HODGES Resources Limited

ASX Announcement

27 October 2014

Hodges secures funding and acquires Rio Tinto Mining And Exploration interest in an iron sands project

- $3 million Facility Agreement secured.
- Advanced exploration work program and operational concept, with no infrastructure constraints or dependencies.
- Potential for a large scale, long life and low cost operation.

Hodges Resources Ltd (ASX: HDG) ("Hodges" or "the Company") is pleased to announce that it has reached an agreement with Rio Tinto Mining and Exploration Limited ("RTME"), on the acqusition of their interest 60% in and rights to an iron sands project ("Project") in North West New Zealand. The Agreement involves RTME selling their interest and rights in a Farm-In and Joint Venture for the Project, a potentially large scale iron sands project in the North West of New Zealand.

Hodges' Managing Director Mark Major said the transaction could represent a company making deal Managing Director Mark Major said "We have identified two highly prospective projects and have also been able to negotiate terms that involve a low entry cost, with a deferred payment once the Project moves into production. This transaction could represent a company making deal for Hodges."

THE PROJECT

The Project is located off the west coast of the North Island of New Zealand, in a premier iron sands jurisdiction. There are two established onshore iron sands mines currently in operation in New Zealand, Waikato North Head and Taharoa (refer to Figure 1), both owned by New Zealand Steel a subsidiary of ASX listed Bluescope Steel.

The Project consists of two separate tenements, the Mokau and Manukau Blocks, which cover more than 1200 km^2, extending from the shore westwards to around 20 km offshore. The iron sands covering these tenements comprise of a solid solution of titanium, magnesium, manganese and vanadium in titanomagnetite.

The work completed by RTME since October 2007 and other mining companies, within the area, including aeromagnetic surveys, seismic, drilling and metallurgical testwork. Work programmes conducted to date indicate the titanomagnetite sands are unconsolidated which has the potential for a low capital, low operating cost iron sands operation.

RTME have been actively advancing the Project through exploration and stakeholder engagement programs. In addition to having completed exploration target resource evaluations, RTME have also undertaken environmental baseline and scoping studies, stakeholder studies and engagement meetings, conceptual operation studies and marine geophysical surveys.

Based on the evaluation of the preliminary exploration work on behalf of RTME and independently reviewed by Hodges' consultant and Competent Person, Mr Richard Twomey, an Exploration Target, of 2.5 to 3.0 Billion tonnes at 8.0 to 16.0% Fe, 1.3 to 2.3%TiO_2 and 0.06 to 0.14%V_2O_5 has been identified at the Mokau Block. This estimate is based on broad spaced drilling and aeromagnetic survey information from a third party.

The Directors advise shareholders that the potential quality and grade is conceptual in nature. Additionally, there has been insufficient exploration to define a Mineral Resources and it is uncertain if further exploration will result in the determination of a Mineral Resource.

TERMS OF THE AGREEMENT

Under the terms of the agreement, Hodges will acquire RTME's interest in the project by:

- Payment of a non-refundable deposit of NZ$100,000 cash on execution of the agreement;
- Payment of renewal invoices as they come due in coming months for both permits;
- Payment of NZ$5,000,000 upon commencement of commercial production of iron ore product from the Project and;
- A royalty payment on commercial production of US$1 per tonne for the first 10Mt and US$0.50 for the next 90Mt produced. No royalty after 100Mt of commercial production.

Hodges will be assigned all RTME's rights, title and interest in the farm-in and joint venture agreement.

Under the JV terms, Hodges will be the registered holder of a 60% interest in the permits and has the right to continue to earn a 60% beneficial interest by sole funding and delivering a pre-feasibility study to the JV partner. Hodges will then have a right to increase its beneficial holding to ultimately 80% in the projects by sole funding the completion of a feasibility study.

At this point the partner will have the right to retain the 20% interest in the JV by electing to fund their position in the project or accept a 1% Net FOB sales revenue Royalty.

The sale agreement is subject to license renewal and transfer of permits, including the consent by the overseas Investment Office of New Zealand.

Figure 1 Map of north west New Zealand showing location of Makau and Manukau blocks in relation to the Waikato North Head and Taharoa iron sands operations.

FUNDING and PLACEMENT

Hodges, in conjunction with the signing of the Project sale agreement with RTME, has signed a binding Facility Agreement with BNM Australia Group Pty Ltd, a Western Australian mining and consultancy group for a total value of $3.0 million. Under the Facility Agreement, the Funder will provide access to funds up to a value of $3m, which can be drawn down at anytime. Interest will be paid at a rate of LIBOR plus 2% every six months. The term of the facility is three years from the date of the first drawdown.

In addition to the facility agreement, the Funder has also been offered a placement ("Placement") for new shares in Hodges for 20,000,000 ordinary shares at an issue price of $0.03 per share, representing an 89% premium to the 30 day VWAP of Hodges. The Placement utilises 64% of Hodges' remaining capacity provided for under ASX listing rules 7.1 and 7.1A and does not require shareholder approval. If the Funder subscribes for more than 8% of the Company's capital, a Board position will be made available to them.

A finder's fee will be payable on the asset acquisition from RTME.

"The Directors believe the Project has the potential to become a world class iron sands operation capable of producing a highly marketable titanomagnetite product. The Project is closely situated to key end markets and is located in a first world jurisdiction where similar iron sands operations already exist or are under development" Mr Major said.

Further Project information is contained in the Project Appendix.

Please contact Mark Major should you have any queries on this announcement.

Mark Major
Managing Director

For Further Information
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Disclaimer

This document may contain forwardlooking statements. Certain material factors or assumptions were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information. Actual values, results or events may be materially different to those expressed or implied.

The information in this report that relates to the project has been prepared relying on the information provided by the vendor. The information that realtes to the Exploration Target is based of assessments of prospects within the Project which are supported by drilling, sampling, geophysical surveys, geological mapping and modelling undertaken over the last five years on this information and compliled by an independent competent person.

PROJECT APPENDIX

The Project consists of two separate exploration permits, namely the Mokau and Manukau Blocks. (Figure 1).

PREVIOUS EXPLORATION ACTIVITES

RTME commenced working on the permitted areas in October 2007. Since then they completed ninety one (91) vibracores (drill holes), seventy two (72) x-ray fluorescence (XRF) analyses and four hundred and forty four (444) Davis Tube determinations (DTR). Two aeromagnetic surveys were also flown as well as seismic and side scan sonar and depth sounding during this time. Three (3) bulk samples of $1m^3$ to $1.5m^3$ were also collected in 2012.

RTME also completed exploration target resource evaluations, environmental baseline and scoping studies, stakeholder studies and engagement meetings, conceptual operation studies and more recently marine geophysical surveys.

This information has been provided to Hodges and the Company's consultants as part of the due diligence process involved in the transaction.

DETAILS OF EXPLORATION TARGET ESTIMATION

An independent assessment and review of the RTME data supports the Exploration Target estimation at the Mokau project as shown in Table 1 below. No Exploration Target or Resource report has been estimated for the Manukau block at this time.

A combination of University of British Columbia (UBC) magnetic inversion geophysical interpretation using the 1000x 10^{-5}SI unit contour along with the vibacore drilling, sampling, XRF and DTR results were used to estimate the Exploration Target. Sixty four (64) percent of the drillholes completed are within the boundary of the area enclosed by the 1000x 10^{-5}SI unit contour of the UBC magnetic inversion model on the Mokau Block (refer to Figure 2).

The estimated in-situ grade and tonnage values within the defined geophysical anomaly are:

Table 1 - Exploration Target Estimation (JORC 2014)

Block	Area (km^2)	Exploration Target (million tonnes)	Fe (%)	TiO_2 (%)	V_2O_5 (%)
Mokau	736	2,500 to 3,000	8.0 to 16.0	1.3 to 2.3	0.06 to 0.14

For this Exploration Target, the potential quality and grade is conceptual in nature and there has been insufficient exploration to define a Mineral Resources and it is uncertain if further exploration will result in the determination of a Mineral Resource as defined by the JORC Code. Data used for this estimation was derived and supplied from exploration work completed by RTME.

The Mokau data was processed using the UBC (University of British Columbia) inversion programme with a cell size of 50m by 50m by 10m thick. This product produces a block model of the magnetic susceptibility required to match the observed data. The modelled magnetic susceptibility was gridded and then converted to an image and a contour plan.

Due to the variable sediment thickness in the Permit areas from a few metres to as much as 20-30m, the vibracores have inadequately sampled the iron mineralisation within the unconsolidated

sediments due to a lack of penetration. The mineralogical results from the vibracoring programme as the unconsolidated sediment stratigraphy on the shelf has not been adequately sampled as only the first few metres of stratigraphy are represented in the core sample mineralogical and XRF data. However, the magnetic susceptibility when plotted against the percentage of titanomagnetite shows a very strong correlation (see Figure 3) and validates the extrapolation and interpolation between widely separated data points used to derive the Exploration Target range.

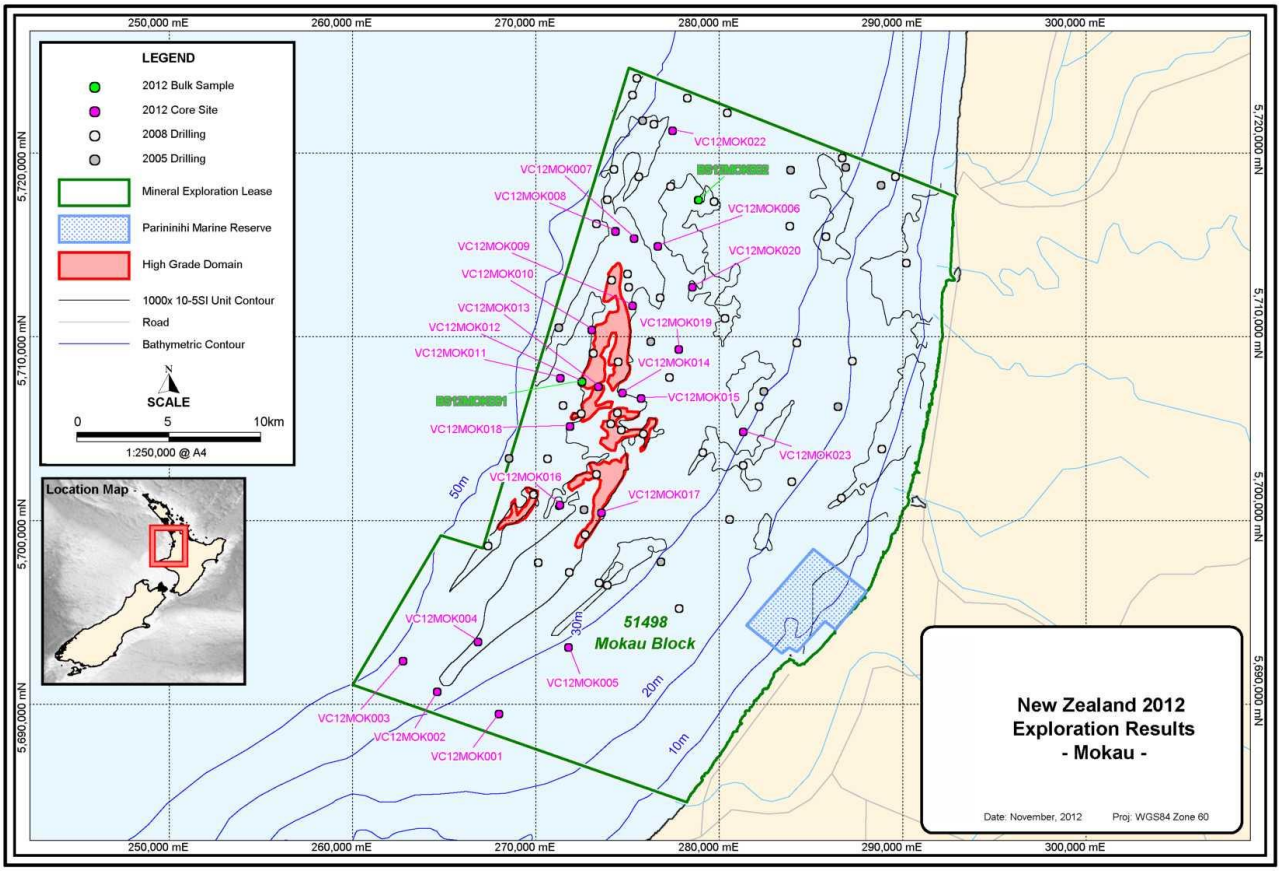

Figure 2 Exploration Map Mokau Block - showing location of Vibacore drilling, samples and UBC magnetic inversion contour

A synthesis of all of the above observations, together with geological logs and assay data served to formulate the very conservative nature of the Exploration Target tonnage/grade. Deeper penetration drilling is certainly required to manifest the excellent potential evident on the Mokau Block.

Drilling requirments for the estimation of Mineral Resource for Mokau are unclear and Hodges is evaluating its options. To provide a first pass indication of drilling requirements for estimation of Mineral Resources a 1000 m by 1000 m pattern was overlain on the current high grade mineralized domain interpretation.

With projection to an average 10 m hole depth the 1000m by 1000m pattern would comprise of appoximately 80 to 100 holes for 800 to 1,000 meters. Although not necessarily suffiecent for Mineral Resource estimation, a subset of such drilling pattern may be sufficient to test the general validity of the Exploration Target.

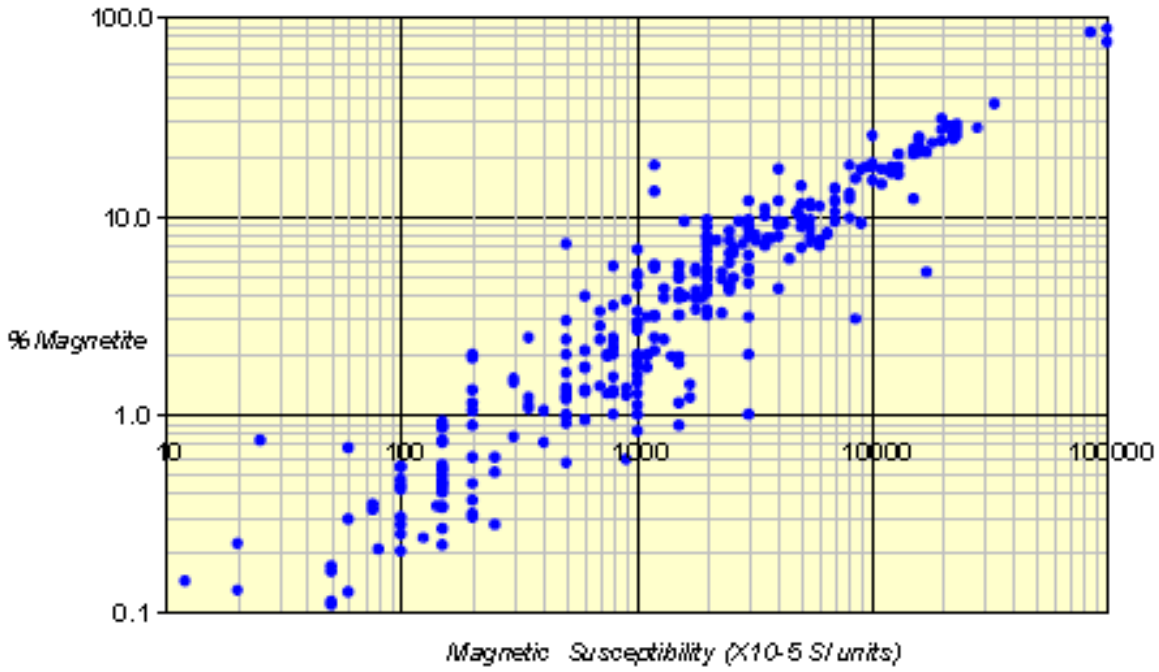

Figure 3 Magnetic Susceptibility Vs. Magnetic content (Davis Tube results) for all samples.

METALLURGICAL TESTWORK

Independent Metallurgical Operations Pty Ltd (IMO) performed an evaluation of a subsample of a bulk sample derived from the Mokau Block provided by Rio Tinto as part of the New Zealand Ironsands due diligence review at IMO's laboratory Metallurgy Pty Ltd in Perth, Western Australia. Two approximately 20 kg sub-samples were extracted from a bulk sample stated to be representative of the Mokau Block high grade zone. Given the similarity in head grade, the two samples were combined and then subjected to rougher stage wet Low Intensity Magnetic Separation (LIMS) beneficiation, followed by rougher concentrate grinding to increasingly finer grind sizes and cleaner LIMS beneficiation.

The LIMS test work results confirm the following based on a sample head grade of 7.43% Fe:

- A concentrate mass yield of 4.41% at a grind (P_{80}) size of 53µm grading 57.64% Fe and 7.53% TiO_2;
- Concentrate Silica and Alumina gangue grading 3.71% SiO_2 and 3.23% Al_2O_3 respectively.

Detailed testwork results are provided in the table below, based on a sample head grade of 7.43% Fe.

Table 2: LIMS testwork results based on sample head grade of 7.43% Fe.

Stage	Mass %	Grade (%)			
		Fe	SiO_2	Al_2O_3	TiO_2
Assay Head	100.00	7.43	54.98	11.20	1.02
Rougher Concentrate	12.01	27.51	31.14	6.28	4.02
Cleaner Con P_{80} 106µm	5.98	52.22	7.78	3.89	7.66
Cleaner Con P_{80} 75µm	4.86	55.45	4.97	3.52	7.88
Cleaner Con P_{80} 53µm	4.41	57.64	3.71	3.23	7.53
Predicted Con P_{80} 59µm	4.78	56.00	4.66	3.45	7.79
Predicted Con P_{80} 59µm	4.65	57.00	4.08	3.31	7.43

Competent Persons Statement

The information in this report that relates to the Exploration Target, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Richard F Twomey, BSc (Hons), who is a member of the Australian Institute of Geoscientists. Mr Twomey is an independent consultant engaged by Hodges Resources Ltd to review and assess all previous work on the Titanomagnetite Sand Project, in north-western New Zealand. Mr Twomey has sufficient experience which is 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". Mr Twomey 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 Metallurgical testwork is based on information compiled by Daryl Evens, who is a Fellow of the Australian Institute of Geoscientists. Mr Evens is an independent consultant engaged by Hodges Resources Ltd to review and oversea the completion of the metallurgical teswork. Mr Evens has sufficient experience which is 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". Mr Evens consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

CAPITAL STRUCTURE

Ordinary Shares:
141,447,230

Unlisted Options:
11,900,000

Stock Exchange Listing:
Australian Securities Exchange
Code: HDG

BOARD MEMBERS

Nathan McMahon – Non-Exec Chairman
Mark Major – Managing Director
Bryan Dixon – Non-Exec Director

MANAGEMENT

Mike Robbins – Company Secretary

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