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# CAP lifts stake in Hawsons JV amid growing project interest

## Highlights

- **CAP's stake in world-leading Hawsons Iron Project rises to 66.5% following project expenditure in FY2017**
- **Financial investors and steel market participants among several parties currently reviewing project data, as the Company looks to attract the funding to complete bankable feasibility study (BFS)**
- **Discussions also initiated with leading project finance banks, with initial feedback encouraging**
- **Hawsons project to benefit from strength in the premium iron ore market, with price forecasts revised upwards and likely structural shift in demand seen for high quality products**

Emerging iron producer Carpentaria Exploration Limited (ASX:CAP) announced today it has increased its stake in its flagship Hawsons Iron Project to 66.5%, amid growing investor interest following July's successful prefeasibility study (PFS) results.

Carpentaria's interest in the Hawsons joint venture has risen due to its project expenditure during fiscal 2017, reducing partner Pure Metals Pty Ltd's interest to 33.5% from 36% previously.

Meanwhile, the Company has focused on progressing the next stages of the Broken Hill project's environmental impact statement and the bankable feasibility study (BFS), while seeking funding from potential offtakers and other market participants and financial investors.

Following the PFS's successful delivery (refer ASX announcement 28 July 2017), a data room was opened and several parties capable of substantially funding the BFS are reviewing the project data, including potential product buyers and investors. Costs for completing the BFS are expected to be in the order of \$25-\$30 million.

Carpentaria has recently visited North Asia, the Middle East and United Kingdom to present the PFS results to interested steel market participants and other potential investors and received a very positive reaction.

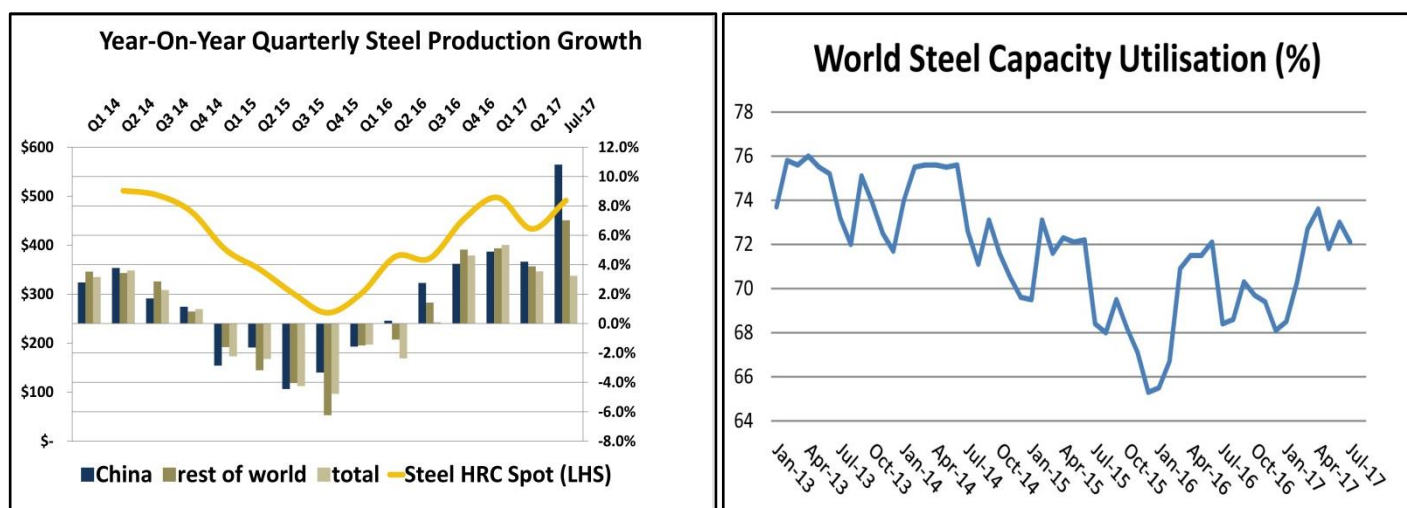
The Company has also initiated discussions with leading project finance banks, with initial feedback also encouraging.

Carpentaria will provide detailed project information to such lenders as the BFS progresses and as the project's commercial arrangements are negotiated. At this very preliminary stage, no "red flags" have been raised regarding potential customers, indicative commercial terms or the project's financing assumptions.

Commenting on the latest progress, Managing Director Quentin Hill said: "The positive industry reaction to July's PFS results has been backed up by our talks with leading global steel makers and traders, who recognise the strategic edge that access to Hawsons Supergrade® product provides, as well as from leaders in project finance. With 120% of the project's initial planned production already assigned to blue-chip buyers across Asia and the Middle East, we are confident of securing the necessary funding to deliver the BFS for the benefit of all stakeholders."

### Steel and iron ore market update

Official Chinese steel production has again recorded record highs, with a total of 74.57 million metric tonnes (mt) produced in August 2017, following the previous record of 74.02 million mt set in July, according to Bloomberg. World steel production in July 2017 was up 7.0% year on year, with Chinese production up 10.9%, according to the World Steel Association. This record production continues to defy consensus forecasts and is supportive of the iron ore price, with Macquarie Bank recently revising its iron ore price forecast up.



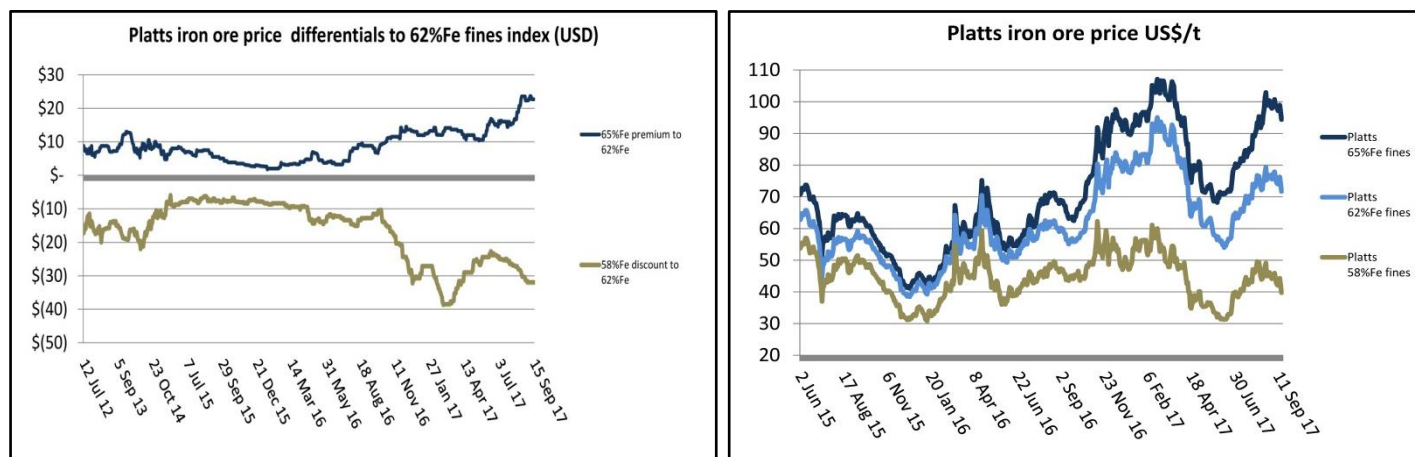
Figures 1 and 2 world steel production and capacity utilisation (Source: World Steel Association)

As highlighted previously by Carpentaria, steel makers' preference for high-grade ore is increasingly structural, reflecting the growing need to improve productivity and curb emissions. The price recently commanded by high-grade ore (65%Fe) is more than double that of low-grade ore (58%Fe) and major producers have been forced to open new mines to maintain quality.

Notably, the Hawsons Supergrade® product has been demonstrated as having the highest iron content in the world, giving steel makers the opportunity to source an increasingly rare product from a new and independent supplier in a low-risk jurisdiction. According to commodity forecaster CRU, iron ore pellet feed/pellets comprise the fastest-growing segment of the global iron ore market, fuelled by consolidation in China and its demand for higher efficiency product, along with significant expansion in the Middle East and Latin America.

Restructuring of the Chinese steel industry is well underway, with over 100mt of steelmaking capacity closures in the past 20 months, and another 90-100mtpa planned through to 2020.

Steel makers' demand for higher productivity, stricter environmental monitoring and general shift to larger furnaces has resulted in increased demand for higher quality iron ore and energy inputs, which has been reflected in increasing iron ore quality differentials (see Figure 3).



Figures 3 and 4 iron ore pricing

This is likely a structural shift favouring higher quality inputs, meaning that the Hawsons project is very well positioned as the leading high-quality iron ore project in the world. This is supported by its low costs, which are estimated in the first quartile of CRU's global iron ore supply cost curve (quality adjusted), and favourable access to infrastructure including port, power, rail, road and water due to its location just 60 kilometres south-west of the Silver City.

"Hawsons is the right project at the right time, with a product that best meets the growing need for high quality inputs of both blast furnace and direction reduction steelmakers. It also has the leading cost structure of any new high-quality project and it is this that will drive development of this project ahead of others," Mr Hill said.

"With support from our blue-chip partners across Asia and the Middle East, we are confident of developing Hawsons into a long-term, low-cost premium iron business, providing new jobs and investment for Broken Hill and wealth for our shareholders."

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*The information in this report that relates to Exploration Results, Exploration Targets and Resources is based on information evaluated by Mr Q.S. Hill who is a member of the Australian Institute of Geoscientists (MAIG) and who has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code"). Mr Hill is a Director of Carpentaria Exploration Ltd and he consents to the inclusion in the report of the Exploration Results in the form and context in which they appear.*