20 April 2016

ASX ANNOUNCEMENT

Iron Road Limited (Iron Road, ASX:IRD)

CONTINUING COST REDUCTIONS AT CENTRAL EYRE IRON PROJECT (CEIP)

Project Commercialisation Programme targeting further reductions to life of mine operating costs and capital expenditure

HIGHLIGHTS

- **Market repricing of operating consumables has generated a further improvement in forecast CEIP unit costs compared with those announced in the October 2015 Optimisation Study findings.**
- **Life of Mine average Free on Board (FOB) OPEX (ex-state royalty, sustaining capital) now reduced to US$35.38/dmt at baseline AUD = 0.75 USD.**
- **Diesel, explosives, process plant grinding media and mill liners re-assessed that together comprise 33% of FOB operating costs.**
- **One of Australia's leading integrated energy companies currently evaluating long-term power supply and tariff options – electricity accounts for a further 20%+ share of FOB operating costs.**
- **Project construction cost opportunities now being targeted to reduce CAPEX by at least US$600 million to US$3.4 billion (incl. contingency). Revised quotations identify competitive tendering process and unrealised engineering, procurement and construction (EPC) wrap efficiencies as the key drivers.**
- **Strategic Co-operation Agreement with China Railway Group (CREC) provides a credible whole-of-project financing pathway given CREC's long established links within the Chinese banking system. A gearing ratio of 70-75% combined with a project completion guarantee and long loan tenor is expected to achieve the optimal lowest cost of funds for the CEIP.**
- **A geared, post-tax NPV_{10} of US$1.4 billion and 15% IRR is the minimum targeted outcome for the project commercialisation phase based on latest average long-term iron ore price forecasts from independent, industry consultants (US$70–72.56/dmt for 62% Fe Fines CFR China – real $2016).**

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Iron Road Limited (Iron Road, ASX: IRD) is pleased to announce that further cost reduction efforts at its 100% owned Central Eyre Iron Project (CEIP) in South Australia are underway as part of the Project Commercialisation Programme jointly being undertaken by Iron Road and China Railway Group Limited (CREC). A minimum 15% reduction in both life of mine OPEX and CAPEX is being targeted compared with earlier Optimisation Study findings disclosed by Iron Road to the ASX on 13 October 2015.

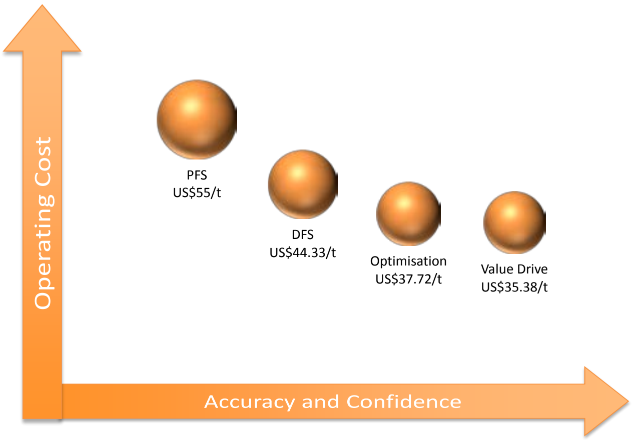

Figure 1- Reduction in operating cost over time, reflective of maturing and more accurate project studies and the global downward shift in market pricing.

Since the completion of the 2014-15 Optimisation Studies, there has been a sustained downward shift in the market pricing of operating consumables. Development activity across the global resources sector also continues to unwind rapidly in a direct response to weak commodity prices. This in-turn, is placing additional and substantial downward pressure on CAPEX estimates (albeit with a timing lag).

Market repricing of four groups of operating consumables were sourced from a range of suppliers to better reflect current commercial conditions at the latter end of the March 2016 quarter. Effectively, this represents the commencement of a further re-calibration of life of mine OPEX and CAPEX compared with the estimates last disclosed by Iron Road in October 2015. The following consumables which make up around 33% of total FOB operating costs show the respective 12 month decrease in unit pricing versus the 31 March 2015 based findings:

- Diesel (36% decrease)
- Explosives – ammonium nitrate and emulsion phase (5% decrease)
- Process Plant Grinding Media – SAG Mill (16% decrease), Ball Mill and Regrind Mill balls (20% decrease)
- Process Plant Mill Liners (10% decrease)

Not included in the updated consumables review was power, which comprises a further 21%+ of overall FOB operating costs. Power is yet to be re-assessed given that one of Australia's leading integrated energy companies continues to evaluate long-term electricity supply and tariff options best suited for this large-scale, long-life project. Also not included in the preliminary re-assessment was the balance of consumables such as tyres and ground engaging tools which make up a further 4% of OPEX. Iron Road anticipates that further efficiencies in these areas along with maintenance items and components (22% OPEX share) will enable the minimum 15% overall FOB OPEX reduction target to be achieved.

Modelled labour costs comprising around 22% of OPEX are not expected to be materially adjusted.

The latest breakdown of life of mine FOB OPEX is shown in Table 1.

Table 1: FOB OPEX Estimate by Area (Real $2016 and $2015 Terms respectively)

	At 24 March 2016 (AUD = 0.7492 USD)		At 31 March 2015 (AUD = 0.7634 USD)	
FOB Operating Cost By Area	**Life of Mine US$M**	**Life of Mine Average US$/dmt**	**Life of Mine US$M**	**Life of Mine Average US$/dmt**
Mine	12,675.86	21.91	13,678.26	23.65
Mine Waste Rock and Tailings Management	220.44	0.38	224.90	0.39
Process Plant	5,529.38	9.56	5,746.59	9.93
Mine Concentrate Handling	223.11	0.39	237.79	0.41
Water Treatment and Supply	65.96	0.11	67.21	0.12
Rail	437.23	0.76	521.94	0.90
Port	577.07	1.00	593.78	1.03
Operations Support / Corporate	735.11	1.27	749.05	1.29
Total	**20,464.16**	**35.38**	**21,819.52**	**37.72**

Note- LOM represents 29 year ore mining schedule and 578.46Mt of dry iron concentrate produced.

The rail and port operating costs highlighted in Table 1 reflect the ownership and operation of these facilities by Iron Road. Comparative unit costs are lower than the Pilbara due to shorter haulage distances, flatter topography, efficient loading and unloading, no dredging requirement and several other factors. Charts 1 and 2 provide an updated graphical representation of FOB OPEX by both type and area.

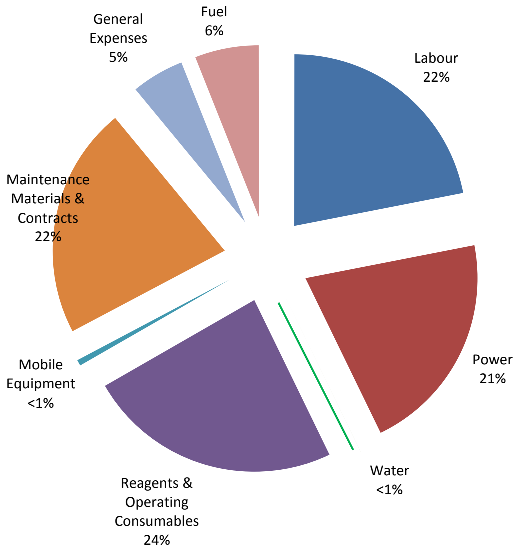

Chart 1- Operating Cost by Type

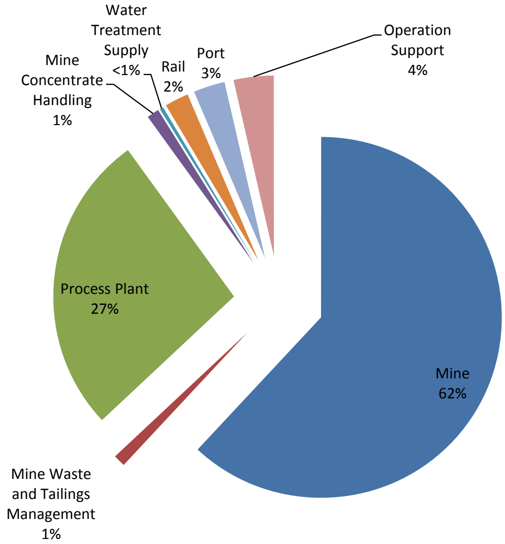

Chart 2- Operating Cost by Area

Iron Road Managing Director Andrew Stocks said: “Following the recent signing of our pivotal Strategic Co-operation Agreement with China Railway Group and a further tripartite agreement with China Railway and Shandong Iron & Steel Group, we are maintaining genuine momentum in advancing towards a Final Investment Decision. We are also acutely aware of continued weak market consensus sentiment relating to the outlook for short to medium term iron ore prices. However, Iron Road together with its partners, are continuing to get on with the business of assembling the CEIP development consortium, refining the project economics, procuring the requisite equity and debt finance and ultimately delivering this large-scale, long-life state significant resource and infrastructure project.”

Mr Stocks added, “China Railway Group, after a decade of reviewing iron ore projects worldwide, including projects that failed during the sector boom period, has selected Iron Road’s CEIP to partner with, since from their perspective, it is the only project that offers a high quality product, a complete infrastructure solution from resource to steel mill and which has completed the vitally important, de-risking task that can only occur through time and cost intensive preparatory works.”

Despite softness in quality, high grade concentrate premiums during the March 2016 quarter, Iron Road calculates that the current operating breakeven benchmark price assessment for CEIP remains around US$40/dmt given OPEX and sustaining CAPEX efficiencies identified. The CEIP 62% Fe equivalent CFR China breakeven price assessment (pre-interest), reflective of the 31 March 2015 Optimisation Study baseline is illustrated in the 13 October 2015 ASX release. It shows average total sustaining, life of mine cash costs (on a delivered China basis, excluding financing costs). It also shows the revenue offsets generated from the sale of a high quality, iron concentrate attracting above benchmark prices, reflective of the premiums paid at that time. As is the case for all iron ore producers and project proponents, this analysis (similar to industry cost or margin curve benchmarking) is a constantly evolving process given the number of independent and dynamic inputs.

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