



Aligning for growth and development

The Mid-West region of Western Australia trails in the wake of the more high-profile Pilbara iron ore precinct but the Geraldton iron ore alliance is helping the region and its main players make rapid advances. By **James Moses**

The Geraldton Iron Ore Alliance was formed by Gindalbie Metals, Midwest Corporation and Murchison Metals in December 2005 on the premise that the interests of the three iron ore up-and-comers could be better represented collectively than individually.

It is a premise that has strong merit.

Establishing an appropriate level of scale is a key component to the viability of any business or industry. This is particularly the case with iron ore where, given the large scale of the business, common-use infrastructure and logistics are of major importance.

As Alliance chairman Clive Brown told **RESOURCESTOCKS**: "Iron ore is in many ways a logistics business and you just can't compete unless you have appropriate

logistics in place."

The iron ore industry is one of the long-term constants of Australia's resource sector.

Beginning in the 1960s, with the removal of export controls on iron ore, which paved the way for the development of the industry in Western Australia's Pilbara region, iron ore has ridden the fluctuations of numerous commodity market cycles.

The massive iron ore reserves of the Pilbara have established Australia as one of the largest iron ore producers in the world.

On the back of continued strong demand, Australian iron ore production is set to rise substantially over the next five years. Australian Bureau of Agricultural and Resource Economics figures project production to grow to 444 million tonnes by 2011-12, an increase of 9% per year.

A developing iron ore precinct

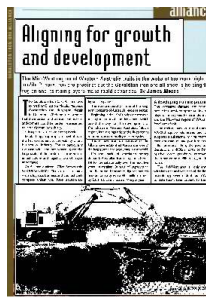
This increased demand and production profile has provided opportunities for new players and regions to enter the industry, and the Mid-West region of WA is at the forefront of this.

The region spans an area of more than 470,000 square kilometres and already supports a substantial mining sector with excellent road, rail and port infrastructure.

Its commercial hub, the port town of Geraldton, is 400km north of Perth, in relative close proximity compared to the more remote Pilbara region, further north.

The Mid-West area is richly endowed with iron ore and was one of the first iron ore mining provinces identified in WA, but to date hasn't been subject to the same





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level of development as the Pilbara.

In recent times, on the back of significant rises in iron ore prices, the ongoing strong demand and developing infrastructure in the region, the Mid-West's iron ore sector has gathered some major momentum.

The region is acknowledged as the second-fastest growing iron ore-producing area in Australia and, according to a report from broking house Patersons, may expand to the point where it is shipping more than 90Mt of iron ore products a year by 2015.

The Mid-West provides an attractive environment for investment by iron ore companies, with this investment set to grow further over the coming years as demand continues.

It is against this backdrop that the Geraldton Iron Ore Alliance was established.

"Back when the Alliance was established, the founding companies realised they had common objectives and discovered they were able to pursue them better at an industry level, rather than at a company level," Brown explained.

"It is better for government to receive the views of industry rather than the views of a company, and it increases government confidence to hear clearly from an industry."

Membership of the Alliance has now grown to seven, with Mount Gibson Iron, Golden West Resources, Royal Resources and Asia Iron Holdings joining the founding members. Vanadium play Precious Metals Australia joined the Alliance for a brief period last September, but is no longer a member.

All Alliance members have iron ore deposits in the Geraldton and Mid-West region and have a common goal to promote the development of a viable and successful iron ore export industry in the region.

The companies of the Alliance are all small-to-mid-size market capitalisation plays and individually don't have the capacity to fund large infrastructure developments. They recognise though, that by working together at an industry level, they are better placed to secure the development of required infrastructure and pursue their own production goals, as well as the Alliance's aims.

The stated objectives of the Alliance are to:

- Liaise with all levels of government, industry and community groups on the

key issues of infrastructure, regional development and community relations;

- Promote the development of appropriate common-user infrastructure, and work with stakeholders in the region to optimise the utilisation of existing infrastructure;
- Work closely with the Geraldton Port Authority and other stakeholders to

enhance the efficiency and capacity of the port; and

- Liaise with all stakeholders, including community groups, to address issues arising from the expansion of the iron ore industry in the region.

In practice, the Alliance acts as an interface between government and the iron ore industry in the region on these key issues. As Brown explained, "the Alliance forms a position on an issue and then advocates it to government".

According to him, the Alliance's point of view is now being understood by the State Government. It recently held a half-day session with the WA Resources Minister Francis Logan, which Brown said was very positive.

As an example of the work of the Alliance, it has recently worked with Mount Gibson on the environmental approvals process for its Extension Hill hematite project, 260 southeast of Geraldton, to ensure a suitable outcome for the company in light of environmental considerations.

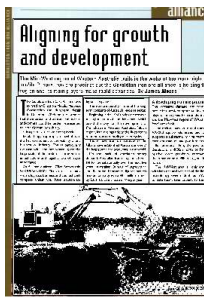
With all relevant approvals, Extension Hill could be in production by late 2008.

Infrastructure – the main game

Securing the growing infrastructure requirements to sustain the development of the industry in the region and its member companies is the larger, long-term main game for the Alliance.

The Alliance has separated its infrastructure requirements into two corridors: the southern corridor, southeast of Geraldton and Mullewa (about 90km east of Geraldton) and the northern corridor, the area northeast of these two centres that includes a proposed deepwater port at Oakajee.

In the southern corridor, there are two main objectives: the development of the Geraldton port to cope with increasing demand and ensuring that rail infrastructure is capable of carrying the



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increased tonnages that will be mined in the area in future.

The port at Geraldton underwent a \$103 million upgrade in 2003, which resulted in a deepening of the harbour to accommodate larger vessels, the installation of a new mobile ship loader and two new tugs.

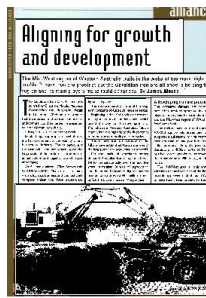
The WA Government has invested a further \$35 million to upgrade Berth 5 at Geraldton to establish a dedicated iron ore

ship loader, capable of handling up to 12Mt per annum by the final quarter of this year.

The Patersons' report says that combined with existing facilities at Berth 4, this will give the port a ship-loading capacity of 16Mtpa, sufficient to cope with the expected shipping of ore from Alliance members over the next four years.

However, at present the port is restricted





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by the capacity of its rail unloader facilities, which currently handles around 3Mtpa. A new rail unloader is needed to bring some parity with ship-loading capabilities, and Patersons believes a new 8Mtpa unloader is proposed for the port.

Existing rail infrastructure in the southern corridor comprises a narrow gauge line that currently moves ore from Mount Gibson's Talling Peak project to the Geraldton port. A key short-term goal of the Alliance is to ensure this infrastructure can manage the progressively increased tonnages as member companies commence production from their Stage 1 hematite projects.

This narrow gauge line is expected to meet the demands of all production scheduled to come online over the next three years from Midwest Corporation's Koolanooka/Blue Hills project, Gindalbie's Mt Karara project and Mount Gibson's Extension Hill project (all in the southeast of the region).

The Alliance's primary objectives in the northern corridor are the development of the deepwater port at Oakajee, 30km north of Geraldton, and new rail infrastructure to service the port from mines to the northeast.

According to Patersons, Murchison Metals and Midwest alone have the potential to produce 800Mt of Direct Shipping Ore (DSO) from their operations in the northern region, making the northern infrastructure requirements a key factor in the long-term viability of an iron ore sector in the Mid-West.

Brown said the future needs of the northern corridor were currently the subject of much discussion to establish appropriate public policy parameters.

Both Murchison and Midwest have formed infrastructure consortiums with major Asian interests with a view to constructing, owning and operating new common-use railway and port facilities.

Perth company Yilgarn Infrastructure has also expressed interest in developing the port and rail requirements for the northern corridor, and in April secured the support of the Export-Import Bank of China with a commitment of debt finance of up to \$1.5 billion.

Cost estimates for a rail network to service Murchison's Jack Hills project, Midwest's Weld Range project and

potential new mines in the area, as well as a port (likely to be Oakajee) with an eventual capacity of 60Mtpa are in the order of \$2.5 billion.

Community and environment

The Alliance also has strong community and environmental goals and Brown views building strong relationships with local community and environmental groups as one of its key roles.

"In my role as chairman, I liaise with our members to get their viewpoint and then seek interaction with all levels of government and local communities," he explained.

The Alliance's position in this area has been strengthened with the appointment of former City of Geraldton chief executive Rob Jefferies as the Alliance's Mid-West liaison officer in March.

As the industry expands in the region it will play an even more significant role, providing new employment and opportunities for local business.

On the environmental front, members of the Alliance have adopted a range of policies to ensure sound environmental practice, which include maintaining strict environmental management and work standards.

As for the future, Brown outlines a number of priorities that will help Alliance members and the industry in the Mid-West establish itself as a viable, long-term iron ore precinct.

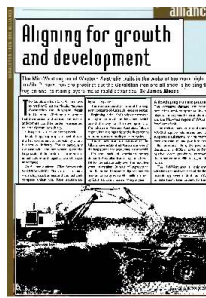
"We need to increase the capacity of the Geraldton port for the export of iron ore, and there is ongoing discussion on a range of options on this," he said. "We also need to work with the State Government on transport options to the port facilities."

In addition, Brown sees the northern infrastructure arrangements and environmental considerations as issues that will facilitate the expansion of the industry in the Mid-West.

"We have Stage 1 projects which are quite small and the goal is to get them up and running and then there are the larger, longer term projects where we need to be able to invest in infrastructure because they will be around for a number of years,"

Brown said.

With support from government and other stakeholders, the development of required infrastructure can be facilitated



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to ensure that the Mid-West region is well positioned to take advantage of the current strong market conditions.

Collectively, the members have the capacity to develop a substantial new iron ore export industry, delivering significant economic benefits to both large and small regional communities.

The Players

Murchison Metals

Murchison Metals recently achieved a major benchmark with its first shipment of ore being dispatched to China in February from Stage 1 of its Jack Hills project. After a stellar run on the ASX, the market is likely to watch carefully the company's progress to Stage 2 production, which is slated for early 2011.

Nonetheless, Stage 1 generates good cash flow for the company and gives it exposure to the current high iron ore prices. It also has strong financial backing, and an offtake agreement for up to 10Mt of iron ore a year with South Korean steel

producer POSCO.

See our profile on Murchison on page 42-43.

Mount Gibson

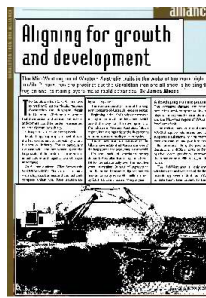
Mount Gibson made the news late last year with its eventually successful takeover play for fellow iron ore stock Aztec Resources. This will diversify its production profile away from the Mid-West region, where it is already producing 3Mtpa of DSO from its Talling Peak project.

Its business model is based on an internally funded growth profile, with Patersons estimating cash flow of \$468 million over the next three years, meaning Mount Gibson may not need to forge an offshore alliance to pursue its future development.

Mount Gibson has spun-off its magnetite operation to Asia Iron Holdings.

Gindalbie Metals

Gindalbie Metals recently deferred an eagerly anticipated bankable feasibility study on its



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Mt Karara iron ore project until August, but also said the timetable for the development of project would not be impacted.

Gindalbie remains committed to a late 2009 start date for production at Mt Karara, and pre-development activities will continue while the feasibility study is being completed. It has strong financial backing through major Chinese steel producer, Ansteel, which is joint ventured 50:50 with Gindalbie at Mt Karara.

Midwest Corporation

Paterson says that, assuming Midwest Corporation (not to be confused with the Mid-West region) can achieve its proposed production schedules, it is potentially the cheapest of the Mid-West iron ore stocks.

This is somewhat dependent on the development on its Weld Range project in the northeast of the region, which still

requires substantial infrastructure facilities to be established. Midwest is about to conduct pre-feasibility at Weld Range to define a 225Mt reserve.

At the Koolanooka/Blue Hill DSO project in the southeast, the company is already producing ore with around 700,000t being shipped so far.

Golden West Resources

In April, Golden West Resources released

its maiden inferred resource estimate for its Wiluna West iron project of 50.1Mt at 61.1% iron. The company said at the time that the estimate was expected to rise, with more than 8000m of drilling waiting on analysis.

Golden West's next priority is to define a resource of between 100Mt and 150Mt and to upgrade existing inferred mineral resource to indicated and measured status.

The project is located near the town of Wiluna in the northeastern extremity of the region 700km from the coast.

Royal Resources

Royal Resources has a number of early stage iron ore projects in the region.

Warriedar, where Royal is joint ventured with Gindalbie on the iron ore component, is currently drawing most interest and mapping and surface sampling recently identified four significant new hematite mineralisation targets.

These discoveries have the potential to add additional resources to Gindalbie's hematite resource inventory and Royal has an opportunity to be a participant in this operation.

Gindalbie earns a 60% interest in the iron ore rights at Warriedar by spending \$1 million on exploration over three years. **RS**