than the plant was designed to accommodate, therefore restricting overall production volume. The following remedial actions are currently in progress and will partially address this bottleneck:

1. completion of the tailings filters refurbishment program;
2. installation of a temporary wet tailings system to allow partial by-pass of the tailings filters; and
3. thickener optimisation trials which will be ongoing.

These works are scheduled to be completed by the end of March 2014 and will result in plant capacity of 6Mtpa at an iron grade of approximately 65%.

The timetable to achieve design plant performance and the solutions to resolve these bottlenecks will be determined following completion of the KML investigation. KML expects to complete the investigation during the March Quarter 2014.

The tailings system is the main focus of KML’s ongoing work to assess what further work may be required to address this bottleneck. Although the work is ongoing it is likely that additional thickener, tailings disposal dam and/or tailings filter capacity will be required to achieve plant design capacity.

The ongoing KML investigation will also assess other parts of the Concentrator to identify potential bottlenecks and any additional works required to achieve full design throughput.

Production Guidance

KML has revised its production guidance for the December 2013 half. Magnetite production is expected to be 1.3–1.5Mt which is slightly below previous guidance. DSO hematite shipments are expected to be in the range 2.4–2.6Mt, in excess of previous guidance, with KML-produced DSO making up approximately 65% of the DSO volumes.

The Company provides the following production guidance for the six months to 30 June 2014:

- Magnetite concentrate: 2.4–2.7Mt at an average grade of 65% Fe
- Hematite DSO shipments: 1.3–1.7Mt

Costs and Cash Flow

At current iron ore prices and based on the above production guidance, KML is expected to be operating cash flow positive during the March Quarter 2014.

Concluding Comments

Commenting on his initial assessment of the Karara Project following several site visits and extensive meetings with the senior management team at KML, Gindalbie's new Managing Director Mr Dale Harris said:

"The construction and development of the Karara Project and associated infrastructure has been a significant engineering achievement. Of particular note is the fact that the project was completed with a good safety record, despite being undertaken during one of the most overheated and challenging construction markets seen in Australia.

"Since start-up, Karara has produced and shipped over 7 million tonnes of iron ore, comprising over 5 million tonnes of hematite DSO and 2 million tonnes of magnetite concentrate in over 120 shipments. That is a considerable achievement and something to be proud of.

"The integrated Rail and Port infrastructure has been successfully commissioned and ramped-up to the full Stage 1 capacity, with the Karara Export Terminal at Geraldton achieving proven 24-hour shipping turnaround and demonstrating its capacity to accommodate tonnages above the Stage 1 requirement. This is another very noteworthy achievement considering the challenges which often confront the start-up of new rail and port networks.

"However, the commissioning and ramp-up of the Karara Concentrator to design capacity has been slower than anticipated. Bottlenecks, particularly relating to the tailings system, have been identified and are currently restricting plant capacity. Addressing this part of the plant is KML's immediate priority.

"DSO production and 3rd party purchases of DSO material have mitigated the shortfall in concentrator production and have allowed the rail and port system to run at Stage 1 design rates. This will continue to be a key plank of our operations strategy as we head into 2014.

"I recognise and acknowledge that it has been an extremely tough few years for Gindalbie shareholders as the delays and disappointments, particularly in the last year, have been reflected in our share price and market rating," Mr Harris said.

"However, equally I think it is important that we do not lose sight of the achievements of the past few years or of the fact that Gindalbie, as a junior company, has played a central role in establishing a project that is capable of delivering long-term value, with an infrastructure chain that will sustain this asset for many decades to come.

"KML has a remedial work program underway that will see the plant achieve approximately 75% of nameplate capacity by the end of Q1 2014. KML is focused on developing a clear plan to resolve the major bottleneck issues, and is confident that the bottlenecks will be overcome, but this will require time."

"We have continued strong support from our partner Ansteel and our clear priority for the next 12 months will be to resolve the bottlenecks with the plant, and to bed down and optimise the Stage 1 Project," Mr Harris said.

ENDS

Released by :

Nicholas Read
Read Corporate
Telephone: (+61-8) 9388 1474
Mobile: (+61) 419 929 046

On behalf of:

Mr Dale Harris
Managing Director

Mr Michael Weir
Manager Corporate and Investor Relations
Telephone: (+61-8) 9480 8700
www.gindalbie.com.au

** All tonnes referred to are wet metric tonnes*