

CENTRAL EYRE IRON PROJECT PRICE ADJUSTED CFR CHINA IRON ORE COST CURVE

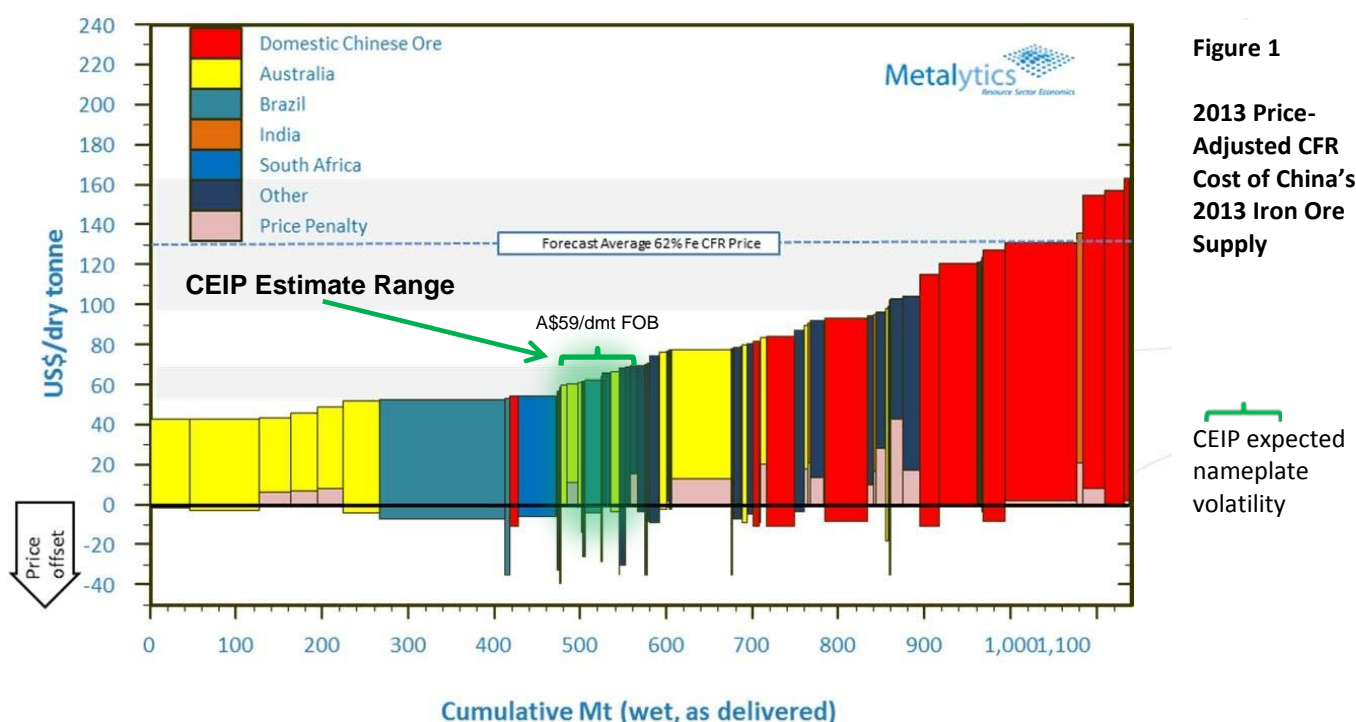
Iron Road Limited (Iron Road, ASX: IRD) is pleased to announce following its recent Definitive Feasibility Study (DFS) Update (01 October 2013) an estimate of operating costs for the Central Eyre Iron Project (CEIP). Pending completion of the DFS by December 2013, it is expected that the operating cost profile in real 2013 terms will be in-line with the mid-2011 Prefeasibility Study (PFS) assessment.

Highlights

- Estimated FOB operating costs (ex-State royalty) of A\$59 per dry metric tonne reiterated as a realistic assumption following \$58m of additional exploration, metallurgical and feasibility work since the mid-2011 PFS.
- A highly competitive operating cost profile, substantiated by the DFS, would theoretically place CEIP in the second quartile of the 2013 price adjusted CFR China cost curve.
- CEIP nameplate EBITDA potential of US\$1B+ per annum when factoring in long-term iron ore price forecasts from an independent industry consultant.

Iron Road Managing Director, Mr Andrew Stocks, said that the Company anticipated a highly industry competitive cost profile with indications of a favourable operating margin. "More than two years after we released our PFS, we anticipate our DFS will deliver nameplate operating costs comparable in real terms with the earlier indicative assessment" Mr Stocks added.

"Magnetite projects in Australia have been knocked about recently. We've seen predictions of imminent iron price collapses that have not materialised, along with unfortunate large scale cost overruns associated with problematic commissioning and ramp-up of difficult to process banded iron formation (BIF) projects in Western Australia. However, we believe the scale of pessimism across the board is unwarranted, particularly when considering the significant geological and technical advantages the coarse-grained CEIP mineralisation (-150-170µm) holds over the fine-grained magnetite projects (-25-40µm)," Mr Stocks said.



Overview

- The key differences between the PFS and DFS are generally positive for project economics:
 - Scale-up from 12.4Mtpa 67% Fe concentrate (-106µm) to 20Mtpa 67% Fe concentrate with coarser grain size (-150-170µm).
 - Utilising Iron Road's efficient and cost effective capesize, owner-operated port that allows for incremental capacity above CEIP's initial requirements rather than export via a potential third party port.
 - Increased product grain size (from -106µm to -150-170µm) has confirmed that rail transport from the mine to port is required versus a slurry pipeline.
 - Port and rail infrastructure designed to be scalable, allowing for straightforward expansion in capacity to meet future growth of primary industries and resources.
 - Additional iron recovery from a gravity circuit together with the increase in overall magnetite concentrate size distribution, are expected to see operating cost improvements through lower power demand and a reduction in associated fixed plant capital cost.
 - Review of process plant design has indicated that additional benefits of modularisation are likely in determining unit capital expenditure requirements.
 - Mineralisation at the CEIP now defines the largest Measured + Indicated magnetite resource in Australia. A recent review of the potential for iron mineralisation in areas beyond the existing resource base has identified a conceptual exploration potential of 8 to 17 billion tonnes of magnetite gneiss in addition to the existing 3.7Bt mineral resources. This supports the scalability of the infrastructure and expected cost efficiencies over time.
- Pending completion of the DFS, we recognise the inherent uncertainty associated with the PFS FOB operating cost estimate of A\$59 per dry metric tonne (ex-State royalty) and while the key variances above are generally positive, we assess a low likelihood of the DFS producing a higher number. Although circumspect with this figure, we also recognise that the potential for unexpected increases in costs are likely to be mitigated by an anticipated decline in general resource sector activity from recent peaks.
- Based on a modest 2013 assumed premium of US\$2.25/dmt per 1% Fe above the 62% Fe Index price, CEIP would theoretically generate an operating margin greater than half of China's current annual iron ore requirements in seaborne equivalent terms. This tonnage mainly comprises Australian and Canadian supply, Indian fines and CIS ore as well as mainstream Chinese domestic concentrate. The assessment is based on an independent industry consultant's 2013 price-adjusted CFR China supply cost curve.
- As hematite (DSO) grades and quality steadily decline impacting blast furnace productivity, the imperative for greater iron ore quality is expected to return as global economic conditions recover. Deficiencies characteristic of lower-grade ores will increasingly need to be counterbalanced by more high-grade ores blended into sinter feed mixes.

- In real terms, a longer run premium assumption of US\$3.20/dmt per 1% Fe for CEIP’s 67% Fe concentrate (US\$16/dmt positive price differential versus the 62% Fe Index) would largely offset expected capesize freight rates from Cape Hardy in South Australia delivered North China. Since the inception of Index-based pricing, the 1% Fe premium has varied in the US\$2-\$6/dmt range. Independent industry consultant Metalytics forecasts a long-term 62% Fe fines price forecast of US\$112/dmt CFR China in real terms.
- CEIP nameplate EBITDA potential of US\$1B+ per annum derived from:

$$\text{EBITDA est.} = 20\text{Mtpa (dry)} \times (\text{CEIP CFR China Price less freight rate less FOB costs})$$

$$= 20\text{Mtpa} \times (\text{US\$112/dmt} + 5 \times \text{US\$3.20/dmt} - \text{US\$17/dmt} - \text{A\$59/dmt (ex-royalty)})$$

Price Adjusted Cost Curve Concept

Costs and revenue drive a competitive industry position

Like metallurgical coal, the global iron ore industry produces a wide range of products for steel mills (fines, lump, concentrates and pellets) each having different iron grades and specifications, incurring price penalties or premiums versus the 62% Fe Index or “benchmark” price.

Therefore, cost curves alone (excluding price effects) do not reflect an accurate industry margin position.

In July 2013, independent industry consultants, Metalytics, introduced a new concept of a price-adjusted CFR cost curve for iron ore supply into China. Metalytics estimates the actual supply mix into the Chinese market from both import and domestic sources. They have extended the concept a step further by adding a price adjustment to each estimated source, effectively normalising the costs back to a standard 62% Fe basis.

The China cost curve is well accepted industry-wide as the most relevant to consider as it is the driver of seaborne iron ore prices.

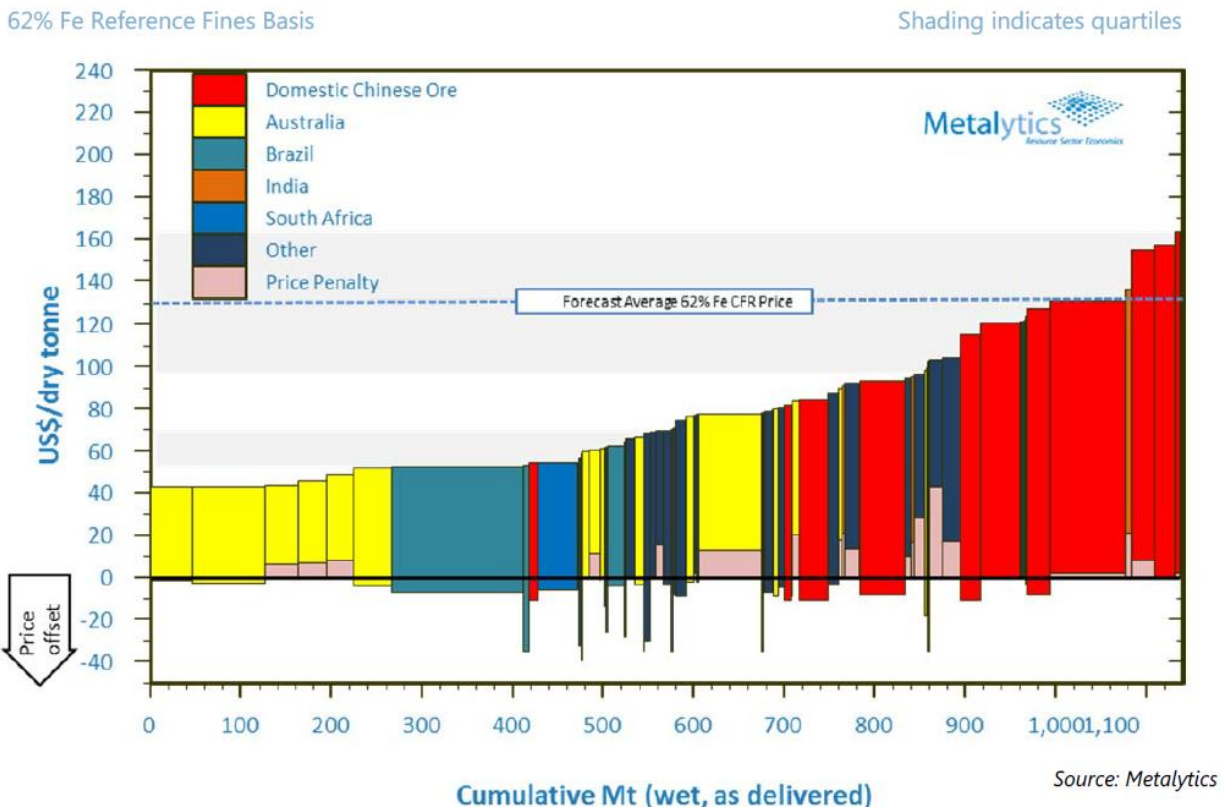


Figure 2 2013 Price-Adjusted CFR Cost of China’s 2013 Iron Ore Supply

For high-grade products that attract premium prices, such as higher-grade direct-ship-ore (DSO) lumps and fines, concentrates, and pellets, Metalytics offsets or reduces the CFR cost by the value of the estimated premium they receive above the 62% Fe Index price. These premiums effectively act as credits against production costs. Lower-grade products that sell below the Index price are depicted with CFR cost penalties. In this way, the resulting adjusted costs can then be compared on a more equitable basis.

Figure 2 shows that regardless of price adjustments, the Pilbara operations of BHP Billiton and Rio Tinto unsurprisingly occupy the bottom end of the curve and account for the first quartile of China's supply.

According to Metalytics, Brazil's Vale then commands the next portion of supply as price premiums for its products reduce the disadvantage of higher ocean freight costs compared with its traditional Australian competitors. Moving up the curve, Metalytics assesses some limited lower-cost high-grade Chinese domestic concentrate and competitive South African producers.

The remainder of the second quartile is then a mix of well positioned Australian, South American, CIS and limited African supply, and includes some pellet imports, which are brought down the curve by the price premiums they attract. It is in this second quartile that CEIP would be positioned today based on the expected cost profile and a modest US\$2.25/dmt per 1% Fe premium.

Entering the third quartile, Metalytics benchmarks more supply from higher cost and/or smaller Australian producers, Canadian imports and a continuation of various miscellaneous sources including additional CIS ore, and lower-cost Indian fines, before seeing the start of the mainstream Chinese domestic concentrate tonnage.

The highest cost quartile, even with price adjustments, remains the domain of the bulk of Chinese concentrate production.

Long Term Trends

As world iron ore production has expanded, miners have widened the range of grades and ore qualities supplied to the market. This has meant lower-grade ores finding acceptance with commensurate pricing discounts and adjustments. Although this is expected to continue because of increasing tonnages required globally, the deficiencies of such products need to be counterbalanced by high-grade ores blended into sinter feed mixes.

Genuine, high quality DSO development opportunities in Africa and parts of South America are viewed as being limited, owing to a combination of factors such as political instability and erratic mining policies, security concerns and a lack of legal, commercial and appropriate financial structures and systems. In addition, permitting and other regulatory hurdles, infrastructure constraints and a lack of availability of skilled and qualified personnel and services can at the very least add to long project lead times.

Over the long term, as Chinese ore production costs are expected to continue to rise, Metalytics expects to see a substantial portion of their production drop out of the market, to be replaced by new supply, primarily from the majors as well as other new sources. Although this is widely anticipated to result in a flattening of future cost curves and lower long term iron ore prices compared with the spot price today, history has consistently shown that the timing and volumes of new supply has lagged expectations by a considerable margin. A highly concentrated seaborne supply industry will likely see this trend continue.

Metalytics believes their future curve points to limited scope for prices to decline in real terms given the need to allow for sustaining capital expenditure and to extract suitable returns from new projects for the risk involved. In Metalytics view, to support their long-term 62% iron fines price forecast of US\$112/dmt CFR China in real terms, around one-third of current supply will need to be displaced by lower cost alternatives and a similar amount of new supply will have to emerge over the remainder of the decade to provide for consumption increases through the period.

Notes

- The Metalytics 2013 Price-Adjusted CFR China cost curve depicts FOB cash production costs including government royalties and export taxes plus ocean freight to a main Chinese port for imported ore. It excludes financing costs, depreciation, sustaining capital, exploration expenditure and other non-direct cash production costs
- Price adjustments to costs are with reference to 62% Fe fines on a CFR China basis
- Price offsets represent assumed premiums above the reference 62% Fe fines price
- Premiums are calculated on a grade and product basis using assumptions derived from reported market prices for products of various origins
- Price premiums have been deducted from forecast 2013 CFR China costs, thus offsetting the commonly higher production or delivery costs of many products such as high-grade concentrates and pellets
- Price penalties represent assumed discounts to the reference 62% Fe fines price based on reported market prices and other assumptions
- Price penalties or discounts have been added to CFR China costs, thus moving some lower-grade products to the right on the cost curve
- Notional premiums and penalties have been applied to Chinese concentrate, however these vary widely across producers and regions
- The total tonnage represents forecast total supply to China for 2013

Base price assumptions used for 2013 are:

- | | |
|------------------|---------------|
| • 62% Fe fines | US\$130/dmt |
| • 58% Fe fines | US\$113/dmt |
| • 1% Fe premium | US\$2.25/dmt |
| • Lump premium | US\$13.4c/mtu |
| • Pellet premium | US\$28/dmt |

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For further information, please contact:

Andrew Stocks, Managing Director
Iron Road Limited
Tel: +61 8 9200 6020
Mob: +61 (0)403 226 748
Email: astocks@ironroadlimited.com.au

Shane Murphy
FTI Consulting
Tel: +61 8 9485 8888
Mob: +61 (0)420 945 291
Email: shane.murphy@fticonsulting.com

Or visit www.ironroadlimited.com.au

Iron Road's principal project is the Central Eyre Iron Project (CEIP) in South Australia. The wholly owned CEIP is a collection of three iron occurrences (Warrambo, Kopi & Hambidge) with an exploration potential of 8 - 17 billion tonnes of magnetite gneiss at a grade of 14 - 20% iron*.

A prefeasibility study has demonstrated the viability of a mining and beneficiation operation initially producing 12.4Mtpa of premium iron concentrate for export. A definitive feasibility study is currently assessing production of 20Mtpa of iron concentrates

Metallurgical test work indicates that a coarse-grained, high grade, blast furnace quality concentrate may be produced at a grind size of -150 to -170µm grading 67% iron with low impurities.

* Iron Road Limited ASX announcement 11 September 2013.

It is common practice for a company to comment on and discuss its exploration in terms of target size, grade and type. The potential quantity and grade of an exploration target is conceptual in nature since there has been insufficient work completed to define the prospects as anything beyond exploration target. It is uncertain if further exploration will result in the determination of a Mineral Resource, in cases other than the Boo-Loo, Dolphin and Murphy South/Rob Roy prospect.

The information in this report that relates to exploration potential at the Central Eyre Iron Project is based on and accurately reflects information compiled by Mr Milo Res, who is a full time employee of Iron Road Limited and a Member of the Australasian Institute of Mining and Metallurgy. Mr Res has sufficient experience relevant to the style of mineralisation and the type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Res consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Resources estimated for the Boo-Loo prospect is based on and accurately reflects information compiled by Mr Ian MacFarlane, Coffey Mining, who is a consultant and advisor to Iron Road Limited and a Fellow of the Australasian Institute of Mining and Metallurgy. Mr MacFarlane has sufficient experience relevant to the style of mineralisation and the type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Coffey Mining consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Resources estimated for the Murphy South – Rob Roy prospect is based on and accurately reflects information compiled by Ms Heather Pearce, who is a full time employee of Iron Road Limited. This estimation was peer review by Dr Isobel Clark of Xstract Mining Consultants. Dr Clark has sufficient experience relevant to the style of mineralisation and the type of deposits under consideration and to the activity which she is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Xstract Mining Consultants consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.



Attachment 1 – Mineral Resource Estimates

CEIP Global Mineral Resource							
Location	Classification	Tonnes (Mt)	Fe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)	LOI (%)
Murphy South/Rob Roy	Measured	2,222	15.69	53.70	12.84	0.08	4.5
	Indicated	474	15.6	53.7	12.8	0.08	4.5
	Inferred	667	16	53	12	0.08	4.3
Boo-Loo	Inferred	328	17	52	12	0.09	2.1
Total		3,691	16	53	13	0.08	4.3

The Murphy South/Rob Roy mineral resource estimate was carried out following the guidelines of the JORC Code (2004) by Iron Road Limited and peer reviewed by Xstract Mining Consultants (Rob Roy). The Boo-Loo mineral resource estimate was carried out following the guidelines of the JORC Code (2004) by Coffey Mining Ltd.

CEIP Indicative Concentrate Specification – 106 micron (p80)				
Iron (Fe)	Silica (SiO ₂)	Alumina (Al ₂ O ₃)	Phosphorous (P)	LOI
67%	3.3%	1.9%	0.005%	-2.4