

## ASX Announcement and Media Release

22 July 2014

# *Razorback value increases on abolition of the carbon tax*

### Key Points:

- **Abolition of Carbon Tax improves Razorback's business case by \$100 Million**
- **Its abolition has further derisked future electricity pricing**
- **Royal will continue to pursue carbon emissions mitigation regardless**

**Royal Resources Limited (Royal; ASX: ROY)** is pleased to update the market on the effect on the Net Present Value of its proposed 9.3Mtpa Razorback Premium Iron Project (RPIP) as a consequence of the recent abolition of the Carbon Tax by the Commonwealth Government. In referring to this NPV estimate Royal confirms that all material assumptions relating to the production target or the forecast financial information derived from that production target in the original announcement issued on 28 May, 2014 continue to apply and have not materially changed.

### NPV ex-Carbon Tax

Royal recently announced the outcome of the independent review of the RPIP Pre-feasibility Study (28 May, 2014). That review, undertaken by industry-respected Oyster Consulting, provided an NPV estimate of \$2,781 Million. The study was undertaken assuming foreign exchange rate parity.

The financial model used to estimate the NPV allowed provisions for the Carbon Tax at \$23 per tonne of carbon, a cost that was mainly reflected in the electricity costs used. Excluding the Carbon Tax boosts the NPV by \$100 Million.

The abolition of the Carbon Tax has significantly derisked electricity pricing by removing the variable of an unknown, and unknowable, future carbon price. Royal applauds the injection of certainty into this aspect of the future cost of doing business.

Mr Marcus Flis, Managing Director, reiterated that "Royal will continue to do all possible to mitigate the project's energy usage as it is a major cost element of the proposed operation. We have proposals to offset our carbon generation, such as afforestation, and it is intended to continue to develop those proposals in the absence of the Carbon Tax".

## **NPV ex-MRRT**

The on-going debate on the rescinding of the Minerals Resources rent Tax has little consequence on the project's NPV. This is because any future cost is pushed so far into the future by the credits of our depreciating Capital costs, that the discounted value today is negligible. Of course, given the longevity of the proposed mining project, the MRRT will be an impost on future cash flows, so Royal supports the abolition of the MRRT.

"The RPIP has been shown to be a profitable business under the assumptions of the completed and independently reviewed Pre-feasibility Study", Mr Flis said. "The wisdom of using currency parity and an assumed forward iron ore price of US\$120/t has shown our financial model to be very robust. At current iron ore pricing of about US\$98/t and a foreign exchange rate of US\$0.93 to A\$1, the project's realised iron ore price would be US\$105/t. With the added premium of our proposed high grade product, currently running at around US\$4 per Fe% per tonne over the reference grade of 62% Fe, the project's realised iron ore price is estimated to be A\$129/t. Continuing downward pricing pressure on low grade ores (sub 62% Fe) underlines the value of the RPIP's proposed high grade product. A depreciating Australian dollar will further enhance that value".

### **About Royal Resources Limited**

Royal Resources Limited is a mineral exploration company exploring for iron ore in South Australia and for iron, gold and uranium in the Northern Territory. The Razorback Premium Iron Project (RPIP) is centred on the Razorback Ridge deposit within the Red Dragon Venture. It has a JORC (2004) Resource of 2.7 Billion tonnes at 15.3% recovery, including 1.04 Billion tonnes at 16.2% recovery in the Indicated Resource category.

The completed Pre-Feasibility Study shows it to be technically feasible and economically attractive. The Project is targeting production of 9.3Mtpa of premium grade magnetite concentrate by conventional open pit mining and beneficiation. The resulting low-contaminant 67.4% Fe product will attract premium pricing to haematite fines. The RPIP has a potential mine life in excess of 50 years and will employ a workforce of over 650.

The details contained in this report that pertains to ore, mineralisation and the resource underpinning the production target is based upon information compiled by Mr Marcus Flis, BSc (Hons), MSc, a full-time employee of the Royal Resources Limited, Gavin England BSc (Hons), PhD, a full-time employee of the Royal Resources Limited and Mr Lynn Widenbar BSc(Hons), MSc, DIC, Principal Consultant Widenbar and Associates Pty Ltd. Mr Flis is a Fellow of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Widenbar is a Member of the AusIMM. Dr England is a member of Australian Institute of Geosciences (AIG). These three people have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Persons as defined in the December 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC 2004 Code). Mr Flis, Dr England, and Mr Widenbar consent to the inclusion in this report of the matters based upon their information in the form and context in which it appears.

The information for the Razorback Premium Iron Project was prepared and first disclosed under the JORC Code 2004. The information has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

## **For further information contact:**

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