

CAZALY RESOURCES LIMITED

PARKER RANGE PROJECT UPDATE

FEASIBILITY STUDY CONFIRMS ROBUST PROJECT ECONOMICS FOR ALTERNATE EXPORT OPTION

- No export allocation granted to Cazaly for Kwinana Bulk terminal by Fremantle Port Authority
- Decision allows for Feasibility Study on alternate export option which confirms technical and economic viability of the Parker Range Iron Ore Project
- Plan to export an initial 1.4 Mtpa through Fremantle, then 4.6 Mtpa export through Esperance port in Year 2:
 - Initial production using enclosed containerised transport to Fremantle Container Terminal and rotary unloading into Supramax Vessels
 - Stage 2 ramp up by conventional bulk rail to expanded Esperance port loaded into Cape Sized vessels for remaining mine life
- NPV of A\$372M with IRR 106%
- Revenue based on independent price forecasting and not spot iron ore prices
- Up front capital costs of A\$59.6m plus A\$104.4m deferred until Stage 2
- Estimated operating costs of A\$77/t (Stage 1) then A\$60/t (Stage 2)
- Mineral Resource 35.1 Mt @ 55.9% Fe (61.4% CaFe)
- Mining Reserve of 31.4 Mt @ 55.3% Fe producing 30.2 Mt of fines product grading 56.6% Fe (62.2% CaFe)
- Highly marketable fines product as sinter feed with some similar properties to established Yandi Fines products
- First ore on ship (FOOS) planned for Q1/2012
- Stakeholder consultation and strategic partner discussions underway

Cazaly Resources Limited (ASX: CAZ, “Cazaly”) has been advised by the Fremantle Port Authority that it has not been allocated any export capacity at the Kwinana Bulk Terminal for its Parker Range Iron Ore Project. Fremantle Ports has determined that the available export capacity be allocated to a competing iron ore developer and to, the now foreign owned, Griffin Coal.

The Company has, however for some time been working on a number of alternate options which are well advanced. The preferred option from these has been incorporated into the Feasibility Study the results of which show that the project retains very robust project economics.

The Company proposes to initially export through the port of Fremantle at a rate of 1.4 Mtpa followed by export through the port of Esperance at a rate of 4.6 Mtpa.

The project greatly benefits from its close location to existing and accessible infrastructure including road, rail, port, power and township. This access allows for the relatively rapid development and ramp up to full production within 2 years.

The initial start-up rate of 1.4 Mtpa utilises available capacity within the existing container transport, storage and port infrastructure facilities at Fremantle. Containerised product is rotary unloaded into bulk ships using a proven dustless system recently pioneered in South Australia by Flinders Ports and IMX Resources. The Esperance port ramp up to 4.6 Mtpa will be undertaken using conventional bulk transport and handling methods.

These positive results now allow for the advancement of government and non-government stakeholder consultation and the completion of discussions for financing.

The study has shown that the Company is on track to become a major iron ore producer in the Yilgarn region of Western Australia behind Koolyanobbing Operations who have successfully operated in the region for many years.

SUMMARY OF THE STUDY

The study evaluated several options for development based on the production of single fines product at varying throughput rates and port scenarios. The development options included:

- **Option 1:** 4.2 Mtpa production via an expanded bulk port of Esperance.
- **Option 2:** 1.4 Mtpa ramping to 4.6 Mtpa production initially via containerised transport to Fremantle Inner Harbour (year 1) then subsequently via bulk transport to the port of Esperance.

Although option 1 is feasible, the study indicated that option 2 be the preferred development pathway with a financial evaluation as follows;

Table 1: Summary Option 2 Business Case

	Capex (A\$m)	Sales (Mt)	Cost (A\$/t)	NPV ₉ (A\$m)	IRR (%)	Payback (Years)
1.4 Mtpa Ramp 4.6 Mtpa Scenario	59.6 (+104.4*)	30.8	60**	372	106	1.83

* Additional capital requirement for year 2 to expand to 4.6 Mtpa ** includes marketing but excludes royalties

The study also highlighted Esperance as a sustainable export port option (subsequent to Kwinana) due to the use of Cape Sized vessels offsetting the additional rail haulage distance. Furthermore we note

recent announcements outlining \$120M of State government funding to upgrade the Esperance Port Access Corridor and the development of plans to expand the export capacity of the port including the construction of a new Multi User Iron Ore Export Facility. Discussions with both the Esperance and Fremantle Port Authorities have commenced.

Option 2 will be developed in two distinct stages:

- **Stage 1:** 1.4 Mtpa production via containerised transport to Fremantle Inner Harbour as a Direct Shipping Ore (DSO).
- **Stage 2:** 4.6 Mtpa production via bulk transport to expanded Esperance Port as an Iron Fines Product (IFP).

Project Management

The study was lead by Cazaly Resources and involved a number of experienced sub-consultants as follows;

<i>Component</i>	<i>Consultant</i>
Marketing and Shipping	Tennant Metals / Euromin-Vitol
Resource Estimation	Runge Ltd
Mine Design and Schedules	Runge Ltd
Geotechnical Assessment	Runge Ltd
Hydrological Assessment and Modelling	Rockwater Pty Ltd
Metallurgical Test Work	IMO Pty Ltd / Ammtec Laboratories
Engineering and Logistics	HWE Mining / Longrun Transport
Engineering Cost Estimates	Intech Engineers Pty Ltd
Operations	HWE Mining / Cazaly Resources
Environmental Surveys	Keith Lindbeck & Associates / Botanica Consulting
Heritage Surveys	Western Heritage Research Pty Ltd
Approvals	Keith Lindbeck & Associates / Cazaly Resources Ltd
Commercial Proposals	Suppliers and Contractors

Study components of risk management and financial evaluation were undertaken by Cazaly Resources.

Marketing

The targeted fines only product has several highly favourable chemical properties sought by Asian steel mills including an ultra-low phosphorous content (Table 2). Strong expressions of interest have been received for the product following marketing in Asia and negotiations are greatly advanced for the sale of iron ore fines from the project.

Table 2: Parker Range Target Product Specification

Ore Type	Fe	CaFe*	SiO2	Al2O3	P	Mn	LOI
	%	%	%	%	%	%	%
Typical	56.4	61.9	6.00	2.50	0.020	1.1	9.10

* CaFe: calcined Fe% grade (ex Loss On Ignition)

Technical marketing studies indicate that price realisation for Parker Range Iron Ore Project (PRIOP) fines is expected to be aligned with Hamersley fines benchmark price (58% Fe grade adjusted on a FOB basis). The PRIOP fines product is ultra low in phosphorous with acceptable level of chemical impurities. The ore has a manganese content to supplement addition during steel making and has a high LOI with many properties similar to some existing established Pilbara ore products (eg. Yandicoogina fines). The product will be -12mm in size with an expected ultra-fines content of 10% representing a high quality sinter feed.

Mineral Resources and Mine Reserves

The Feasibility Study was based upon the independently modelled mineral resource by Runge Limited using a nominal 50% Fe wireframe for BIF (oxide) and Detrital material with a 51.5% lower Fe cut-off grade. The resulting Measured, Indicated and Inferred Resource is **35.1 mt @ 55.9% Fe** as follows;

Table 3: Mount Caudan Deposit Mineral Resource Estimate (51.5%Fe Cut-off Grade)

Measured Mineral Resource								
Type	Tonnes	Fe	Al ₂ O ₃	P	SiO ₂	LOI	Mn	S
	t	%	%	%	%	%	%	%
Detrital	3.4	54.9	6.4	0.013	7.2	6.4	0.6	0.07
Oxide	21.0	56.2	2.0	0.020	6.0	9.3	1.4	0.07
Total	24.4	56.0	2.6	0.019	6.2	8.9	1.3	0.07
Indicated Mineral Resource								
Type	Tonnes	Fe	Al ₂ O ₃	P	SiO ₂	LOI	Mn	S
	t	%	%	%	%	%	%	%
Detrital	0.3	52.9	7.7	0.011	7.7	7.0	0.8	0.07
Oxide	7.3	56.8	2.7	0.024	5.9	9.1	0.5	0.09
Total	7.7	56.6	3.0	0.024	6.0	9.0	0.5	0.09
Inferred Mineral Resource								
Type	Tonnes	Fe	Al ₂ O ₃	P	SiO ₂	LOI	Mn	S
	t	%	%	%	%	%	%	%
Detrital	0.3	54.4	5.2	0.022	6.5	9.7	0.1	0.10
Oxide	2.8	53.9	3.4	0.016	9.3	8.6	0.5	0.15
Total	3.1	54.0	3.6	0.017	9.0	8.7	0.4	0.14
Total Mineral Resource								
Type	Tonnes	Fe	Al ₂ O ₃	P	SiO ₂	LOI	Mn	S
	t	%	%	%	%	%	%	%
Detrital	4.1	54.7	6.4	0.014	7.2	6.8	0.6	0.07
Oxide	31.1	56.1	2.3	0.021	6.3	9.2	1.1	0.08
Total	35.1	55.9	2.8	0.020	6.4	8.9	1.0	0.08

nb; figures rounded

Based on the current Measured and Indicated Resources, Runge Limited completed mine optimisation, pit designs and planning to provide a mine ore reserve estimate of **31.4 mt @ 55.3% Fe (60.7% CaFe)** with target fines marketable reserves of **30.2 mt @ 56.6% Fe (62.9% CaFe)** as follows;

Table 4: Mount Caudan Deposit Ore Reserve Estimate (51.5%Fe Cut-off Grade)

	Ore Reserves							
	Tonnage (mt)	Fe (%)	Al ₂ O ₃ (%)	P (%)	SiO ₂ (%)	LOI (%)	Mn (%)	S (%)
Proved	24.1	55.3	2.9	0.02	6.9	8.9	1.2	0.08
Probable	7.3	55.3	2.7	0.02	6.9	9.0	1.2	0.08
TOTAL	31.4	55.3	2.9	0.02	6.9	8.9	1.2	0.08

	Marketable Reserves (Fines Product)							
	Tonnage (mt)	Fe (%)	Al ₂ O ₃ (%)	P (%)	SiO ₂ (%)	LOI (%)	Mn (%)	S (%)
TOTAL	30.2	56.6	2.1	0.02	5.9	8.9	1.2	0.08

The Mt Caudan Ore Reserve is based on a single fines production rate of 1.4 Mtpa (DSO year 1) ramping to 4.6 Mtpa (IFP year 2+) with a life of mine waste to ore stripping ratio of **2.3:1** based on an initial **8.3** years mine life. Contract mining is assumed via conventional open pit mining method, with the Company managing the mine design, medium and long term planning, grade control, sampling and ore quality control.

Given the continuity of mineralisation and the close proximity of inferred to indicated material the Company firmly expects that further planned drilling will readily convert a reasonable proportion of the inferred resource material, which represents less than 10% of the resource, to indicated status which can then be considered for conversion to an ore reserve in the future. Mineral resources based on the limited amount of Inferred Resources are considered too speculative to be considered for ore reserve estimation. The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves.

Metallurgy

Ore characterisation studies for the Feasibility Study have been aimed at further laboratory scale testwork and subsequent pilot scale testwork to prove the selected beneficiation flowsheet for ores with greater than 50% Fe grade. Pilot testwork produced a 1 tonne marketing sample which is available to Cazaly's selected customers for confirmation of sintering properties.

Pilot scale testwork has demonstrated a favourable average performance of: +1.35% Fe, -1.04% SiO₂, -0.75% Al₂O₃ at a 96.0% metal recovery (with 93.7% mass recovery) to product from total flowsheet feed.

Ore characterisation testwork included determination of parameter ranges for density, crushing work index, abrasion index, ultimate compressive strength and materials handling characteristics as key inputs for engineering. Based on physical attributes the ore is classified as soft-moderate in comparison to Pilbara hematite ores and will be amenable to conventional crushing and screening process technology.

Processing and Infrastructure

The Feasibility Study was based upon a mobile crushing plant producing a single fines product at 1.4 Mtpa, (Stage 1) then ramping production to 4.6 Mtpa with a permanent fixed plant inclusive of beneficiation (Stage 2). Road trains will transport bulk ore 57 km from mine to a new rail head facility located at Moorine Rock. The transport route development includes the upgrade of existing roads and a new private road in conjunction with the Shire of Yilgarn and local rural landholders.

For the Stage 1 development a 3 km long rail siding will be constructed interconnecting with the Eastern Goldfields Railway (EGR) at Moorine Rock. The Stage 1 terminal will include a stockpile for bulk product with a container filling and exchange storage area suitable for half-height containers. The lidded containerised product will then be transported for export to Fremantle.

For the 4.6 Mtpa (Stage 2) development, the Moorine Rock rail terminal will be expanded from a siding to a 5.5 km long balloon loop inclusive of an additional track connection to suit Esperance port exports. The terminal will include a new stockpile area and automated train load out facility suitable to load bulk ore trains.

Mine infrastructure includes the progressive development of a 33 kV powerline from Marvel Loch, microwave communications, mine workshops, administration, fuel storage, dewatering borefield, water storage, desalination plant and supported by a new worker accommodation village based at the nearby township of Marvel Loch. Rail terminal infrastructure includes the establishment of a road haulage truck service depot, 22 kV power connection and water supply from the nearby mains pipeline.

Infrastructure and transport operations have been developed in consultation with the Shire of Yilgarn, Western Power, Water Corporation and contracting community. Rail infrastructure and above rail freight operations have been developed in consultation with WestNet Rail and Pacific National respectively.

Operations

The Company and its Operate and Maintain (OM) contractor anticipate employing up to 180 persons during the 1.4 Mtpa Stage 1 operations Stage, with up to 110 persons on-site at any one time. After ramp-up to a production rate of 4.6 Mtpa a total of workforce of 236 persons is required with up to 147 persons on-site at any one time. Furthermore, during construction a workforce of up to 250 people will be required to complete the project over a 2 year ongoing construction period for both Stage 1 and 2 implementation.

It is the intention of Cazaly to provide opportunities wherever possible to the local community in the area. Cazaly will continue to work closely with the Yilgarn Shire Council and community to provide these opportunities.

Environmental, Heritage, Community and External Approvals

The Mount Caudan deposit and proposed project area is already covered by existing granted mining leases. Cazaly holds the necessary iron ore mining rights to the project and no native title claims exist in the area. All environmental baseline studies have been completed for project assessment.

Ministerial approvals are well advanced for the project with Table 6 providing status of key approval processes:

Table 6: Status of Key Project Approvals

Project Milestone*	Forecast Date
<i>Approvals per Part IV – Environmental Protection Act 1986</i>	
Public Environmental Review Completed (Assessment No. 1811)	10 January 2011
Cazaly Response to Public Submissions (Draft) Completed	11 February 2011
EPA Comments Received and Response to Public Submissions (Final) Completed	9 May 2011
EPA Assessment Report and Bulletin	Pending

Ministerial Approval (including appeals period)	Pending
<i>Approvals per Part V – Environmental Protection Act 1986</i>	
Project Works Approval Application (Draft) Completed	21 January 2011
Project Works Approval Application (Final) Completed	11 April 2011
Works Approval and License Issued	Pending
<i>Approvals per Mining Act 1978</i>	
Mining Proposal (Draft) Completed (Registration ID 29544)	24 January 2011
DMP Comments Received	11 March 2011
Mining Proposal (Final) Completed (Registration ID TBA)	11 May 2011
DMP Assessment Complete	Pending
Ministerial Approval	Pending

Ministerial approval and works approval for construction are forecast to be granted in Q3 2011.

Consultation has been undertaken with key stakeholders to ensure all impacts can be adequately identified and managed throughout the approvals process. There exists strong community support within the Yilgarn region for the project and Cazaly will continue to consult with the community.

Financial

The capital and operating cost estimates have been financially modelled and the expected evaluation for the project development is as follows;

Table 5: Summary Investment Business Case

	Capex (A\$m)	Sales (Mt)	Cost (A\$/t)	NPV ₉ (A\$m)	IRR (%)	Payback (Years)
1.4 Mtpa Ramp 4.6 Mtpa Scenario	59.6 (+104.4*)	30.8	60**	372	106	1.83

* Additional capital requirement for year 2 to expand to 4.6 Mtpa. Capital costs estimated to accuracy ±15%.

** includes marketing but excludes royalties. Operating costs estimated to accuracy ±15%

The 1.4 Mtpa ramp to 4.6 Mtpa development scenario displays robust investment economics. Capital payback is less than 2 years with a high IRR of 106%. After the start-up capital investment of A\$59.6m the subsequent deferred capital investment of A\$104.4m is self funded by project cashflow (subject to final timing of the Esperance port).

The financial evaluation incorporates iron ore prices and FX supplied by an independent group based upon expected price realisation for PRIOP fines product as follows;

Table 6: Revenue Forecast for Parker Range IOF

Year Ending*	Unit	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e
FX A\$/US\$		1.03	1.00	0.86	0.85	0.84	0.80	0.80	0.80	0.80	0.80
Iron Ore Fines Expected Price*	US\$/dmtu	247	224	192	165	153	140	142	138	132	132

*Iron ore fines prices are on a FOB basis, FX and price forecasts are nominal (base date April 2011).

Financial evaluation was completed based on a discount rate of 9.0%. Current iron ore fines spot prices were not evaluated in the model.

Schedule

The Study has indicated the following key project milestones implemented on an Engineering, Procurement Contracting (EPC) basis.

Table 7: Key Project Milestones

Project Milestone*	Forecast Date
Implementation Commencement	May 2011
Construction Commencement – Stage 1	August 2011
First Ore On Ship (FOOS) – Stage 1	March 2012
Construction Commencement - Stage 2	January 2012
FOOS – Stage 2	March 2013

*Stage 1 initial start-up 1.4 Mtpa production then ramp-up Stage 2 to 4.6 Mtpa production.

It is estimated that up to 10 months will be required to design, procure, construct and commission the processing plant and associated infrastructure and services for the project to achieve FOOS (EPC Contract: Stage 1). To expand facilities in time for the Esperance port expansion 14 months will be required to achieve FOOS (EPC Contract: Stage 2).

Comment

The Feasibility Study into the Parker Range Iron Ore Project shows it to be a technically and financially robust project with the ability to produce a highly marketable iron ore fines product for many years. The project is ideally located, has good local community support and can be quickly brought into production. Cazaly has commenced discussions with several potential partners regarding financing of the project which potentially can be generating cashflow from iron ore production within 12 months.

For further information please contact:

Nathan McMahon/ Clive Jones
Joint Managing Directors
Cazaly Resources Limited
Tel: +618 9380 4600
Em: admin@cazalyresources.com.au

David Tasker
Professional Public Relations
Tel: +618 9388 0944/ +61 433 112 936
Em: david.tasker@ppr.com.au

Website: www.cazalyresources.com.au

The information that relates to exploration targets, exploration results and drilling data is based on information compiled by Gregory Miles who is a Member of The Australian Institute of Geoscientists and an employee of the Company. The information that relates to the Mineral Resource Estimate has been authorized by Mr Rob

Williams who is a member of the Australasian Institute of Mining and Metallurgy and an employee of Runge Limited. Both Mr Miles and Mr Williams 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Miles and Mr Williams consent to the inclusion in their names in the matters based on their information in the form and context in which it appears.

Iron ore grades reported for Ore Reserves vary from the grades reported for Mineral Resources due to two principal factors. Firstly, the Mineral Resource grades are based on the total Mineral Resource while Ore Reserves qualities are only for ore within the Mineable Pit Shell. Secondly, the Ore Reserve grades have also been modified by ore losses and dilution factors.

The Ore Reserves estimate in the Statement were based on information compiled and reviewed by Mr. Igor Bojanic, who is a Member of the Australasian Institute of Mining and Metallurgy, a member of the Mineral Industries Consultants Association and is an employee of Runge. Igor Bojanic, signing on behalf of Runge Pty Ltd, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

