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Market Announcements Office
ASX Limited
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Transcript from Presentation on 20 March 2019

Attached are a copy of the speech by Carpentaria Resources Limited (ASX:CAP) Managing Director to the 22nd Annual Global Iron Ore & Steel Forecast Conference in Perth on 20 March 2019 and associated cautionary statement.

For further information please contact:
Bob Hair
Company Secretary
+61 7 3220 2022

Transcript, Carpentaria Resources iron ore forecasting conference, Perth 20 March 2019

Today I will present the significant progress Carpentaria has made since last year's conference and how the recent changes to market fundamentals have made Hawsons Iron Project's compelling development prospects even stronger.

The global iron ore pellet feed market, including direct reduction (or DRI), needs new mines as demand grows and supply shrinks. These are niche markets worth >$35bn combined. The niche is larger than the global nickel market.

Hawsons Iron Project, located in Broken Hill's infrastructure hotspot, is the world's leading pellet feed and DRI development project, according to Wood Mackenzie.

With its Supergrade product at 70%Fe the world's highest, outstanding financial metrics and compelling market fundamentals, we have the right product, in the right place at the right time.

Even with these outstanding features, Carpentaria realises the challenge of bringing this large project into production.

Fortunately market participants look at project and market fundamentals and not at market capitalisation. The market capitalisation will catch up and now is a buying opportunity.

We have a tremendous project team with Australia's leading engineers, marketers and bankers with experience at BHP, FMG and Hancock.

Last year, I noted that we had plenty to learn from you, the iron ore experts here in the west.

In a move that shows faith in management and the project, Jon Parker, former General Manager Commercial, Rio Tinto Iron Ore has joined the board. Jon will be known to some of you, he negotiated some seminal joint ventures in the Pilbara and has added fantastic depth of iron ore experience to the Board. He also has an impressive post Rio business record, including taking coal junior

Felix Resources from $15m to $500m market cap as MD, later it sold for $3.5bn to Yancoal.

In July last year Japan's Mitsui committed to funding A$5.4m, that's 20% of our BFS funding, for an option over 2Mtpa or 20% of our offtake. The option exercise price is a US$60m debt contribution to the construction.

With Mitsui comes more tier one Western Australian experience.

Another significant change since last year is the amplification of the strong market fundamentals for pellet feed. The tragic Brazilian accident is a pellet feed game changer, fundamentally improving the development case for Hawsons. This awful accident is a very significant event within iron ore sector in particular.

Our record shows Carpentaria delivers its plans. Sometimes with large companies and large projects it takes more time than first thought, but nevertheless we deliver.

The Mitsui deal shows that Carpentaria can attract tier one partners, the project work withstands detailed due diligence and that tier one companies believe in the CAP management team.

One key message today is the update on our BFS funding discussions.

+ Negotiations are active with multiple tier 1 parties for equity and non-dilutive offtake linked BFS and construction funding, we are targeting similar deals to that of Mitsui.
+ CAP is moving through the internal processes of our counterparties
+ And we continue to receive offtake enquiries this quarter by credible, substantial end users, particularly those most affected by Brazilian supply disruptions
+ CAP is confident the market pull for development is very strong and will result in successful completion of the remaining BFS funding

Based on our detailed understanding of the iron ore market the Company remains as confident as ever that the market pull for the development of

Hawsons is strong enough to raise the remaining $22m of BFS funding and allow the project to move up the value curve, closer to the 1 billion plus NPV of the project. We are rigorous, we are different and we are coming.

However, while we are very busy with current negotiations there is always room for others new to the story to get involved through equity or offtake. So if this is for you please get in touch.

Onto the project. Last year I challenged the audience to pick gaps in this magnetite project. No one did, and conversation was on the conservative nature of the price assumption, especially in the DRI market. How accurate that was!

The project has outstanding financial metrics, the GHD PFS results show an all in landed China cost of US$48/t, and using the premium and a consensus iron ore price forecasts a $40/t profit margin.

Today that margin is around $65/t with an equity rate of return of more than 43%. Our assumptions are looking a little conservative at the minute.

The capital cost is $1.3bn to $1.5bn, depending upon our port selection, and pay back is under 2.5-4 years depending on your price assumption.

Hawsons is a first quartile project on the Wood Mackenzie value in use adjusted cost curve, right where finance lenders need you to be. It is cash flow positive at iron ore prices under $30/t, managing downside risks for lenders. There is also room to flex the price without shifting the position.

Wood Mackenzie's most recent IRR chart for those projects not owned by the majors, shows Hawsons as the clear standout.

These metrics, coupled with the increasing supply gap in the pellet feed market, amplified by events in Brazil, build a compelling case for development.

Now to a quick summary of how we will finance this project, because unless we have a credible finance plan, BFS funding is very difficult. It is based on the Roy Hill funding model and consultation with banks.

At the right time, the Company plans to sell a minority asset stake to a strategic partner. We expect competition for this sale process based on comments from market participants. It is planned proceeds from this sale will substantially fund the Company's equity component.

We expect project finance lenders will require a 20% overrun facility to be provided by others. Customers can contribute pro rata. The Mitsui US$60m loan exercise price is its 20% share.

So onto the a reminder of the project features. The project is located 60km south-west of Broken Hill, it has resources of over 330mt of product including 111mt of probable reserves.

Power will be accessed from the reliable eastern states grid 35km away. We are negotiating a BFS level connection study now.

Water will be sourced from a defined, high yield aquifer 90km south of the project, which is able to be allocated under existing regulations.

A workforce is available from Broken Hill

We will mine and process on site. Hawsons' soft ore makes the difference on cost and quality, and I'll talk more about that shortly.

We will then slurry 10Mtpa of magnetite concentrate, 55km to the rail head at Broken Hill. The product will be railed using the existing 12Mtpa spare capacity to either Port Pirie, our base case, or to Whyalla, where there is room at the port, and compelling long term synergies with the existing operation.

We will then tranship to Capesize vessels to our customers in Asia and the Middle East. We have non-binding letters of intent with an impressive list of customers with a wide geographical spread.

The product quality is the world's best at 70%Fe, less than 2% silica, and no other notable contaminants. The grain size at less than 40microns, is ideal for pelletising and at near 100% magnetite it is the world's best pellet feed.

On the approvals side we have federal government Major Project status and have largely completed our ecological studies without issue. There is no native title in our area of operation.

Subject to funding we plan to complete the BFS and approvals in 12-15 months, with 3-6 months for finance and 18 months to construct, for first production 3 years after securing the remaining 80% of BFS funding.

Now with the poor history of magnetite in WA, why do we think we can do better!

It is the ore and the infrastructure that are the key to the world leading metrics.

We estimate a $5-20/t processing advantage over typical Western Australian magnetites.

Hawsons' soft ore and cheaper power give a site power cost of ~A$5/t product. WA projects, using a sensible range of ore body yield and hardness and Pilbara power costs result in a ~A$10 to 25/t site power cost. Some will know the projects are generally at the higher end of that range.

Hawsons Supergrade® product can be upgraded to 70%Fe without material yield losses and so also attracts an extra A$10-20/t revenue over typical concentrates.

So these key features give up to A$40/t cost advantage. That's why we are leading the world.

There are other advantages too: Hawsons has a single ore type, compared with deposits that have five or more ore types. This means operators can concentrate on volumes, not blending or mine selectivity.

Access to existing rail, port and power infrastructure gives a capital intensity in line hematite projects.

And the advantages don't end there. The complex WA magnetite projects were beset with delays and costs overruns.

Hawsons' comparative simplicity minimises risks of delays and aids cost control.

For those who are after more technical details please visit our website, we are proud of the work we have done and again suggest there are no gaps for a project at this stage of development.

Onto the market

Our product fits a high value niche, that is DRI quality pellet feed, something unfamiliar to the Australian audience. Hawsons Supergrade® is also suitable for the greater pellet feed market.

They are the growth markets in iron ore. A supply gap has been identified in both markets and is providing a strong development pull for Hawsons. Mitsui recognised this before the Brazilian accident, it is even stronger now.

We can get caught up in dollars and production figures. In iron ore the most significant number this year is 308. That is the number of lives lost in the Brazilian dam accident. This is a tragedy and a big black mark against the global mining industry.

While we would all like to see more production granularity in data majors present, our friends at FMG and BHP, who have a duty of care to thousands of people, are right to present a people and safety focus in their presentations. This focus is what helps to keep people safe. It is what Carpentaria aspires to.

In Brazil there are many stakeholders wanting to be heard by government and a disaster of such magnitude rightly must cause a substantial change in practices. The closures keep coming with another 13Mtpa over the weekend. The full impact of the dam accidents in my view still has a long way to play out. It is a game changer.

The supply disruptions of ~50-80Mtpa, by our estimates include ~17-35Mtpa of pellet/or pellet feed, including according to Fast Markets 4Mtpa of DRI pellets.

Minas Gerais state produces about a third to half of the world's seaborne pellets or pellet feed, and a similar share of the seaborne DR market.

Reported changes implemented already have meant no new tails dams are approved, and forced decommissioning of existing dams of a certain type. There is also a transition to dry stacking of tailings for existing mines.

Longer term this means increased capital costs and operating costs for pellet feed production.

With that said, just what is the market for the pellet feed and DRI and where does Hawsons fit?

CRU and Vale identified a ~50Mtpa supply gap for pellet feed before the accident. This was based largely on increasing pellet rates in Chinese blast furnaces. The accident means this gap has suddenly got larger.

Pellet rates in China have increased from 11-15% in the last couple of years, including 1% since January, a time of declining mill margins according to Mysteel. Time will tell if this continues. However, for those that favour structural factors driving high grade and increased pellet use, traders are telling us that China has an increasing technical input to iron ore procurement, perhaps reflecting the increasing sophistication required to run larger furnaces more efficiently to get the productivity and environmental dividends. This method of operation also requires more pellets.

While high cost Chinese production is predicted to come back online to fill some of the pellet feed gap, it can be readily displaced by projects at the front of the cost curve.

In the DR market there are no immediate substitutes. The seaborne trade is ~35-40Mtpa. Incremental production increases have already been done. The market is already supply constrained. This is why existing DRI producers are now using up to 30% of blast furnace quality pellets. Additional demand is coming from new plants in North Africa, not to mention expansion plans frustrated by feed constraints.

The DRI market will come under severe supply pressure.

The DRI supply side is very concentrated with 80% coming from two countries, and about half from Minas Gerais in Brazil. They need new sources of supply, we know this, Mitsui knows this and now you know this. Hawsons is the leading development project in this market.

The market fundamentals and financial metrics build a very strong development case for Hawsons.

The global pellet feed market needs new mines as demand grows and supply shrinks.

We are a company with very sound plan, a highly experienced team ready to deliver based on extremely strong market fundamentals. We are negotiating now with the right funding parties.

It is time to trust the engineering,

It is time to trust the market fundamentals, follow Mitsui's lead and support what is clearly the right product, in the right place at the right time.

Those that do are set to prosper. Show the faith Jon Parker showed when coming on board.

Thank you

Quentin Hill
Managing Director
Carpentaria Resources Limited

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