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[redacted]

22 July 2025

Director, Rail Access
Economic Regulation Authority
PO Box 8469
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RE： KML'S INITIAL SUBMISSION REGARDING ARC'S DORC REPORT

Karara Mining Limited (**KML**) appreciates the opportunity to provide feedback to the Economic Regulation Authority (**ERA**) on the Depreciated Optimised Replacement Cost Report (**DORC Report**) submitted by Arc Infrastructure Pty Ltd (**Arc**) on 6 June 2025.

The 2023 amendments to the *Railways (Access) Code 2000* (WA) (the **Code**) sought to create a regulatory framework that is fairer, more transparent, and more efficient and thereby strengthen the ability for access seekers to gain access to the WA freight rail network. The amendments sought to enhance information transparency, ensure fairer pricing, reduce the barriers to negotiating access under the Code, ensure ongoing access to the network, and promote the overall integrity of the regulatory framework as it applies to the WA freight rail network. The provisions regarding capital contributions are particularly one of the key elements to ensure fair pricing. Section 47G of the Code explicitly stipulates that when valuing railway infrastructure, a railway owner must not include the value of contributed capital funded wholly or in part by an entity other than the railway owner or its associate. This provision is designed to prevent railway owners from incorporating the value of assets funded by unrelated parties into their valuation calculations, thereby avoiding the imposition of undue costs on railway users when they pay for access. By clearly delineating the boundary between the railway owner's and third-party contributions, it provides a fair pricing basis for access seekers (i.e., a reasonable charging standard based on the actual value of the railway), thereby promoting fair competition and healthy development in the railway access market.

However, following a careful review of the DORC Report, KML considers that the DORC Report does not comply with those requirements. In particular, the DORC Report contains significant data omissions, insufficient disclosure of information, and appears to overstate costs. KML considers that the DORC Report does not meet the requisite standards under the Code and is contrary to the principles and objectives of the Code, rendering it incapable of meaningful

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review by interested parties. Furthermore, given Arc's significant presence in the Western Australian railway sector, railway users have long been placed in a structurally disadvantaged position. The submission of a DORC Report of such quality further reflects Arc's ongoing disregard for the interests of railway users. Therefore, KML respectfully requests that the ERA fulfill its regulatory responsibilities and safeguard the legitimate rights and interests of railway users.

KML therefore respectfully requests that the ERA:

1. require Arc to submit a revised DORC Report that corrects the deficiencies and otherwise complies with the requirements of the Code. In particular, Arc should be required to provide the following information, including but not limited to:
   (a) Detailed data for the valuation, clearly showing the DORC calculation process and results for each section of the railway's assets;
   (b) Basis for the quantities and unit prices used in the calculations;
   (c) Information related to asset depreciation, such as commissioning dates, date of upgrades, maintenance records, and current condition of the assets;
   (d) Any third-party valuation reports for the relevant railway assets in the past;
   (e) Information regarding the price paid by Arc for the acquisition of the railway; and

2. If Arc submits a revised DORC Report during the extension period, KML respectfully requests that the ERA grant KML and other interested parties a further extension to review the revised DORC Report and provide further submissions.

Further details of the deficiencies of the DORC Report are set out below.

1. Significant Data Omission: Arc's Denial of Capital Contribution

Arc's DORC Report contains a fundamental flaw in recognising third-party capital contributions, as it completely denies the capital contributions made by railway users.

(1) Arc's Treatment of Capital Contribution

The DORC Report contains a significant and systemic issue: it entirely disregards capital contributions made by all third parties. This is not only factually inaccurate, but also constitutes a general unfairness to all third parties who have made contributions. In the DORC Report, Arc states that: "*Arc has confirmed that none of the assets in this DORC are contributed assets. There has therefore been no adjustment for any contributed investment.*"[1]

[1] Paragraph 7.1 of Arc's DORC Submission.

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Arc's failure to properly address the third parties' funding of the upgrade works in the DORC Report is inexplicable. Arc's failure to properly account for the contributed capital constitutes a breach of section 47G of the Code, which provides as follows:

> ***47G. Contributed capital prohibited***
>
> *A railway owner must not, when valuing railway infrastructure under or for the purposes of this Code, include the following —*
>
> *(a) if particular contributed capital is funded wholly by an entity other than the railway owner or an associate of the railway owner — the value of that contributed capital;*
> *(b) if particular contributed capital is funded in part by an entity other than the railway owner or an associate of the railway owner — the value of the portion of the contributed capital that is not funded by the railway owner or an associate of the railway owner.*

Arc's disregard of the capital contribution and its general denial of capital contributions from other third parties demonstrates Arc's disregard for the requirements of the Code. This disregard is not only unfair, but also constitutes a general unfairness to all other third parties who have made contributions. Arc must be required to explain how it has accounted for the contributed capital in developing its proposed depreciated optimised replacement cost (**DORC**).

2. Inadequate Information Disclosure

The information disclosure in the DORC Report is inadequate and does not render it capable of meaningful review by access seekers.

(1) Missing Depreciation Information

Arc's Costing Principles stipulate that, in accordance with the requirements of section 47K of the Code, Arc must prepare and submit to the ERA a statement of the depreciation schedule to be applied by Arc when determining the updated regulatory asset base (**RAB**) for the WA freight network. Arc has failed to supply supporting materials with its depreciation schedule, including key data such as asset commissioning dates, asset condition information, and explanations for any variations in actual asset performance compared to the design life. Moreover, the remaining useful life of some assets is questionable; for instance, access roads are assumed to be new assets due to "regular maintenance", and ballast on the Midwest Line is assigned a full 50-year remaining life based solely on its standard design life, ignoring the actual wear and tear conditions.

KML submits that, with respect to depreciation, the ERA should require that Arc provide, for

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each route section and asset category, the commissioning/renewal dates, maintenance records, current asset condition information, explanations for deviations from design life (including records of life extension works), and speed restriction information.

(2) Incomplete Information Disclosure

Arc has only provided aggregated data at the regional level, and has not disclosed key technical parameters or other detailed information for each route section. Furthermore, many unit costs are disclosed in aggregate, resulting in insufficient data transparency. As a result, it is difficult to effectively carry out a reasonable assessment of the DORC data.

The core of this issue is that Arc has not fulfilled its obligations under section 47J of the Code. This provision obliges Arc to determine the DORC for each route section and submit supporting material that demonstrates the basis for each determination. However, none of Arc's data and assumptions have been provided or presented at the route section level as required by the Code. Therefore, the data in this DORC Report cannot serve as an adequate basis for KML, as a railway user, to conduct a review of Arc's proposed DORC.

KML submits that, to ensure the transparency, accuracy, and verifiability of the DORC Report, and to comply with the information disclosure requirements under the Code and Arc's Costing Principles, the ERA should require Arc to provide the quantities, unit costs, and supporting evidence used for cost estimation of each asset category for every route section.

(3) Material Lack of Cost Estimate Accuracy

Arc employed the AACE Class 5 Estimate Standard (accuracy range of -30% to +50%), which is a level suitable only for the concept screening stage. This fails to meet the investment-grade accuracy required for regulatory decision-making. For example, the reported DORC valuation for the Midwest Line of $942 million has an actual potential error range of $753 million. Arc chose the path requiring the least preparatory work to calculate the DORC, resulting in very low accuracy.

3. Significantly Inflated Costs and Inconsistency with Historical Reporting

KML draws the ERA's attention to the systemic data distortion present in Arc's submitted DORC Report. The ERA's 2014 *Determination of Costs Relevant to Co-operative Bulk Handling's Access Proposal dated 10 December 2013* (the **2014 Determination**) established a historical benchmark for the gross replacement value (**GRV**) determined under the then-current Code. As the RAB is a refined indicator derived from the GRV, its core assumptions and calculation logic should maintain continuity. A comparison reveals significant data inflation in the current DORC Report.

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(1) Overstated Indirect Costs

In this DORC Report, Arc's indirect costs include a 5% risk allowance, 30% contractor's preliminaries, and 9.5% Contractor's Overheads and Profit, which are compounded by additional Arc project costs of 20%. This significantly exceeds the 20% upper limit for Design, Construction, and Project Management (**DCPM**) adopted in the ERA's 2014 Determination.

(2) Unrealistic Funding Cost Calculation

For the Midwest Line used by KML, the DORC Report assumes an excessively long construction period of 18 years, resulting in capital costs of $523 million, representing 54% of the Optimised Replacement Cost. In circumstances where the Arc railway section used by KML is only 199 km long, an 18-year construction period is unreasonable. The ERA's 2014 Determination assumed a 6-year construction period, with no funding costs applied during the 2-year planning and approval phase.

KML submits that the reasonable amount of the DORC should not exceed Arc's initial acquisition cost of the WA railway network, plus its subsequent capital investments, minus the capital investments borne by KML and other railway users. In 2000, according to publicly available data, the WA government leased 5,500 km of railway to the Australian Railroad Group (**ARG**) for a consideration of $586 million. ARG committed to investing an additional $400 million in the railway over the five years following the acquisition. Based on this calculation, the initial cost of the 199 km of railway used by KML, before any upgrades or improvements, was only about $36 million. [redacted]

4. Other Issues

(1) Deviations in Quantity and Rate Assumptions from Industry Practice

Key quantity and rate parameters in the DORC Report deviate significantly from industry norms. For example, the assumption of an 86-meter wide rail corridor requiring clearing and grubbing is clearly excessive and unjustified.

(2) Treatment of Leased Assets

Arc's rail infrastructure is mostly leased, rather than self-constructed by Arc itself. Therefore, KML contend that items such as earthworks should not be included in the RAB calculation. This factor should also be considered when determining construction periods and associated funding costs.

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(3) Valuation Differences for Unrelated Assets

The DORC Report proposed two technical alternatives when valuing the optimised signalling and communication system (Alternative A and Alternative B). However, there are significant differences in the replacement cost valuations of infrastructure assets that are unrelated to the signalling and communication systems between these two alternatives. Since the differences between the options should primarily be reflected in the configuration of the signalling and communication systems, the valuation discrepancies for unrelated asset categories lack reasonable technical justification and clear explanations for the costs.

(4) Calculation Errors

The DORC Report contains many calculation errors. For example, the product of quantities and unit prices does not match the total amounts listed in the tables.

5. Conclusion

In summary, KML submits that Arc has failed to comply with the requirements of the Code in preparing the DORC Report, resulting in inaccurate data and assumptions within the DORC Report. As a result, access seekers are unable to meaningfully review or verify the DORC Report. The poor quality of the data has also significantly increased KML's workload, as well as the time and cost required for analysis. Arc's approach undermines the fundamental objective of the Code, which is to enhance railway access efficiency and provide a fair pricing basis for railway users.

Arc is requesting that the ERA approve an unreasonably high RAB. If the ERA agrees to this request, the only beneficiary would be Arc. In contrast, access seekers who rely on the WA freight network to create jobs, generate tax revenue, and drive economic development in Western Australia would be placed at a significant disadvantage, imposing an undue economic burden on the state. Excessively high-Capacity Charges are one of the main reasons for KML's long-term financial losses. If this situation remains unaddressed, it will severely impact KML's future sustainability and business development. Arc's approach to determining the DORC unfortunately not only affects KML but also harms the interests of all railway users and would prove detrimental to the rail transport industry in Western Australia.

KML therefore respectfully requests that the ERA:

1. require Arc to submit a revised DORC Report that corrects the deficiencies outlined above and otherwise complies with the requirements of the Code. In particular, Arc should be required to provide the following information, including but not limited to:
   (a) Detailed data for the valuation, clearly showing the DORC calculation process and

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results for each section of the railway's assets;

(b) Basis for the quantities and unit prices used in the calculations;

(c) Information related to asset depreciation, such as commissioning dates, date of upgrades, maintenance records, and current condition of the assets;

(d) Any third-party valuation reports for the relevant railway assets in the past;

(e) Information regarding the price paid by Arc for the acquisition of the railway; and

2. If Arc submits a revised DORC Report during the extension period, KML respectfully requests that the ERA grant KML and other interested parties a further extension to review the revised DORC Report and provide further submissions.

KML has full confidence in the ERA's authority and commitment to maintaining market order and ensuring fair trade. We also look forward to the ERA's thorough review of the DORC Report submitted by Arc in accordance with the law, and urge Arc to promptly rectify the relevant issues in line with the purpose and requirements of the Code, thereby providing a fair, transparent, and reasonable access environment for railway users.

As such, we look forward to a positive response and handling of our aforementioned requests from the ERA, and are open to hearing the ERA's opinions and suggestions on the resolution mechanisms (including whether it is necessary to proceed with relevant relief procedures). We hope that, under the guidance and supervision of the ERA, all parties can actively communicate and collaborate to expedite the feedback process for the DORC Report, and jointly promote the healthy development of Western Australia's railway industry.

This document submitted by KML contains confidential information and is provided to the ERA solely for its internal regulatory review and is not intended for public release or disclosure to any third party by the ERA. If the ERA decides to make any public disclosure in the course of its regulatory duties, please use the redacted version enclosed herewith. Should the ERA have any questions or require further information, please do not hesitate to contact: contracts@kararamining.com.au.

KML respectfully submits its initial feedback for your attention. KML is conducting a more in-depth and comprehensive review of the report and will actively continue to submit newly identified issues or provide more detailed elaboration on previously raised concerns. Thank you for considering KML's submission.

Yours sincerely,

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22/07/2025

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11 August 2025

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KML's Submission Regarding Arc's DORC Report

On 14 July 2025, Karara Mining Limited (KML) submitted its preliminary review feedback to the Economic Regulation Authority (ERA) regarding the Applicable Railway Infrastructure DORC Final Report (the DORC Report) submitted by Arc Infrastructure Pty Ltd (Arc) on 6 June 2025. KML is now pleased to provide the ERA with its comprehensive feedback on the DORC Report and the supplementary materials released by the ERA on 11 and 17 July 2025. We understand that as at the date of this submission, Arc has not yet released the updated DORC Report.

This submission consists of 5 parts:

Part I Overview

Part II Overview of Arc Rail Operations and Cooperation with KML

Part III Analysis of Issues in the DORC Report

Part IV Overall Analysis of DORC Calculation Results

Part V Conclusion

I. Overview

The 2023 amendments to the Railways (Access) Code 2000 (WA) (the Code) sought to create a regulatory framework that is fairer, more transparent, and more efficient, thereby strengthening the ability of access seekers to gain access to the WA freight rail network. The amendments sought to enhance

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information transparency, ensure fairer pricing, reduce the barriers to negotiating access under the Code, ensure ongoing access to the network, and promote the overall integrity of the regulatory framework as it applies to the WA freight rail network.

However, following a careful review of the DORC Report, KML considers that the DORC Report does not comply with those requirements of the Code. In particular, the DORC Report exhibits issues including denial of capital contributions (please refer to III.1 Arc's Denial of Capital Contribution), insufficient disclosure of information (please refer to III.2 insufficient disclosure of information) , unreasonable assumptions (please refer to III.3 unreasonable assumptions), calculation errors (please refer to III.4 calculation errors) and appears to overstate costs. Moreover, although Arc has provided supplementary materials, which were publicly released by ERA on 11 July and 17 July, 2025, the materials still do not provide sufficient information to support Arc's conclusion, and KML cannot conduct a comprehensive and effective analysis.

The submission of a DORC Report of such quality further reflects Arc's ongoing disregard for the interests of railway users. Therefore, KML respectfully requests that the ERA fulfill its regulatory responsibilities and safeguard the legitimate rights and interests of railway users.

II. Overview of Arc Rail Operations and Cooperation with KML

1. History of Arc's railway

In October 2000, the Western Australian Government sold Westrail's freight business to the Australian Railroad Group Pty Ltd (ARG), including a 49-year lease for the state's freight rail network, for a transaction amount of $585 million. The total railway length was 5,500 kilometers. ARG committed to investing a further $400 million[1] in the railway system within five years after the acquisition. Information from the Western Australian Government's official website is as follows:

> ***Transport Minister Murray Criddle announced today the sale of Westrail's freight business to the Australian Railroad Group Pty Ltd (ARG) for $585 million and a commitment to invest a further $400 million in the State's rail system over the next five years.***

[1] Source: https://www.wa.gov.au/government/media-statements/Court-Coalition-Government/Government-announces-winning-bid-for-Westrail-freight-business-20001030

The track network itself remains an asset of the State and will be leased to ARG for 49 years.

In 2006, ARG sold the below-rail business to Babcock & Brown Infrastructure (BBI), which was operated by its wholly owned subsidiary WestNet Rail (WNR). BBI was later renamed to Prime Infrastructure. The above-rail business was sold to Queensland Rail. The total transaction amount for above-rail and below-rail was $1.3 billion, of which below-rail was $853 million, and above-rail was $447 million[2]. Relevant information from public news websites is as follows:

BBI paid $853.3 million in 2006 to buy Australian Railroad Group's (ARG) "below rail" business, or WestNet, from Wesfarmers and US rail operator Genesee & Wyoming.

ARG's "above rail" business was sold to Queensland Rail for about $447 million.

In 2009, Brookfield Infrastructure Partners and Brookfield Asset Management (Brookfield) made a restructuring investment to BBI for a total amount of approximately USD 940 million, acquiring a 40% stake in Prime Infrastructure and 60% interest[3] in two direct investment projects held by BBI. Relevant information from Brookfield's report filed with the U.S. Securities and Exchange Commission on 1 June 2010, is as follows:

Our partnership invested approximately $940 million of the total investment to acquire a 40% interest in Prime and 60% interest in two direct investments acquired from BBI.

In 2010, Brookfield Infrastructure Partners completed the full acquisition of Australia's Prime Infrastructure. This transaction involved acquiring the remaining 60% stake, with a transaction consideration of approximately $1.1 billion[4]. Brookfield disclosed relevant information in its 2010 annual report as follows:

On December 8, 2010, we completed a merger with Prime Infrastructure (Prime) whereby Prime security holders received 0.24 Partnership units per Prime unit held and a A$0.20 per Prime security special distribution. Pursuant to the merger, Brookfield Infrastructure acquired control of Prime, issuing 50.7 million units with a value on issuance of $1.1 billion in order to increase ownership of Prime from 40% to 100%. The merger implicitly valued Prime at $1.8 billion.

In 2011, WestNet Rail was renamed to Brookfield Rail. In 2017, Brookfield Rail was renamed Arc

[2] Source: https://thewest.com.au/business/finance/westnets-parent-to-fight-71m-tax-bill-ng-ya-225567

[3] Source: https://bip.brookfield.com/sites/brookfield-ir/files/brookfield/bip/annual-reports/2009-final-20f.pdf

[4] Source: https://bip.brookfield.com/sites/brookfield-ir/files/Brookfield-BIP-IR-V2/3013.pdf

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Infrastructure. Thus, Arc owns the operating rights to the 5,500-kilometer railway in Western Australia.

2. History of cooperation between KML and Arc

The Karara Project is located approximately 200 kilometers southeast of Geraldton, Western Australia, and is the largest mining operation and the first magnetite mine in Australia's Mid-West region. The project began in 2007, with Ansteel Group Corporation Limited (Ansteel) and Gindalbie Metals Limited (ASX: GBG) (Gindalbie) signing a joint venture agreement on 6 September, 2007, to establish Karara Mining Limited (KML). The project received final environmental approval from the Australian Federal Government on 30 October, 2009, commenced construction on 28 November, 2009, and officially began production on 9 April, 2013.

[redacted]

3. Specific railway currently used by KML

The Midwest Line railway network used by KML was constructed progressively between 1894 and 1915. According to the DORC report classification, the Midwest Line comprises a total of 7 sections, of which KML's actual operating lines cover 3 sections from Narngulu to Tilley Junction[5], with a total length of approximately 203 kilometers. This specifically includes: Narngulu to Narngulu East (approximately 3 kilometers), Narngulu East to Mullewa (approximately 102 kilometers), and Mullewa to Tilley Junction (approximately 98 kilometers).

[5] Refer to Appendix 2-KML Operational Route Map

4. KML's transport situation on the railway

The main users of this railway line operated by Arc are KML and Co-operative Bulk Handling Group (CBH). Both users have Australia Western Railroad Pty Ltd (AWR) as their railway transport operator. KML uses the railway to transport iron ore, while CBH uses the railway to transport grain, which is less heavy than KML's cargo

KML's current transport configuration consists of an average of 28 trains per week, with 100 wagons per train, each train weighing approximately 1,720 tons empty, and each wagon carrying approximately 68 tons of cargo. The maximum weight per train is approximately 8,520 tons. Based on KML's current transport volume, future capacity planning, and the new above-rail transport service contract that KML has signed with AWR (May 2027 - April 2037), the future maximum transport volume of iron ore for KML will be approximately 9.8 million tons per year (816,667 tons/month × 12 = 9.8 million tons). If transport volume reaches this maximum, it is expected to average 28 trains per week, with 104 wagons per train, each train weighing approximately 1,720 tons empty, and each wagon carrying approximately 68 tons of cargo.

III. Analysis of Issues in the DORC Report

1. Arc's Denial of Capital Contribution

1.1 Issue Overview

Section 47G of the Code explicitly prohibits railway owners from including contributed capital[6] in the valuation of railway infrastructure. This provision aims to prevent railway owners from incorporating the value of assets not funded by themselves into calculations, thereby causing railway users to bear unnecessary costs when paying access charges. The specific provisions of this section are as follows:

[6] Section 47B of the Code defines "contributed capital" as follows: *Contributed capital means railway infrastructure that has been funded wholly or in part by an entity other than the railway owner or an associate of the railway owner, including by the entity doing any of the following —(a) providing cash or in-kind contributions to the railway owner or an associate of the railway owner;(b) undertaking work, or paying for work to be undertaken, for the railway owner or an associate of the railway owner;(c) making payments to the railway owner or an associate of the railway owner that —(i) fund the recovery of capital in relation to the railway infrastructure; and(ii) are not payments of prices and charges for access.*

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47G. Contributed capital prohibited

A railway owner must not, when valuing railway infrastructure under or for the purposes of this Code, include the following —

(a) if particular contributed capital is funded wholly by an entity other than the railway owner or an associate of the railway owner — the value of that contributed capital;

(b) if particular contributed capital is funded in part by an entity other than the railway owner or an associate of the railway owner — the value of the portion of the contributed capital that is not funded by the railway owner or an associate of the railway owner.

Further, Arc has previously addressed the legal principles in Section 2.5 of its Costing Principles, which was submitted to and approved by the ERA. This section explicitly states:

"As part of the calculation of the Initial RAB, the Railway Owner will exclude any Railway Infrastructure that has been funded by Contributed Capital. The Railway Owner will reduce the replacement cost of the asset equivalent to the proportion of the original development cost in respect of the particular asset that was funded by another entity."

Section 2.5 provides two examples for calculating the value of contributed capital, one of which illustrates:

"Assume a third party has historically contributed $50m towards the construction of a $100m Railway Infrastructure asset, funding 50% of the total asset. The MEA replacement cost of the total asset at the Valuation Date is $200m, double the value at the time of the investment. In this circumstance, the initial RAB will be adjusted to remove 50% of the full value of the asset at the Valuation Date, being an adjustment of $100m."

However, Arc has significant fundamental flaws in its submitted DORC Report: In Section 7.1, it directly states that:

"Arc has confirmed that none of the assets in this DORC are contributed assets. There has therefore been no adjustment for any contributed investment."

This assertion completely negates the capital contributions made by third parties, including KML.

Obviously, Arc has failed to truthfully and reasonably reflect the capital contributions made by third parties (including KML) to the upgrade project in the DORC Report. KML submits that Arc's failure to properly account for KML's contributed capital constitutes a breach of Section 47G of the Code. This

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breach has resulted in:

(a) A material overstatement of the valuation of the Midwest Line in the DORC Report;

(b) The establishment of a distorted Regulated Asset Base (RAB), which will serve as the foundation for future access charges. This framework effectively enables the double-recovery of capital contributions that were already incurred by KML.

Given the above impacts, KML believes Arc has an obligation to explicitly explain how it considered KML's (and other third parties') capital contributions when formulating the DORC Report.

1.2 KML's Contributed Capital

KML submits that it has made significant contributed capital to the Midwest Line railway assets, which falls within the circumstances described in the aforementioned example. Therefore, Arc should, in accordance with the requirements of the Code and the Costing Principles, reflect these contributions in the DORC Report and deduct the value in the relevant calculations.

[redacted]

[8] Please refer to paragraph (c) of the definition of contributed capital in the Code: *(c) making payments to the railway owner or an associate of the railway owner that —(i) fund the recovery of capital in relation to the railway infrastructure; and(ii) are not payments of prices and charges for access.*

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[redacted]

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[redacted]

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[redacted]

（4）Arc has acknowledged KML's capital contribution, treating KML as the foundation customer

Additionally, in Arc's Issues Paper 2017 (submitted on November 17, 2017, in response to the Western Australian Department of Treasury and Finance's Review of Western Australia's Rail Access Regime), Arc made the following statement when discussing "foundation customers," indicating its recognition that KML had contributed in some manner to the railway network upgrades. The paragraphs 352 and 354 of Issues Paper 2017 read as follows:

> ***Given that foundation customers typically underpin network expansions, Arc considers it critical that their interests should be protected under the regulatory regime. Although Arc's railway network is technically a brownfields investment, we nevertheless consider Karara Mining to be the foundation customer for the Tilley to Geraldton section of the network due to the substantial upgrade undertaken to provide access. (paragraph 352)***[16]
>
> ***Foundation customers generally bear materially different costs and risks. They may for instance, bear significantly greater access costs, to reflect the fact that infrastructure has been built for their needs, as opposed to other customers accessing pre-existing infrastructure, who then bear a share***

[redacted]

[16] Please refer to Appendix 3 - Contributed Capital Evidence List, Item 7: Para. 352 of Issues Paper 2017.

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of the operating cost of that infrastructure. Depending on arrangements, significant risk can either sit with the foundation customer, the railway owner or both. Any amendments made should be flexible enough to consider and protect the interests of both parties. This answers question 6.3 of the Issues Paper as to whether the costs and risks borne by foundation customers materially differ to those borne by subsequent customers. (paragraph 354) [17]

[redacted]

On the day after the execution of the [redacted], Gindalbie Metals Limited (the then-shareholder of KML) issued a stock exchange announcement disclosing to the public both the AUD 450 million estimated cost for the Upgrade Works and certain key matters agreed in the [redacted]

The announcement declared that KML had entered into the [redacted] with Arc, involving major upgrade works with an estimated cost of approximately AUD 450 million; under the agreement, KML is required to maintain a USD 300 million bank security and pay capital recharge fee throughout the contract term.[20] This announcement not only disclosed details of the cooperation to the market, but also clearly established KML's financial contribution obligations for the Upgrade Works. Relevant excerpts

[17] Please refer to Appendix 3 - Contributed Capital Evidence List, Item 7: Para. 354 of Issues Paper 2017.

[redacted]

[20] Please refer to Appendix 3 - Contributed Capital Evidence List, Item 10: 110804 Rail Access Agreement -1.

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from the announcement are as follows:

> ***The Karara joint Venture Company, Karara Mining Limited ("KML"), has signed a long-term agreement with WestNet Rail, the lease-holder and operator of the existing 200km rail narrow gauge rail line that runs from Morawa to Geraldton. The agreement is conditional on satisfaction of certain conditions precedent.***
>
> ***The agreement includes provision for WestNet Rail to undertake a major approximately $450 million upgrade of the existing 200km long Mid West rail line to Geraldton.***

[redacted]

2. Inadequate Information Disclosure

2.1 Inadequate Depreciation Information

Arc's Costing Principles stipulate that, in accordance with the requirements of section 47K of the Code, Arc must prepare and submit to the ERA a statement of the depreciation schedule to be applied by Arc when determining the updated regulatory asset base (RAB) for the WA freight network. Arc has failed to provide supporting materials for its depreciation schedule, including key data such as asset commissioning dates, asset condition information, empirical support for subjective assumptions and explanations for any variations in actual asset performance compared to the design life.

KML submits that, with respect to depreciation, Arc should provide, for each route section and asset category, the commissioning/renewal dates, maintenance records, current asset condition information, explanations for deviations from design life (including records of life extension works), and speed

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restriction information.

2.2 Inadequate Route Information

Arc has only provided aggregated data at the regional level and has not disclosed key technical parameters or other detailed information for each route section. Furthermore, many unit costs are disclosed in aggregate, resulting in insufficient data transparency. As a result, it is difficult to effectively carry out a reasonable assessment of the DORC data.

The core of this issue is that Arc has not fulfilled its obligations under section 47J of the Code. This provision obliges Arc to determine the DORC for each route section and submit supporting material that demonstrates the basis for each determination. However, none of Arc's data and assumptions have been provided or presented at the route section level as required by the Code. Therefore, the data in this DORC Report cannot serve as an adequate basis for KML, as a railway user, to conduct a review of Arc's proposed DORC.

KML submits that, to ensure the transparency, accuracy, and verifiability of the DORC Report, and to comply with the information disclosure requirements under the Code and Arc's Costing Principles, Arc should provide the quantities, unit costs, and supporting evidence used for cost estimation of each asset category for every route section.

3. Unreasonable Assumptions

3.1 Material Lack of Cost Estimate Accuracy

Arc disclosed in the *"2. Key Assumptions"* section of the DORC Report that

> ***"As is typical for valuations of this type, the accuracy is constrained by the estimating methodology rather than the definition of the works. Overall, the DORC assessment most closely aligns to an AACE Class 5 estimate with an accuracy in the range of -20% to -30% on the low side, to +30% to +50% on the high side."***

According to KML's understanding, the AACE Class 5 Estimate standard is part of the project cost estimation classification system established by AACE International (Association for the Advancement of Cost Engineering). AACE categorizes cost estimates into 5 classes (Class 1 to Class 5), where Class 5 Estimate is the lowest precision, least information-based preliminary estimate, typically used in the

early stages of a project. The value of DORC will have a significant impact on the future charge basis for railway users. Therefore, Class 5 Estimate should not be used, Class 1 Estimate should be used instead. For example, the reported DORC valuation of Alternative A for the Midwest Line of $1,088.3 million has an actual potential error range of $870.7 million. Arc chose the path requiring the least preparatory work to calculate the DORC, resulting in very low accuracy. The error range calculation for Alternative A is summarized in the table below:

Item	**Reference**	**Value/Rate ($ million)**
DORC Value	A	1,088.3
Low-end Rate	B	-30%
Low-end Value	C=A*B	761.8
High-end Rate	D	+50%
High-end Value	E=A*D	1,632.5
Variance (High-Low)	**F=E-C**	**870.7**

3.2 Unreasonable Assumptions Regarding Quantity and Rate in Replacement Cost

KML has engaged a professional railway engineering consultant to review and evaluate the engineering assumptions and technical issues in the DORC Report. The replacement cost calculations for core assets such as right of way, civil structures, and tracks contain insufficient or unreasonable basis for assumptions regarding quantity and rate. Detailed issues are summarized in the table below:

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Category	Item	Quantity Issue	Rate Issue
Right of Way	**Clearing and Grubbing**	The DORC Report assumes a clearance area of 8.637 million square meters for the 98-kilometer route from Mullewa to Tilley Junction, corresponding to an average clearance width of approximately 88 meters. However, according to industry practice, a reasonable clearance width should be 40 meters (including track, construction access, and access roads), which would result in a more reasonable clearance area of 3.924 million square meters. **The assumption of an 88-meter clearance width lacks sufficient justification.**	The rate depends on the haulage distance required to transport the clear and grubbed material to a stockpile, yet the DORC report does not mention the assumed transport distance. The rates in the DORC Report have been adjusted in the supplementary materials, with the original rate of $0.12 per square meter revised to $4.00 per square meter (while the adjusted rate including location factor and indirect costs adjustments reaches $7.70 per square meter). This rate is considered excessively high. Industry standards indicate that rates should be determined by the distance for transporting cleared and grubbed materials to disposal sites: For haul distances within 1 kilometer, a reasonable direct rate is approximately $0.30 per square meter. For haul distances within 10 kilometers, a reasonable direct rate is approximately $2.00 per square meter. **Conservatively, adopting a direct unit rate of $2.00/square meter would be more appropriate ， rather than** $7.70
	Cutting and Embankment	By utilising the excess material excavated where formation preparation is required in cutting, the quantity of imported fill materials can be further reduced. Assume 7m wide excavation for formation in cutting, 230mm deep, with 50% of the alignment in	/

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Category	Item	Quantity Issue	Rate Issue
		cutting, and bulking factor 1.2. This produces 94,774 m^3 of material. **This would reduce the imported fill volume to 146,990 m^3, whereas the current scheme specifies 241,761 m^3—indicating a significant overestimation.** Due to the current level of information disclosure, it is not possible to comment on the accuracy of other earthwork quantities.	
	Formation	The Code, Schedule 4, Paragraph 2, (2) states: ***"For the purpose of this clause, railway infrastructure includes a cutting or embankment made for any reason after the commencement of this Code"***. Rail formation, being an embankment activity involving a 230mm thick layer, should have its costs strictly confined to the 98-kilometer route from Mullewa to Tilley Junction constructed post-2000. However, **the DORC Report treats the rail formation as an independent activity, improperly incorporating 204 kilometers into the cost base.**	/
	Access Roads	The Code, Schedule 4, Paragraph 2, (2) states: ***"For the purpose of this clause, railway infrastructure includes a cutting or embankment made for any reason after the commencement of this Code"***. Consequently, only access roads developed post-2000 may be included in the cost base. However, available	Arc's supplementary materials show that the direct rate for unsealed roads with a width of 3.5 meters is $59,500 per kilometer. However, industry practice indicates that the reasonable rate range for access roads with a width of 7 meters is approximately $49,738 per kilometer. Given the proposed access road width, a prudent adjustment should

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Category	Item	Quantity Issue	Rate Issue
		records indicate that no new access roads were built after 2000. Despite this, the DORC Report improperly incorporates the entirety of the 304-kilometer railway access roads—including vegetation clearance, topsoil removal, subgrade improvement, and subgrade preparation into the cost base. Even under a conservative interpretation, **the cost scope should be strictly confined to the upgrade works on the 98-kilometer Mullewa to Tilley Junction route constructed post-2000.**	be made by applying 60% of the unit rate for a 7-meter-wide road. **A revised unit rate of $29,842 per kilometer is deemed more reasonable.**
Civil Structures	**Bridges**	The DORC Report (Table 4-8) indicates that the Midwest Line includes one Type 2b bridge. However, Tables 4-9 to 4-11 fail to present the bridge deck area and corresponding costs for this bridge, resulting in a logical inconsistency in the reported quantities. Arc's supplementary materials introduce a significant revision to the bridge quantities for the Midwest Line. The original quantity comprised 2 Type 1 bridges, 8 Type 2a bridges, and 1 Type 2b bridge. This has been adjusted to 6 Type 1 bridges, 4 Type 2a bridges and 1 Type 4 bridge. Arc has not provided further technical justification or clarification for this substantial alteration to the quantity assumptions. **Due to the current level of information disclosure,**	The revised bridge quantities have led to a significant increase in the replacement cost for bridge, from $38.4 million to $66.5 million. Arc's supplementary materials show that Type 1 bridges have a direct unit rate of $315,000/square meter. However, according to Humes's quotation, the appropriate unit rate for this type of bridges is approximately $3,732/square meter. Type 4 bridges originally had a direct unit price of $8,500/square meter, which was subsequently increased to $57,612/square meter in the supplementary materials, claiming cost increases due to "abnormal bridge height." **However, supply and freight costs (approximately 60% of total costs) are not affected by height. Even if installation costs (approximately 40%) can consider height factors,**

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Category	Item	Quantity Issue	Rate Issue
		it is not possible to comment on the accuracy of bridge quantities.	**a doubling of costs represents a reasonable upper limit.** Therefore, the appropriate direct unit rate for this type of bridges should be approximately $11,900/square meter.
	Culverts	**Due to the current level of information disclosure, it is not possible to comment on the accuracy of the quantities.**	In the DORC Report (Table 4-16), the average rate for 1,200-millimeter culverts is stated as $13,900 per meter. However, this figure exhibits a potential discrepancy. Based on a linear interpolation derived from the unit prices of 900-millimeter and 1,500-millimeter culverts, the reasonable rate for 1,200-millimeter culverts should be approximate $2,300 per meter. Arc's supplementary materials revised the rate from $13,900 to $2,332. The rates presented, are marginally higher than the consultant would have expected, but the overall impact is negligible.
Track	**Rail**	**The current assignment of rail types to specific routes lacks alignment with actual infrastructure conditions and is not supported by adequate engineering justification.** 60 kg/m rails: The DORC Report states 272 km (equivalent to 136 km of track), but this is only applicable to the Mullewa to Tilley Junction route. The reasonable quantity should be 196.2 km (equivalent to 98.1 km of track). 50 kg/m rails: The DORC Report states 101 km (equivalent to 50.5 km of track), but the Narngulu to	Following a correction based on actual supply rates for Pilbara delivery in fourth-quarter 2024: For 41kg/m rail, the reasonable supply rate should be $148 per meter. The DORC Report originally cited $430 per meter, later adjusted to $348 per meter in supplementary materials. For 50kg/m rail, the reasonable supply rate should be $159 per meter. The DORC Report originally cited $440 per meter, later adjusted to $353 per meter in supplementary materials. For 60kg/m rail, the reasonable supply rate should be $181

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Category	Item	Quantity Issue	Rate Issue
		Mullewa route should be equipped with 208.8 km (equivalent to 104.4 km of track). 41 kg/m rails: The DORC Report states 234 km (equivalent to 117 km of track), but the remaining route from Tilley Junction to Maya should be equipped with 202.2 km (equivalent to 101.1 km of track). The above data are based on publicly available information on the Arc website ***(Arc Rail Size Map July 2023)***, which summarizes rail sizes per route section.	per meter. The DORC Report originally cited $480 per meter, later adjusted to $376 per meter in supplementary materials. **Even though Arc has revised the direct rates, it still significantly overestimates the supply costs for all rail types.**
	Ballast	**The DORC Report incorrectly applies the standard gauge (1,435 mm) ballast thickness standard (250–300 mm) to the narrow gauge (1,067 mm) Midwest Line.** According to the ARC Code of Practice, narrow gauge railways require a ballast thickness of only 200 mm (a reduction of 50–100 mm compared to the reported standard), leading to significant deviations in the base assumptions for ballast quantities. Based on Table 4-21 of the DORC Report, the ballast cost is stated as $78.2 million, with supply and cart costs of $54.6/m³ and distributing, shaping and profiling costs of $23.6/m³. Back calculations indicate that the reported ballast quantity is approximately 1,000,000 m³. However, applying the correct narrow-gauge standard of 200 mm thickness (with a cross-	Arc's supplementary materials present the direct rate for ballast on a "per kilometer of track" basis. **However, the underlying assumptions regarding cross-sectional area calculations remain undisclosed, making it impossible to verify the reported rate.** KML's consultant referred to a Quarry quotation in Geraldton, and the supply and cartage unit rate for ballast is approximately $71.74/m³, without considering location factors.

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Category	Item	Quantity Issue	Rate Issue
		sectional volume of 1.26 m³ per linear meter across a total track length of 304 km), the reasonable total ballast volume should be 383,380 m³.	
Signalling and Communications /Control Systems	**Overall Assessment**	Arc requires professional consultants to act as subcontractors under the principal contractor. In its supplementary materials, two sets of preliminaries (35% for specialist subcontractors vs. 30% for the principal contractor) and two sets of overheads & profits (20% for specialist subcontractors vs. 9.5% for the principal contractor) are to be charged. This dual billing approach clearly contradicts standard industry practices. Key Issues: 1. **Unreasonable Fee Structure for Specialist Subcontractors:** The rate setting for specialist subcontractors lacks reasonable justification, with their preliminaries rate and overheads & profit both being higher than those of the principal contractor. The 20% overheads & profit margin for specialist contractors is too high, and it is recommended to adjust this to 15%. 2. **Excessive Preliminaries:** Principal contractors typically do not impose an additional full set of preliminary fees when subcontracting work. Therefore, the 30% preliminary fee charged by the principal contractor should not be applied in this context, as it constitutes double accounting of such costs.	
	Signalling and Control Systems Assets	Due to the current level of information disclosure, it is **not possible to comment** on the accuracy of the quantities.	/
	Control Centre Signal Assets	The signal assets listed in Table 4-29 of the DORC Report are located at control centres (e.g., Avon/Picton control centre with a location factor of 1.20 and Canning Vale with a factor of 1.00). However, the report incorrectly applies a location factor of 1.3 for the Midwest Line within the railway network group. Due to the current level of information disclosure, it is	The DORC Report states a direct cost of $110 million for the signalling system, but no cost breakdown details or allocation logic between railway network groups are provided. This **lack of transparency** prevents verification of the calculation accuracy.

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Category	Item	Quantity Issue	Rate Issue
		not possible to comment on the accuracy of the quantities.	
	Communication Assets	Due to the current level of information disclosure, it is **not possible to comment** on the accuracy of the quantities.	/
Buildings	**Centralised Control Centres**	/	Due to the current level of information disclosure, it is **not possible to comment** on the accuracy of the rates.
	Maintenance Facilities	According to Section 1.1 of the DORC Report's Valuation Method, the followings are not included in the DORC: ***Sidings or spur lines that are excluded by the "railways (Access) Act 1998" from being Railway Infrastructure;*** ***Rolling stock, rolling stock maintenance facilities, office buildings, housing, freight centres, and terminal yards and depots.*** However, the DORC Report currently includes maintenance facility costs in the scope of calculation without providing clarification on whether these facilities include rolling stock maintenance functions. Due to the current level of information disclosure, it is **not possible to comment** on the accuracy of the quantities.	Due to the current level of information disclosure, it is **not possible to comment** on the accuracy of the rates.
	Depots and Other Facilities	According to Section 1.1 of the DORC Report's Valuation Methods, **depots are explicitly excluded**	/

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Category	Item	Quantity Issue	Rate Issue
		from replacement cost calculations. However, Table 4-37 includes 60,427 square meters of depots within the scope of calculation without providing further explanations.	
Associated Track Structures	**Pedestrian Crossings**	Due to the current level of information disclosure, it is **not possible to comment** on the accuracy of the quantities.	/
Miscellaneous	**Plant, Tools and Equipment**	Although Arc provided supplementary materials, due to the current level of information disclosure, it is still **not possible to comment** on the accuracy of the quantities.	/
	Signage	Although Arc provided supplementary materials, due to the current level of information disclosure, it is still **not possible to comment** on the accuracy of the quantities.	/
	Walkways	The DORC Report requires the replacement cost calculation for walkways but fails to specify the exact location or functional basis of these facilities. According to the current railway layout, **personnel access can be achieved through the formation shoulder**, eliminating the need for additional dedicated structures (the cost of formation construction is already included in other sections of the report). Even under special circumstances, walkways are only applicable to sidings to support train inspections,	/

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Category	Item	Quantity Issue	Rate Issue
		making them non-essential network facilities.	

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Based on the above conclusions, KML believes that the valuation issues of the two core asset categories (right of way and track) will have a significant impact on the DORC value. If corrections are made based on reasonable assumptions: 1) for right of way, adjusting the reasonable clearing width and unit rate, and limiting formation and access roads to routes constructed after 2000; 2) for track assets, correcting the applicable route sections, unit supply rates and unit installation rates for different rail specifications, and adjusting ballast depth according to the Midwest Line narrow gauge standards, then the construction replacement cost of right of way and track assets would be overestimated by approximately $ 302 million. The table below shows the calculations for the updated construction replacement costs for right of way assets (clearing and grubbing, formation and access roads) and track assets (rail and ballast):

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Item	Unit	Original Value	Updated Value	Difference	Reason for Difference
Clearing and Grubbing					
Quantity	m²	8,636,530.00	3,996,200.00	-4,640,330.00	Width overestimation correction
Rate	$/m²	7.77	3.89	-3.89	Rate overestimation correction
Total	**$ million**	**67.13**	**15.53**	**-51.60**	
Formation-Construction					
Quantity	km	204.00	98.10	-105.90	Route section scope correction
Rate	$ million/km	0.45	0.45	-	
Subtotal	**$ million**	**91.80**	**44.15**	**-47.66**	
Formation-Proof-rolled					
Quantity	km	99.00	205.51	106.52	Route section scope correction
Rate	$ million/km	0.11	0.11	-	
Subtotal	**$ million**	**10.89**	**22.61**	**11.72**	
Total	**$ million**	**102.69**	**66.75**	**-35.94**	
Access Roads					
Quantity	km	304.00	98.00	-206.00	Route section scope correction

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Rate	$/km	115,613.11	57,985.32	-57,627.79	Rate overestimation correction
Total	**$ million**	**35.15**	**5.68**	**-29.46**	
Rail					
Quantity – 41 kg/m	km	234.00	202.20	-31.80	Route section scope correction
Quantity – 50 kg/m	km	101.00	208.80	107.80	Route section scope correction
Quantity – 60 kg/m	km	272.00	196.20	-75.80	Route section scope correction
Supply Rate – 41 kg/m	$ million/km	0.43	0.30	-0.13	Rate overestimation correction
Supply Rate – 50 kg/m	$ million/km	0.44	0.32	-0.12	Rate overestimation correction
Supply Rate – 60 kg/m	$ million/km	0.48	0.36	-0.12	Rate overestimation correction
Installation Rate	$ million/km	0.25	0.12	-0.13	Rate overestimation correction
Total	**$ million**	**427.37**	**270.47**	**-156.90**	
Ballast-Supply and Cart					
Quantity	m²	1,000,000.00	383,380.00	-616,620.00	Depth overestimation correction
Rate	$/m²	54.60	107.23	52.63	Rate underestimation correction
Subtotal	**$ million**	**54.60**	**41.11**	**-13.49**	
Ballast- Distribute, Shape and Profile					
Quantity	m²	1,000,000.00	383,380.00	-616,620.00	Depth overestimation correction

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Rate	$/m²	23.60	23.60	-	
Subtotal	**$ million**	**23.60**	**9.05**	**-14.55**	
Total	**$ million**	**78.20**	**50.16**	**-28.04**	
Grand Total	**$ million**	**710.53**	**408.59**	**-301.94**	

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3.3 Unreasonable Indirect Costs

KML draws the ERA's attention to the systemic data distortion present in Arc's submitted DORC Report. The ERA's 2014 Determination of Costs Relevant to Co-operative Bulk Handling's Access Proposal dated 10 December 2013 (the 2014 Determination) established a historical benchmark for the gross replacement value (GRV) determined under the then-current Code. As the RAB is a refined indicator derived from the GRV, its core assumptions and calculation logic should maintain continuity.

In this DORC Report, Arc's contractor indirect costs are calculated on a compounded basis, sequentially adding a 5% risk allowance, 30% preliminaries, and 9.5% overheads and profit to the direct costs, resulting in an approximate 50% cost escalation. Additionally, the report further applies a rate of 23% project-specific costs on this basis. The total impact is 61.5% of the direct cost.

The final impact significantly exceeds the reasonable escalation rates of 20% for Design, Construction, Procurement and Management (DCPM) and 2% for indirect costs adopted in the ERA's 2014 Determination, with total impact of 22.4% of the direct cost. As stated in the 2014 Determination:

"*Engenium has advised that BR has included contractor's indirect costs of 1-2 per cent across its asset costings. Engenium has concluded that this is a reasonable rate for this class of indirect cost. As indicated in paragraph 91 the Authority has decided that the inclusion by BR of 20 per cent as DCPM costs is appropriate*."

3.4 Unreasonable Funding Costs

For the Midwest Line used by KML, the DORC Report assumes an excessively long construction period of 229 months, resulting in capital costs of $523 million, representing 53.56% of the Optimised Construction Replacement Cost. In circumstances where the Midwest line is only 304 km long, a 229-months construction period is unreasonable. According to the 2014 Determination, the ERA decided on a construction rate of 2.5 kilometers per day, with work commencing concurrently on all 18 routes. As stated in the 2014 Determination:

" The Authority has calculated financing charges on the basis of the 2.5 kilometres per day construction rate proposed by BR, and on the basis that work commences concurrently on each of the 18 Schedule 1 routes which contain the routes requested by CBH. "

Based on above, the construction period of Midwest line should be approximately 4 months, which is

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much shorter than the 229 months in the DORC Report, 19 years?

3.5 Unreasonable Asset Depreciation

（1）Unreasonable Depreciation Assumptions

The DORC Report contains multiple deficiencies in its depreciation assumptions, including but not limited to lack of asset commissioning dates and asset condition information, unrealistic economic life estimation models, and the application of network-wide assumptions without due consideration of their applicability to the Midwest Line. This leads to mismatches between the estimated remaining economic life and the actual asset conditions, affecting the accuracy of depreciation, and also limits the feasibility of verifying assumptions on a route-by-route and asset category basis. Specific issues are summarized in the table below:

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Category	Item	Current Assumption	Assumption Issues
Right of Way	**Clearing and Grubbing**	Section 6.2.1 of the DORC Report states: ***"As the condition and rate of consumption of the existing assets is the equal to the Standard Design Life66, a 100-year Economic Life has therefore been applied"***	The assumption is generally acceptable, but it should be noted that the average width of the railway corridor actually cleared is significantly greater than that of the rail embankment and access road. It is unlikely that routine maintenance would be performed on this entire corridor initially cleared at the commissioning date.
	Formation	Section 6.2.3 of the DORC Report states: ***"Formation, as with cuttings and embankments, does not physically deteriorate with time, provided adequate maintenance (e.g. drain clearance) is undertaken."***	The assumption conflicts with the structural practices. As the load-bearing layer of the track, formation may deteriorate over time, and its renewal is considered part of periodic track renewal activities, which should be included in depreciation calculations.
Civil Structure	**Bridges (where the date of installation is known)**	Section 6.3.1 of the DORC Report states: ***"Bridges are long-lived assets and typically continue to provide a service through (and sometimes beyond) their design life with minimal life extending maintenance interventions"***	The assumption is generally acceptable; however, it should be noted that remaining economic life should not exceed the standard design life.
	Bridges (where the date of installation is unknown)	Section 6.3.1 of the DORC Report states: ***"In the absence of asset specific age data, GHD has assumed that all bridges on the same Network Group are likely to be of a similar age or maintained such that they all have a similar proportion of life***	The assumption based on the same network group or average values has limitations at the specific network route level, particularly applicable to network routes with different construction timelines or those that have already undergone upgrades (such as the

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Category	Item	Current Assumption	Assumption Issues
		remaining." And ***"In the absence of asset or Network Group age data, GHD has assumed that the average of known data across the network is likely to be reasonable proxy for the age."***	Midwest Line). The assumption may lead to deviations in the assessment of the actual remaining economic life or asset condition of specific routes.
	Culverts	Section 6.3.3 of the DORC Report states – ***"Culverts would typically be installed as a route was constructed, similar to other civil structures on that route. The same steps as used for bridges has been applied, as summarised below."***	The assumption has the same issues as bridge depreciation; refer to the analysis in the above bridge section.
Track	**Rail (where condition data is known)**	Section 6.4.1 of the DORC Report states: ***"The remaining rail life was determined by comparing the rail's current wear level to the threshold limits defined in the relevant code of practice, which sets maximum allowable wear for safe operation"***	The assumption is generally acceptable, but the proportion of routes where actual wear data was used has not been disclosed.
	Rail (Where condition data is not available)	Section 6.4.1 of the DORC Report states: ***"We have assumed a normal distribution of rail condition within a remaining life range and have based the assessment on the mid-point of the range – Rail life was determined for lengths of individual rail, not by lengths of track."***	This method violates Arc Cost Principles, as the core indicator for rail life is horizontal track geometry, not a normal distribution. It should be assessed proportionally based on the horizontal geometry.
	Ballast	Section 6.4.3 of the DORC Report states – ***"Unless specific data has been provided by Arc, the age of the remaining ballast is assumed to match the age of the rail alignment. That is, if the track is narrow gauge, we have assumed that the ballast has not***	The assumption is generally acceptable, but it is not explained how it applies to the Midwest Line.

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Category	Item	Current Assumption	Assumption Issues
		been replaced since the track was originally constructed in the late 1800s – early 1900s" **and** ***"Arc has identified specific projects where track/and or sleeper construction or replacements have been undertaken. It has been assumed that ballast would also have been constructed/replaced at the same time"***	
	Turnouts (with installation date)	Section 6.4.4 of the DORC Report states – ***"Arc provided data on the date of installation of the turnout. In the absence of condition data, a linear reduction in remaining life was assumed based in the Standard Design Life for the turnout type"***	The assumption is generally acceptable, but the proportion of turnouts applicable to this scenario has not been disclosed.
	Turnouts (without installation date)	Section 6.4.4 of the DORC Report states – ***"In the absence of specific age data, a weighted remaining life for the route section was applied to the turnouts. This was assumed to be a reasonable proxy for turnout condition on the basis that the maintenance effort applied is likely to be broadly consistent across all assets in the same route section."***	The assumption is generally acceptable, but it requires a sufficient number of known installation date samples to support it, and the report has not disclosed the sample coverage.
Signalling and Control Systems	**Signalling and Control Systems**	Section 6.5 of the DORC Report states: ***"Where the date of installation is known, linear depreciation to the valuation date has been applied"*** **and** ***"The average remaining life of the signalling assets across the network with known installation date was used, and linear depreciation to the valuation date***	The assumption is acceptable when the railway network has an adequate sample size of known installation dates, but the report has not disclosed the sample coverage.

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Category	Item	Current Assumption	Assumption Issues
		applied."	
Associated Track Structures	**Pedestrian Crossings**	Section 6.7.1 of the DORC Report states: ***"There is no data on condition or install date for level crossings. Consequently, a route averaged depreciation has been applied. We have seen no evidence to suggest that this assumption is not appropriate."***	This assumption cannot verify the basis for calculating the average value of routes in the absence of any foundational data, such as condition or installation dates.
Miscellaneous	**Plant, Tools and Equipment**	Section 6.8.1 of the DORC Report states: ***"Plant and Equipment costs were calculated based on an inventory supplied by Arc. Unless age and/or asset condition data was available, it was assumed that the asset is at 50% of its economic life"***	Although it is a rough assumption, it may be temporarily acceptable in the absence of data.

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（2）Unreasonable Remaining Economic Life

By cross-checking the standard design life of assets in Arc's Costing Principles, the remaining economic life in the DORC Report and Arc's Depreciation Schedule, significant discrepancies and contradictions in the remaining economic life of multiple assets are identified. In the supplementary materials, Arc merely adjusted the remaining life percentages to align with the DORC values, without providing key data such as the commissioning dates or current conditions of these assets.

The standard design life is directly based on Arc's original data; the DORC Report's remaining economic life is calculated by multiplying the depreciation percentage in the report by the standard life; the Depreciation Schedule's remaining economic life is determined by the number of years from the current date until the book value of each asset is reduced to zero. Specific issues are summarized in the table below:

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Unit：Year		Standard Design Life（Costing Principal）	Remaining Economic Life（DORC Report)	Mullewa to Tilley Junction Remaining Economic Life（Depreciation Schedule）	Narngulu East to Mullewa Remaining Economic Life（Depreciation Schedule）	Narngulu to Narngulu East Remaining Economic Life（Depreciation Schedule）	Life Issues
Right of Way	**Access Roads**	10	5.6	8	7	4	The DORC Report adopts a remaining service life of 5.6 years, equivalent to 56% of the standard design life. However, based on the depreciation schedule, the remaining lives for the three Midwest Line routes are 8 years, 7 years, and 4 years respectively—equivalent to 80%, 70%, and 40% of the standard life. There is a clear inconsistency between the two sets of figures.
Civil Structure	**Bridges**	100	Type 1：65 Type 2a：43	58	74	-	The Eradu Bridge, built in 1930, has a remaining life of only 5 years, whereas the DORC Report shows that Type 1 and 2a bridges from the same period have a remaining life as high as 43 to 65 years. This discrepancy is clearly inconsistent with the actual life of the

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Unit：Year		Standard Design Life（Costing Principal）	Remaining Economic Life（DORC Report)	Mullewa to Tilley Junction Remaining Economic Life（Depreciation Schedule）	Narngulu East to Mullewa Remaining Economic Life（Depreciation Schedule）	Narngulu to Narngulu East Remaining Economic Life（Depreciation Schedule）	Life Issues
							bridge.
	Culverts	50	27-35	49	46	-	The DORC Report adopts a remaining economic life of 27–35 years, equivalent to 55%–71% of the standard design life. However, based on the depreciation schedule, the remaining life ranges between 46 and 49 years, indicating a depreciation period that is significantly longer than that stated in the report.
Track	**Rail**	70 - > 800m R 15–400-800m R 10 - < 400m R	Not specified	53	53	53	The DORC Report does not provide a clear statement on the remaining economic life of rail assets. However, the assumption of a uniform remaining life of 53 years for all rail assets in the depreciation schedule is unreasonable. A design life of up to 70 years for rails is only applicable when the track geometry is greater than

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Unit：Year		Standard Design Life（Costing Principal）	Remaining Economic Life（DORC Report)	Mullewa to Tilley Junction Remaining Economic Life（Depreciation Schedule）	Narngulu East to Mullewa Remaining Economic Life（Depreciation Schedule）	Narngulu to Narngulu East Remaining Economic Life（Depreciation Schedule）	Life Issues
							R=800m
	Sleepers	50 – Concrete 40 – Steel 15 – Timber 25–Fastenings	Not specified	22	22	22	The DORC Report does not provide a clear statement on the remaining economic life. Based on weighted average calculations, the remaining life of sleepers is approximately 30 years, whereas the depreciation schedule indicates a remaining asset life of 22 years, which is lower than the level claimed in the report.
	Ballast	50	41	50	50	50	The DORC Report states a remaining economic life of 41 years, equivalent to 82% of the standard life. However, the depreciation schedule accounts for the full 50-year standard life with no depreciation applied.
	Turnouts	40 – Concrete 15 – Timber	Not specified	40	28	28	There is a lack of key supporting data, making it impossible to obtain the specific distribution of concrete and

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Unit：Year		Standard Design Life（Costing Principal）	Remaining Economic Life（DORC Report)	Mullewa to Tilley Junction Remaining Economic Life（Depreciation Schedule）	Narngulu East to Mullewa Remaining Economic Life（Depreciation Schedule）	Narngulu to Narngulu East Remaining Economic Life（Depreciation Schedule）	Life Issues
							timber turnouts on the Midwest Line. Additionally, although the turnouts on the Mullewa to Tilley route were upgraded 10 years ago, the depreciation schedule still assigns a remaining life equal to the full 40-year standard lifespan.
Signalling and Control System	**Signalling and Control System**	20	9.6	12	12	2	The depreciation schedule indicates that the remaining life for the Narngulu to Narngulu East route is only 2 years, equivalent to 10% of the standard lifespan. However, the DORC Report applies a uniform 9.6 years across the entire rail network, equivalent to 48% of the standard lifespan. This approach fails to adequately account for the actual condition of the specific route section.
Miscellaneou	**Plant, Tools,**	15 – Tampers	50%	4	4	4	Due to insufficient underlying data, it

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Unit：Year		Standard Design Life（Costing Principal）	Remaining Economic Life（DORC Report)	Mullewa to Tilley Junction Remaining Economic Life（Depreciation Schedule）	Narngulu East to Mullewa Remaining Economic Life（Depreciation Schedule）	Narngulu to Narngulu East Remaining Economic Life（Depreciation Schedule）	Life Issues
s	and Equipment	8 – LVs 10 – Rail vehicle 20 – Grinders					is not possible to reliably assess the remaining useful life of this asset.
	Signage	10	Not specified	6	6	1	Due to insufficient underlying data, it is not possible to reliably assess the remaining useful life of this asset.
	Walkways	Not specified	Not specified	74	69	-	Due to insufficient underlying data, it is not possible to reliably assess the remaining useful life of this asset.

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4. Calculation Errors

There are calculation errors in certain cost items within the DORC Report — specifically, the final reported cost figures cannot be reconciled through verification of quantities and rates. The lack of transparency in the calculation process undermines the reliability of the data results. Specific issues are summarized in the table below:

Category	Item	Calculation Issue	Status in Supplementary Materials
Right of Way	**Clearing and Grubbing**	According to the existing data in Table 4-1 of the DORC Report, the reported cost of $67.1 million cannot be derived.	Corrected
	Cutting and Embankment	According to the existing data in Table 4-2 of the DORC Report, the reported fill material cost of $2.4 million cannot be derived.	Uncorrected
	Access Roads	According to the existing data in Table 4-4 of the DORC Report, the reported access road cost of $35.1 million cannot be derived.	Corrected
Civil Structure	**Bridges**	According to the existing data in Table 4-11 of the DORC Report, the reported $36.4 million cost for Type 1 bridges cannot be derived.	Corrected
Track	**Ballast**	According to the existing data in Table 4-21 of the DORC Report, the reported $78.2 million cost for ballast cannot be derived.	Uncorrected
Signalling and Control Systems	**Signalling and Control Systems**	Chapter 4.8 of the DORC Report only includes direct costs and location factors in each sub-asset category, while contractor preliminaries, overheads & profit and risk allowance are uniformly applied at the end of the chapter. The factors used in Table 4-35 of the DORC Report deviate from those in Chapter 4.4 of the report.	Uncorrected

5. Other issues

For signalling and communications/control systems, the cost of Alternative A is much higher than Alternative B and therefore would clearly be rejected. For Alternative B, KML believes that the quantity of fibre optic cable proposed far exceeds the actual requirements. Under an RBTC system with centralized interlocking, once the operations centers are initially connected to the radio network, the only necessary fibre optic cabling would be between the radio base centers and the location cases. Extending fibre optic cable throughout the entire network would be unnecessary and beyond actual requirements. Similarly, the cost estimates for radio towers do not account for existing infrastructure. There is a precedent in the Australian rail industry for utilising existing Telstra towers to support railway radio infrastructure, eliminating the need to construct dedicated rail radio towers. Therefore, the costs for the signalling and communications/control systems in Alternative B are also significantly overestimated.

IV. Overall Analysis of DORC Calculation Results

1. Simulation Assessment Based on the DORC Report

While the supporting information provided by Arc is insufficient for comprehensive modelling, KML has conducted preliminary assessment based on the limited available data. Taking Alternative A in the DORC report as an example (with an Optimised Replacement Cost of $1.721 billion for the Midwest Line and a DORC of $1.088 billion), KML considers the DORC values to be significantly overstated in at least the following areas:

（1）Construction Replacement Cost Overestimated:

According to the assessment conducted by the professional engineering consultant engaged by KML, compared to reasonable rates and quantities adopted in industry standards and industry experience, the DORC Report overestimates the Construction Replacement Cost of Right of way and Track for the Midwest Line by approximately $302 million (please refer to III.2 Unreasonable Assumptions Regarding Quantity and Rate in Replacement Cost).

（2）Indirect Costs Overestimated:

When calculating Construction Replacement cost, Arc has already considered approximately 50% indirect costs. On this basis, a rate of 23% is further applied for project-specific costs. However, the 2014 Determination only included 20% DCPM profit and 2% indirect costs. This difference results in the Optimised Replacement Cost of the Midwest Line being overestimated by approximately $217 million.

The calculation procedure is as follows:

Item	Reference	Amount ($million)	Notes
Optimised Construction Replacement cost	a	976.30	Amount of Midwest Line in DORC Report
Add: Arc project-specific costs	b	222.00	Amount of Midwest Line in DORC Report, including planning and design costs, planning and development permit costs, engineering construction management costs, and other corporate costs
Less: Overestimated Right of way and Track costs	c	301.94	Refer to 3.2 Unreasonable Assumptions Regarding Quantity and Rate in Replacement Cost
Pro-forma Optimised Replacement Cost (excluding Funding costs)	d=a-b-c	896.36	
Indirect cost rate in DORC Report	e	61.50%	50% * (1+23%) = 61.50%
Pro-forma Optimised Construction Replacement Cost	f=d/(1+e)	555.02	
Indirect cost rate in 2014 Report	g	22.40%	20% * (1+2%) + 2% = 22.40%
Pro-forma Optimised Replacement Cost using 2014 indirect cost rate (excluding Funding costs)	h=f*(1+g)	679.35	
Overestimated amount of Indirect costs	i=d-h	217.01	

（3）Funding Costs Overestimated:

In the Midwest Line DORC value, funding costs account for approximately 53.56% of the Optimised Construction Replacement cost, and the construction period is 229 months, while in the 2014 Determination, the construction rate is 2.5 kilometers per day, which means the construction period for the 304-kilometer Midwest Line would be only 4 months. Assuming a 4-month period and an interest rate of 7.46%, this difference results in the Optimised Replacement Cost of the Midwest Line being overestimated by approximately $506 million. The calculation procedure is as follows:

Item	Reference	Amount($million)	Notes
Funding costs	j	522.90	Amount of Midwest Line in DORC Report
Pro-forma Optimised Replacement	d	679.35	

Cost (excluding Funding costs)			
Interest rate	k	7.46%	WACC in DORC Report
Construction period (months)	l	4	304/2.5/30=4 months
Pro-forma Funding costs	m=k*d*l	16.89	
Overestimated amount of Funding costs	n=j-m	506.01	

If considering the quantifiable impacts of the above items, the Optimised Replacement Cost calculation amounts to $685 million. The calculation procedure is as follows:

Item	Reference	Amount($million)
Optimised Construction Replacement Cost of Midwest Line	o	1,721.20
Overestimated amount of Right of way and Tracks	p	301.94
Overestimated amount of Indirect costs	i	217.01
Overestimated amount of Funding costs	n	506.01
Pro-forma Optimised Construction Replacement Cost of Midwest Line	q=o-p-i-n	696.24

Taking into account the impact of capital contribution:

(1) Approach 1: Discounting the above-mentioned Optimised Replacement Cost estimate of $696 million to 2012 to serve as the initial cost of the railway

This amount of $696 million, when discounted to December 31, 2012, using the fluctuation rate of Producer Price Indexes of Road and bridge construction of Western Australia[21] between 2012 and 2024 (from 102.6 to 135, increased by 32%) , equals $527 million（696/(1+32%)=527 million）, of which KML's capital contribution of $450 million accounts for 85%. This further demonstrates that the construction cost of this railway has been mostly borne by KML .

(2) Approach 2: Taking Arc's initial acquisition cost for the railway, together with the AUD 450 million spent on upgrades and improvements as the initial cost of the railway.

As stated in II.1. History of Arc's railway, in 2006, BBI acquired the above-track business of this 5,500-kilometer railway for $853 million. Based on this calculation, the initial cost of the 304-kilometer railway of Midwest Line before upgrade was only approximately $47.15 million. Therefore, the initial cost of the Midwest Line is approximately $497 million. KML's capital contribution accounts for 90.54%. Based on the above Optimised replacement cost estimate of $696 million, the Optimised replacement cost after accounting for the impact of capital contribution is $66 million (696× (1 - 90.54%) = 66 million). As a

[21] Source: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#construction

result, the DORC value will be even lower than this.

It is important to note that, due to the lack of specific information about the railway used by KML, the above analysis is based on data from the Midwest Line, which includes KML's railway.

2. Analysis of Other Calculation Methods for Arc's Charging Basis

KML believes that, apart from considering the calculation methods in the DORC Report, the reasonable amount for Arc's charging basis should not exceed Arc's initial acquisition cost of the Western Australian rail network, plus its subsequent capital investments, minus the capital contributions borne by KML and other rail users. As mentioned above, in 2006, BBI acquired the above-track business of this 5,500-kilometer railway for $853 million, thus the initial cost of the 203-kilometer railway used by KML before upgrade was only approximately $31.48 million. [redacted]

As a piece of public infrastructure in Australia, the railway should not become a channel for Arc to seek excessive profits. Arc should only charge based on the $31.48 million it actually invested in the railway, along with reasonable operating and maintenance expenditures, and a reasonable profit. [redacted]

Under this method, Arc should only charge KML in the future for its operating and maintenance costs on the railway, along with a corresponding reasonable profit.

V. Conclusion

In conclusion, KML believes that the data and assumptions contained in the DORC report are inaccurate, and the DORC value is significantly overestimated.

KML therefore respectfully requests that the ERA:

Require Arc to submit a revised DORC Report that corrects the deficiencies outlined above and otherwise complies with the requirements of the Code. In particular, Arc should be required to provide the following information, including but not limited to:

(a) Detailed data for the valuation, clearly showing the DORC calculation process and results for each section of the railway's assets;

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(b) Basis for the quantities and unit prices used in the calculation;

(c) Information related to asset depreciation, such as commissioning dates, date of upgrades, maintenance records, and current condition of the assets;

(d) Any third-party valuation reports for the relevant railway assets in the past;

(e) Information regarding the price paid by Arc for the acquisition of the railway;

(f) Information regarding the cost of upgrade incurred and paid by Arc on the railway.

KML has full confidence in the ERA's authority and commitment to maintaining market order and ensuring fair trade. We also look forward to the ERA's thorough review of the DORC Report submitted by Arc in accordance with the law, and urge Arc to promptly rectify the relevant issues in line with the purpose and requirements of the Code, thereby providing a fair, transparent, and reasonable access environment for railway users.

As such, we look forward to a positive response and handling of our aforementioned requests from the ERA, and are open to hearing the ERA's opinions and suggestions on the resolution mechanisms (including whether it is necessary to proceed with relevant relief procedures). We hope that, under the guidance and supervision of the ERA, all parties can actively communicate and collaborate to expedite the feedback process for the DORC Report, and jointly promote the healthy development of Western Australia's railway industry.

[redacted]

We respectfully submit this letter for your attention and thank you for considering KML's submission.

Karara Mining Limited

11 August 2025

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VI. Appendix

Appendix 1 – List of Abbreviations

Abbreviation	Refers to
KML	Karara Mining Limited
Arc	Arc Infrastructure Pty Ltd
DORC Report	*Applicable Railway Infrastructure DORC Final Report* submitted by Arc on June 6, 2025
ERA	Economic Regulation Authority
Code	The 2023 amendments to the Railways (Access) Code 2000
ARG	Australian Railroad Group
BBI	Babcock & Brown Infrastructure
WNR	WestNet Rail
Ansteel	Anshan Iron and Steel Group Co., Ltd.
Gindalbie	Gindalbie Metals Ltd
[redacted]	[redacted]
CBH	Co-operative Bulk Handling Group
AWR	Australia Western Railroad Pty Ltd
Upgrade Works	Track upgrade works from Tilley Junction to Geraldton
[redacted]	[redacted]
[redacted]	[redacted]
RAB	Regulatory Asset Base
2014 Determination	ERA's *Determination of Costs Relevant to Co-operative Bulk Handling's Access Proposal dated 10 December 2013* issued in 2014

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Appendix 2 – KML Operational Route Map

The blue arrow indicates the Midwest Line, while the yellow arrow marks KML's actual operational route.

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Appendix 3 - Contributed Capital Evidence List

#	Doc name	Matters proven	Confidentiality
[redacted]			

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#	Doc name	Matters proven	Confidentiality
[redacted]			

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[redacted]			

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#	Doc name	Matters proven	Confidentiality
[redacted]			

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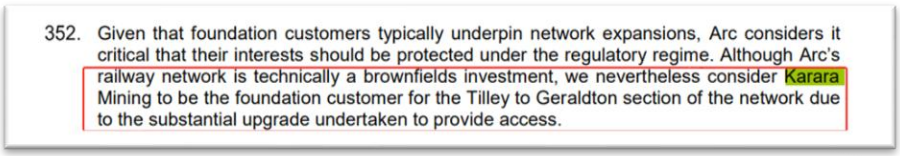
#	Doc name	Matters proven	Confidentiality
[redacted]			
7	rail-access-review-issues-paper-arc-infrastructure Issues Paper 2017	On November 17 2017, Arc submitted a response to the WA Treasury regarding the review of the WA Rail Access Regime: ● Paragraph 352, Arc explicitly acknowledges that due to the significant upgrades undertaken to major upgrades to provide access, Arc considers KML to be a foundation customer for the Tilley to Geraldton section of the network. ● Paragraph 354, Arc agrees that Foundation customers generally bear materially different costs and risks. They may for instance, bear significantly greater access costs, to reflect the fact that infrastructure has been built for their needs, as opposed to other customers accessing pre-existing infrastructure, who then bear a share of the operating cost of that infrastructure.  352. Given that foundation customers typically underpin network expansions, Arc considers it critical that their interests should be protected under the regulatory regime. Although Arc's railway network is technically a brownfields investment, we nevertheless consider Karara Mining to be the foundation customer for the Tilley to Geraldton section of the network due to the substantial upgrade undertaken to provide access.	Public

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#	Doc name	Matters proven	Confidentiality
		354. Foundation customers generally bear materially different costs and risks. They may for instance, bear significantly greater access costs, to reflect the fact that infrastructure has been built for their needs, as opposed to other customers accessing pre-existing infrastructure, who then bear a share of the operating cost of that infrastructure. Depending on arrangements, significant risk can either sit with the foundation customer, the railway owner or both. Any amendments made should be flexible enough to consider and protect the interests of both parties.-This answers question 6.3 of the Issues Paper as to whether the costs and risks borne by foundation customers materially differ to those borne by subsequent customers.	

[redacted]

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#	Doc name	Matters proven	Confidentiality
[redacted]			

#	Doc name	Matters proven	Confidentiality
[redacted]			
10	110804 Rail Access Agreement -1	The day after the signing of the [redacted] KML's then-shareholder, Gindalbie Metals Limited (ASX: GBG), released a stock exchange announcement disclosing the $450 million upgrade project cost and the core agreement of the [redacted] The announcement stated that KML had signed the [redacted] with Arc, involving a major upgrade project costing approximately $450 million. KML was required to provide a US$300 million bank guarantee and pay a "capital recharge fee" throughout the contract period.	Public

SECURITIES EXCHANGE ANNOUNCEMENT & MEDIA RELEASE
4 August 2011

GINDALBIE METALS LTD

RAIL ACCESS AGREEMENT SIGNED FOR KARARA PROJECT

$450M BELOW RAIL UPGRADE AND IMPROVEMENT CONTRACT SIGNED WITH WESTNET RAIL

Australian iron ore producer Gindalbie Metals Limited (ASX: **GBG** – "Gindalbie") is pleased to announce the signing of a key long-term rail access agreement for the **Karara Iron Ore Project** in Western Australia.

The Karara Joint Venture Company, Karara Mining Limited ("KML"), has signed a long-term agreement with WestNet Rail, the lease-holder and operator of the existing 200km rail narrow gauge rail line that runs from Morawa to Geraldton. The agreement is conditional on satisfaction of certain conditions precedent.

The agreement includes provision for WestNet Rail to undertake a major approximately $450 million upgrade of the existing 200km long Mid West rail line to Geraldton, providing capacity for Karara's Stage One production of 10Mtpa and the anticipated Stage Two expansion to 16Mtpa, which is currently the subject of a feasibility study. The Stage Two expansion can be accommodated through Geraldton without the need for the Oakajee Port development.

In June KML signed a conditional Rail Haulage Agreement with QR National Freight to transport **magnetite concentrate over a period of 10 years.** *(see ASX Release – 6 June 2011)*

KML is currently constructing a new 85km spur line from the Karara Project site to Tilley Siding, near Morawa, to interconnect with the existing rail network. The existing line requires a significant upgrade to be able to accommodate the 10Mtpa of iron ore products to be railed and shipped by the Stage 1 Karara Project.

Under the 15-year access agreement, WestNet Rail will undertake rail upgrade works including installation of dual gauge sleepers similar to those being installed on the 85km spur line.

KML are required to provide $300 million in security and WestNet Rail is required to confirm its debt financing is in place prior to commencement of the agreement to support the upgrade works. KML will shortly sign a facility agreement for US$300 million in bank guarantees as part of a Facility Framework Agreement (*see ASX Announcement – 26 April 2011*) and WestNet Rail expects to be able to confirm that its debt financing is in place within 60 days.

As well as the rail access tariff KML will pay a capital recharge fee over the life of the contract. It is anticipated that unit operating costs for Karara will reduce as production is increased, with some costs such as the rail capital charge reduced when train paths exceed the base of four train paths per day.

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