



CENTREX METALS LIMITED

19th February 2013

Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

SENT VIA EMAIL

Attention: Mr. Warwick Anderson – General Manager

Dear Warwick,

Centrex understands that ElectraNet submitted a revenue proposal to the AER for next 5 years. This proposal included a contingent project to upgrade / replace the existing Eyre Peninsula 132kV transmission line within the period 2013 to 2018.

Centrex are also aware that the Eyre Peninsula 132kV transmission line replacement has been rejected as a contingent project.

This is of major concern to Centrex. Centrex are seeking to develop a number of major mines and also South Australia's first port capable with directly loading cape size ships. These projects require between 150 – 200MW of base load power which the existing aged infrastructure cannot provide. Centrex expect to commission its projects within the 2013 -2018 time frame.

Centrex's projects have strong support from the South Australian Government, local Councils and communities. One of our mine sites has already been granted a mining license.

In mid-2011 Centrex commenced negotiations with ElectraNet and submitted 3 Connection Enquiries. This has since resulted in a Connection Options Report produced by ElectraNet which forms part of the basis for the current contingent project proposal for the replacement of the Eyre Peninsula 132kV Transmission line. Centrex are now in early negotiations to develop a Transmission Connection Agreement.

Should the Eyre Peninsula Transmission line upgrade project be delayed or not proceed then this would have serious financial implications for our projects, including potentially making them unviable. Centrex requests that further consideration be given to the impacts on significant investment into its projects and also potential loss of benefits to the region and state should the line upgrade not occur.

Project details

Incorporated in 2001, Centrex is a publicly listed South Australian iron ore exploration and mining company. Centrex has extensive tenement holdings over iron ore resources and exploration targets on Eyre Peninsula in the southern Gawler Crayton. They cover an area of 2000 square kilometers of iron ore deposits and prospects, including hematite and magnetite sources. Centrex has already identified significant magnetite resources on the Eyre Peninsula. Currently X MT and increases are expected. Current projects that Centrex has on the Eyre Peninsula include

- **Eyre Iron JV** – a magnetite joint venture between Wuhan Iron and Steel Company (60%) and Centrex (40%). This project aims to develop a magnetite mine and concentrator with an output of 4 – 5 Mtpa. The project has completed a scoping study and is currently in the definitive feasibility stage.

It is estimated this project will have a capital cost in the order of \$1.5B

The current schedule would see construction commence in early 2015 and production commence in late 2016. It is estimated that this plant will require 70MW of power with 80% of this being continuous base load.

- **Bungalow JV** – a magnetite joint venture between Baotou Iron and Steel Company (30%) and Centrex (70%). This project aims to develop a magnetite concentrator with an output of 4-5mtpa. The project is close to completion of the PFS stage.
It is anticipated this project will have a capital cost in the order of \$1.5B.
The current schedule would see construction commence in early 2015 and production commence in late 2016. It is estimated that this plant will require 70MW of power with 80% of this being base load
- **Wilgerup** - a hematite mining project 100% owned by Centrex. This project has government approval to commence mining. The project will produce 2 to 2.5mtpa of hematite. Production will commence in line with development of Port Spencer.
- **Port Spencer JV** – a 20Mtpa privately owned multi user bulk export port. This project is a joint venture between Wuhan Iron and Steel Company (50%) and Centrex (50%). The proposed port will enable export of iron ore for all Centrex projects above plus grain and other bulk materials in cape size ships up to 200,000 ton. This would be the only cape size capable port in South Australia. This project has been given Major Project status by the SA Government and recently received development approval for stage 1.
It is estimated this project will have a capital cost in the order of \$300M.
The current schedule would see construction commence in early 2015 and export commence in late 2016. It is estimated that the port will require 15MW of power initially with an increase up to 40MW as the port expands. A substantial amount of this load will be for a desalination plant which will commence operation at 5GLpa and be expandable to 20GLpa.

Certainty of available infrastructure

Centrex mining projects, as with other similar projects on the Eyre Peninsula require power, water and a cape size ship capable port. Currently this infrastructure is either inadequate, close to the end of its life or, as in the port, does not exist.

- **Power** – Centrex requires between 100MW and 200MW of power for the proposed developments. The current 132kV transmission line from Whyalla to Port Lincoln is close to capacity and cannot supply sufficient power for any of Centrex projects. There is also no gas available on the lower Eyre Peninsula for economic power generation. Power generation using diesel has been considered however is estimated at 3 times the cost of power from the National Electricity Market and is uneconomical.
- **Water** – most of the water for the towns of the lower Eyre Peninsula comes from groundwater. This is already showing signs of reaching capacity and hence will not be a viable source for Centrex projects. Therefore Centrex proposes to build a desalination plant at Port Spencer to produce all mining water needs. Once again this relies on a reliable source of power and it is proposed to connect to the National Electricity Market.

Summary – Without the ability to connect to the National Electricity Market for a cost effective source of power it is unlikely any of Centrex projects would proceed.

Level of Government support

Centrex has been working with the South Australian Government on our Port Spencer and related mining projects since early 2007. Below is a list of the major submissions and approvals to date.

- Port declared a Major Development by the South Australian Government on 7th December 2010
- Senior Government Officer appointed from DMITRE as case manager for all Centrex Projects in January 2011
- Wilgerup Hematite mine granted Mining approval in July 2010
- Port Spencer Stage 1 Development Application and Public Environment Report approval by Governor on 19th Dec 2012
- Stage 2 Development Application submitted and awaiting guidelines in January 2013

Time from decision to proceed to production

Centrex current schedule for the 3 JV projects is to have secured all project finance and have all government approvals obtained by the end of 2014. Construction is anticipated to commence in early 2015 with production and export commencing late in 2016. Therefore connection to the National Electricity Market for first energisation is anticipated to be required in October 2016.

In mid-2011 Centrex commenced negotiations with ElectraNet and submitted 3 Connection Option Enquiries. This has since resulted in Centrex funding a Connection Options Report produced by ElectraNet which forms part of the basis for the current contingent project proposal for the replacement of the Eyre Peninsula 132kV Transmission line. Centrex are now in early negotiations to develop a Transmission Connection Agreement.

Easements

Centrex intend to utilize slurry pipelines between our mines and the port. Therefore we are fully aware of the time it takes to negotiate an infrastructure corridor. Given the anticipated date for first energisation Centrex would anticipate ElectraNet needs to commence this work immediately to obtain the necessary land and easements required for the new transmission line corridor.

Concern re EP Transmission line not being a contingent project

Centrex understands that currently the EP Transmission line has not been approved as a contingent project at this point. As Centrex projects rely on a reliable and cost effective power supply to be viable this is obvious a major threat to our projects and our timelines. Our projects are anticipated to be in operation well before the 2018 date at which we understand the next review would be due.

Benefits of Centrex Projects

Each of the Centrex projects will create significant employment opportunities during construction and operation.

Eyre Iron JV

The project is expected to employ a peak construction workforce of more than 1000 people and an operational workforce of up to 600 people. Apart from direct employment opportunities, the project can also be expected to create significant indirect opportunities for employment through the placement of contracts with local suppliers / service providers.

Bungalow JV

The project is expected to employ a peak construction workforce of more than 1000 people and an operational workforce of up to 600 people. Apart from direct employment opportunities, the project can also be expected to create significant indirect opportunities for employment through the placement of contracts with local suppliers / service providers.

Port Spencer

The project is expected to employ a peak construction workforce of more than 200 people and an operational workforce of up to 70 people. Apart from direct employment opportunities, the project can also be expected to create significant indirect opportunities for employment through the placement of contracts with local suppliers / service providers.

As Port Spencer would be the first capsized ship capable port in South Australia it is anticipated that other mining projects currently in the exploration phases would become more viable and hence create a flow on effect for increased employment and especially power requirements.

The expected value of products exported from Port Spencer are presented in the table below

Port Development Stage	Estimated Date of completion	Estimated Quantity of Product for Export	Estimated Economic Value of Export Products (AUD)*
1	Late 2016	2 Mt Hematite 0.5Mt grain	\$AUD 357M
2	Late 2017	5Mt magnetite 2Mt hematite 1Mt grain	\$AUD 1.1B
3	TBC	10Mt magnetite 2Mt hematite 1 Mt grain	\$AUD 1.7B
4	TBC	Up to 20Mt magnetite 2Mt hematite 1Mt grain	\$AUD 2.9B

*These values and estimates are based on iron ore spot price of \$AUD120 per tonne and export price for wheat of \$AUD234.89 per tonne

TBC = To Be Confirmed

Summary

Centrex's projects require connections to main grid power supply on the lower Eyre Peninsula in late 2016. All other power options reviewed have been shown to be uneconomic.

Centrex projects are significant in size, require 150 -200MW, have major financial benefits to the state and have strong government support.

Centrex have been in discussions with ElectraNet since early 2011 and have recently started work on terms and conditions for a Transmission Connection Agreement.

Centrex strongly supports inclusion of the Eyre Peninsula Transmission Line Upgrade Project as a contingent project and the earlier acquisition of the necessary land and easements as they are critical to our projects proceeding.

Yours sincerely,



Steve Brown
General Manager - Engineering