

QUARTERLY REPORT - JANUARY to MARCH 2014

WESTERN DESERT FORECASTS BETTER TIMES AFTER TOP-END WET SEASON AFFECTS MARCH QUARTER PRODUCTION AND EXPORTS OF ROPER RED IRON ORE

The Directors of Western Desert Resources (ASX: WDR) provide the following report of activities for the period ended 31 March 2014 – the first full quarter since the historic commencement of operations in Australia’s Northern Territory (NT).

Key Points:-

- Historic first quarter production and maiden export of WDR’s Roper Red iron ore hit by significant NT wet weather and below expectation performance of barging operations
- WDR confident it has now secured appropriate hardware and operational experience to achieve annualized production forecasts after changing transshipment barging operations in a phased and cooperative manner
- Significant benefits flowing from the awarding in January 2014 of the project’s mining services contract to Thiess Pty Ltd, with greater than 85% of WDR’s C1 operating cash costs now contracted allowing the Company to confirm expected FOB C1 cash costs of below A\$65 per tonne upon the project achieving its stated annualised tonnage of 3mtpa
- Additional short term working capital bridge funding from Macquarie Bank Limited (MBL) during the quarter has subsequently been repaid from Entitlement Offer proceeds, taking total drawn MBL debt of \$80.65 million post March quarter-end
- Fully underwritten 6-for-25 traditional renounceable entitlement offer at an issue price of A\$0.50 per new WDR share (Entitlement Offer) announced during the quarter. The entitlement offer was subsequently settled outside of the reporting period on 14 April 2014, raising \$60 million (before costs)
- Revised resource models are in the process of being calculated based on the uplifts to both tonnes and grade being realised to date. Grade control drilling data will be incorporated into forthcoming pit optimisations during the June quarter, which management is confident has the potential to significantly extend the life of WDR’s current DSO operation
- Innovative haul road and logistics chain infrastructure demonstrate quality of design and construction to withstand and continue operations during significant wet seasons

OPERATIONS

ROPER BAR IRON ORE PROJECT (WDR 100%)

Summary production information for Western Desert Resources wholly-owned Roper Bar iron ore operation in the Northern Territory (Figure 1) is provided in Tables 1 and 2 below:

Table 1: Production

	March Quarter 2014 (wmt)	Dec Quarter 2013 (wmt)
Ore Mined	297,956	338,111
Ore Crushed	274,457	121,325
Ore Hauled	294,866	62,226
Ore Shipped	276,999	24,134
Low Grade Ore Mined	163,137	512,055

Table 2: Stockpile Inventory

	March Quarter 2014 (wmt)	Dec Quarter 2013 (wmt)
ROM ¹ Precrusher	166,066	173,742
ROM ¹ Crushed	73,281	59,099
Low Grade	675,192	512,055
Bing Bong Loadout Facility	43,119	38,092

Note 1: ROM = Run-of-Mine

Mining, Crushing & Screening

Thiess was appointed Mining Services Contractor on 13 January 2014 and commenced mining operations on 27 January 2014.

WDR expects a significant increase in production output during the June quarter as dry conditions return. Furthermore, the phased deployment of Thiess' mining fleet will ensure a significant increase in capacity during the June quarter and ensure annualised production capacity is met.

Production output and mining material movement for the past March quarter was significantly impacted due to the record wet season and access issues caused by flooding in certain areas of the project's Danehill pit. Total rainfall for the period was 907mm.

A total of 297,956 tonnes of direct shipping ore (DSO) was mined and hauled to the ROM pad during the quarter.

In addition to this, 163,137 tonnes of low grade material was mined during the period, resulting in a total stockpile of 675,192 tonnes of low grade at the end of March. Low grade ore is stockpiled for future blending and use following the completion of beneficiation studies being evaluated as part of Stage 2 of the Project (refer to Exploration & Research Development Section below). The cost of mining low grade stockpiled ore is included in the C1 costs of Stage 1 of the DSO Project, hence it is retained at nil cost for future use.

The Company crushed 274,457 tonnes throughout the March quarter. Throughput was hampered due to wet feed through the initial oxide ore zone being mined and sodden pre-crusher stockpiles throughout the quarter. Management does not expect to encounter the same extent of difficulties during the next NT wet season as WDR will be mining fresh rock and will be out of the oxide zone in both pits.

WDR has secured an additional mobile crushing plant to provide increased capacity during the dry season and protect against any potential unscheduled crusher downtime. This additional plant, together with lessons learnt from the past wet season, should ensure the Company is able to maintain sustainable crushing rates during the next wet season.

As expected, the average lump-to-fines ratio in the oxide ore zone during the quarter was 60:40 and WDR management is confident of improving this ratio, primarily via enhanced drill and blast patterns, to a sustainable ratio of 70% lump and 30% fines moving forward. Lump ore is currently attracting a premium in global markets of between USD\$6 and \$12 a ton depending on grade of material and actual market conditions.

Grade control drilling results continue to show better tonnes and grade when compared with the reported resource data upon which Mining and Financial modelling is based. These results, together with positive reconciliation from mining, mean that additional ore tonnes are available for the existing DSO operation where ore is screened, crushed and blended without the need for further processing.

The improvement to grade and ore tonnes identified is attributed to a combination of better definition of geological units with more complex folding and improved sample quality. New resource models are in the process of being calculated and will be incorporated in forthcoming pit optimisations, which WDR management is confident have the potential to significantly extend the life of the project's current DSO operation.

Additional DSO grade resources occur underneath existing pits, adjacent to existing pits and also in new areas of outcropping ironstone. WDR will be undertaking a grade control drilling program at E-South during the next quarter which will be used to confirm positive uplifts in tonnes and grade realised to date and also to update pit designs. In addition, exploration drilling during the dry season will focus on proving additional resources at Areas B and Pumbaa (Mountain Creek Project).

Shipping

WDR shipped 276,999 tonnes across 5 SuperMax vessels from the Bing Bong Loading Facility throughout the March quarter.

A slower than anticipated loading rate by the Company's Barging Contractor was encountered during the first quarter of transshipment operations. A combination of factors contributed to this slow loading rate, including longer than anticipated skill development, adverse weather and actual process change for barging.

Efforts to improve the loading rate included WDR's Barging Contractor in mid-January 2014 deploying a further two tugs, increasing total tug capacity from four to six, with the first tug arriving early in February, and the second in mid-February.

Additionally, a further barge was deployed in mid-February, making four barges in total.

Whilst the deployment of the additional hardware during February did see a gradual increase in tonnages barged, the overall result expected was not achieved. Adverse weather (in particular, heavy rainfall) also limited capacity, which continued into the first week of March.

An overall review of the operational capacity of the barging operator, its systems and methods have led to WDR and the current barging operator agreeing to a change of operator and some hardware in a phased and cooperative manner.

The Company's transshipment and barging operations have now been bolstered through the recruitment of experienced personnel and invaluable experience gained through the project's challenging first quarter of operations.

The number of hardware and process solutions already implemented by WDR to improve the performance and efficiency of WDR's transshipment operations is expected to be followed by the imminent announcement of further positive changes to the transshipment operations during the coming weeks.

The Company's revised monthly shipping target of 120,000 tonnes was achieved in March 2014 followed by a 25% improvement in April, shipping 150,000 tonnes. While the April tonnage was 30,000 tonnes short of the target for the month, it was achieved in circumstances where nine days were either completely lost or performed at a significantly reduced loading rate due to heavy wind and weather conditions at the Bing Bong Loading Facility. Furthermore, the April shipment was achieved in circumstances where one tug was not operable in the last week of April due to repairs and the existing tug fleet was not able to operate at full capacity during night time, thereby reducing tonnage volumes.

Management is confident the new hardware, personnel and process solutions to be implemented from the first week of May should result in monthly shipping tonnages in excess of 250,000 being achieved

in May and June. Management expect to exceed those levels beyond June 2014 during the dry season months.

To date full Transshipment operations have not been conducted at night, the implementation of the stated new processes and hardware will ensure operations shall be phased from May into 24 hour continuous work, which will significantly assist delivery of tonnages budgeted.

Operating Costs

WDR's operating costs for the March quarter were impacted by incurring the following:

- Fixed costs absorbed over a lower production base due to the extreme wet season;
- One-off mobilisation and site establishment costs associated with mining and transshipment equipment, including excavators, dump trucks, barges and tugs;
- Annual BBLF Port Access fee which is prepaid annually in advance to gain access to the Port and associated infrastructure;
- Significant demurrage costs for vessels waiting in Port to be loaded given poor transshipment loading rates and performance during the quarter;
- Significant hedge settlement liabilities associated with under-delivery of required tonnages.

WDR's logistics chain infrastructure has withstood a record wet season during its initial quarter of mining operations. Management is confident the solutions identified and implemented with the project's barging operations will ensure the same issues are not repeated during the next NT wet season.

Following commencement of the Thiess mining contract late in January 2014, greater than 85% of WDR's C1 operating cash costs are now contracted allowing the Company to confirm expectations that upon achieving its stated annualised tonnage of 3mtpa it expects FOB costs to be below A\$65 per tonne.

FOB C1 costs exclude marketing, corporate costs, royalties and shipping freight.

WDR's quarterly cash flow statement is reported in the accompanying Appendix 5B.

MARKETING

WDR sells its Roper Red iron ore product via an Offtake Agreement (OTA) with Noble Resources Ltd (Noble) at market spot prices, based on the Platts CFR62 price (cost and freight of 62% Fe fines delivered into North China).

The OTA provides for industry standard adjustments for Fe, Si and any other applicable variances from the Platts Index specifications. Accordingly, the realised CFR price is less than the headline CFR62 price due to these industry standard variations to index specifications. In addition, WDR is paid a premium for its lump products.

WDR has hedged approximately two-thirds of expected Roper Bar production for the following two quarters at an average price of \$A120 per dry metric tonne (dmt) for 62% Fe on a CFR China basis. The Roper Red product is expected to be in strong demand from blast furnaces due its very low levels of phosphorous, sulphur and other impurities.

Notwithstanding a challenging first quarter ramp-up during a significant wet season, WDR has been able to export 276,999 tonnes at a grade of circa 60.2% Fe and 9.5% Si. This is despite lack of available ore due to saturated pits and lower crusher availability given high moisture levels in the ore through the oxide zone.

The average CFR sales prices realised for Roper Red during the quarter was AUD\$105 per dmt in accordance with its hedged rate, grade and impurity penalties as outlined above. This was heavily impacted by the abnormal divergence between 62% Fe indexes and 58% indexes driven by lack of liquidity in Indian ores due to imposed export Tariffs, which has subsequently been rectified in the June quarter.

OUTLOOK

Looking to the future, WDR is pleased to advise the following:-

- Transshipment loading rates of 120,000 tonnes in March 2014 and 150,000 tonnes in April 2014 have been achieved, notwithstanding some challenging seasonal conditions and hardware availability issues of existing fleet during these months.
- Full annualised production levels of 250,000 tonnes during May and June 2014 are expected to be achieved with those levels to be exceeded during the remainder of the dry season months (July to November).
- Transshipment and barging operations have been bolstered through the recruitment of experienced personnel and invaluable knowledge gained through the Company's challenging first quarter of operations.
- A number of hardware and process solutions have been implemented to improve the performance and efficiency of transshipment operations. Further positive changes to transshipment operations are expected to be announced during the coming weeks.
- Whilst USD CFR pricing has fallen in recent months, WDR has hedged approximately two thirds of production for the forthcoming two quarters, ensuring predictability of cash flows for exported product.
- Revised resource models are in the process of being calculated based on the uplifts to both tonnes and grade being realised to date. Grade control drilling data will be incorporated into forthcoming pit optimisations during the June quarter, which WDR management is confident have the potential to significantly extend the life of its current DSO operation.
- Additional DSO grade resources occur underneath existing pits, adjacent to existing pits and also in new areas of outcropping ironstone. WDR will be undertaking a grade control drilling program at E-South during the next quarter which will be used to confirm positive uplifts in tonnes and grade realised to date and also to update pit designs. In addition, exploration drilling during the dry season will focus on proving additional resources at Areas B and Pumbaa (Mountain Creek Project).
- Management continues to pursue Stage 2 Options at Roper Bar, which involve the beneficiation and upgrade of free issue low grade ore mined to a saleable product, which occurs in vast quantities throughout the Sherwin Iron Formation on the 100%-owned exploration and mining leases.

EXPLORATION AND RESOURCE DEVELOPMENT

Western Desert Resources has a diverse range of exploration projects in different commodities and focussed entirely within the Northern Territory (Figure 1).

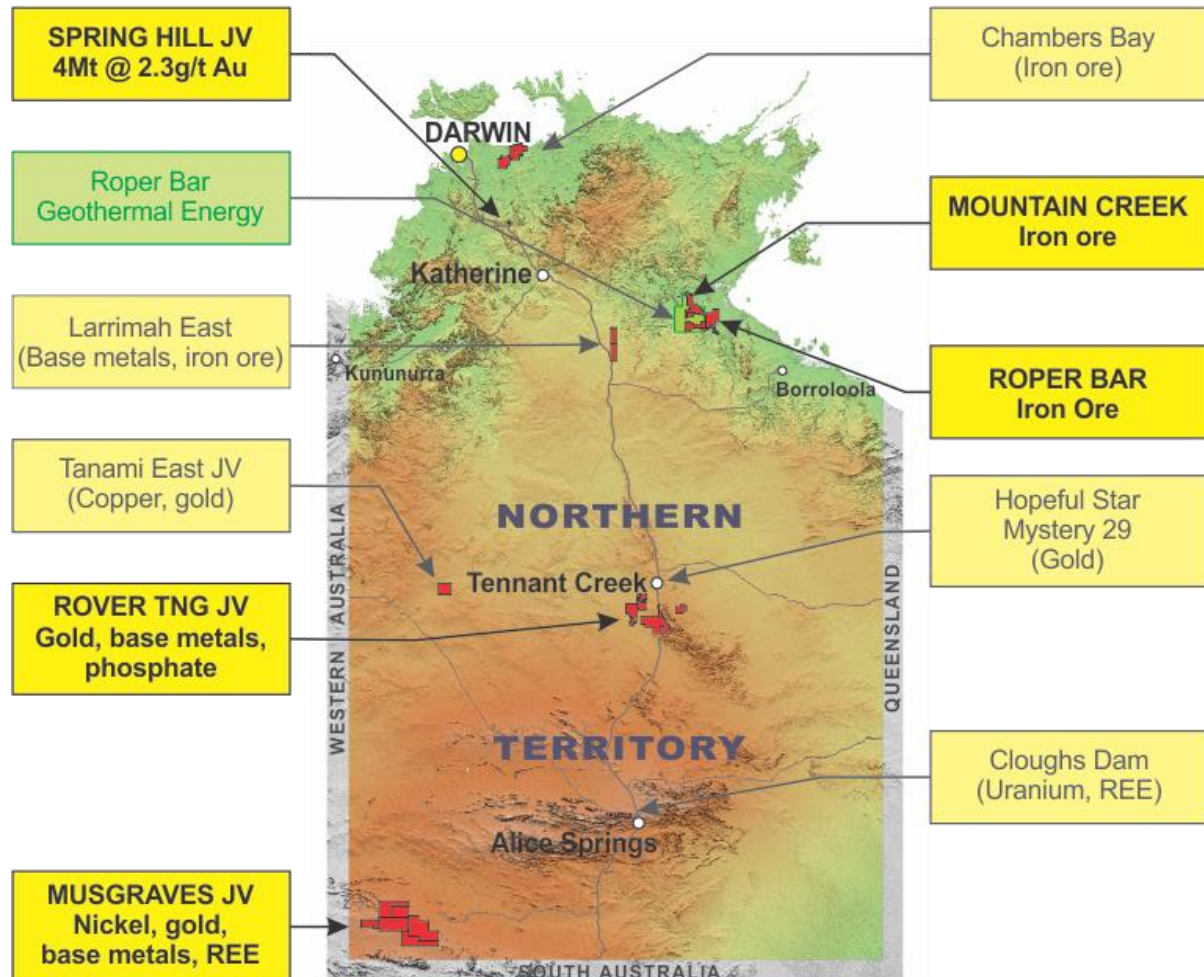


Figure 1: Photos of operations

ROPER BAR STAGE 2 (WDR 100%)

Although the Company's focus at present is on ramping up Roper Bar's DSO production and optimising the project's logistics chain, WDR continues to explore options for "Stage 2" beneficiation and transport of the low grade ore which occurs in vast quantities throughout the Sherwin Iron Formation on the 100%-owned exploration and mining leases.

Stage 2 of the Roper Bar Project contemplates beneficiation of low grade mineralisation already defined throughout the project, including low grade stockpiles already delivered to the ROM as a by-product of the DSO operation. Stage 2 offers the potential for an expanded operation with increased annual production, low operating costs and long mine life.

WDR intends to follow up promising results at locations outside the current Roper Bar Mining Lease over the coming dry season to define additional high grade mineralisation for the current DSO operation as well as low grade mineralisation for the next stage of the project.

MOUNTAIN CREEK IRON ORE PROJECT (WDR 100%)

The Mountain Creek Project is a large area of exploration tenure immediately adjacent to the Roper Bar Iron Ore Project. It consists of EL27143 and EL25688, which are now both 100% owned by WDR.

WDR has completed a program of 3958m RC and 35.1m core drilling into the outcropping Sherwin Iron Formation on EL25688. Assay results are not all available, however preliminary best intersections include TIRC101 (9-10m) @ 59.5% Fe and TIRC115 (0-1m) @ 59.0% Fe. Drilling has focussed on extending the existing mineralisation at the Pumbaa target, as well as testing new prospects. A resource estimation will follow once all data validation and interpretation is completed.

SPRING HILL GOLD PROJECT (WDR divesting to retain 20%)

The Spring Hill Project is a joint venture held with Thor Mining PLC ("Thor"), on the site of an historical gold mine in the Pine Creek Goldfield, 150 kilometres south of Darwin and close to the sealed Stuart Highway and other infrastructure. There is a Memorandum of Understanding (MOU) for the toll treatment of gold ore with Crocodile Gold Australian Operations Pty Ltd. A pit optimisation study in 2013 has determined that approximately 900,000t of ore from the upper portion of the resource can be mined, delivering 40,000oz gold at below A\$1,100/oz.

Thor announced during the quarter:

- More positive results from Screen Fire Assays. 55 samples submitted that were greater than 2 g/t gold achieved a 37% average uplift in grade, while 34 samples submitted below 2.0 g/t gold achieved a 57% average uplift in grade.
- Expenditure levels met allowing Thor to earn 80% equity holding in the project
- Gravity and Continuous Vat Leaching test work demonstrated the potential to achieve high gold recoveries without the major capital and operating burden of a conventional CIL plant. Of the two samples tested, one achieved 70.6% gold recovery by simple gravity (Wilfley wet table test), and the other achieved a 98.3% gold recovery by gravity and column leach extraction.

Refer to Thor announcements (ASX: THR) during the March Quarter for details.

CORPORATE AND FINANCE

Corporate Activities Summary – March quarter 2014

- Release of Half Year Report
- Announcement of fully underwritten rights issue to raise \$60m – subsequently completed and settled in April.
- WDR secures additional short term working capital bridge funding of \$12 million from Macquarie Bank Limited (MBL), and obtains deferral of scheduled March quarter debt amortisation.
- Mr Mark Seatree appointed CFO and Company Secretary in March 2014.

Capital Raising

WDR announced a fully underwritten 6 for 25 traditional renounceable entitlement offer at an issue price of A\$0.50 per new WDR share (Entitlement Offer).

The Entitlement Offer raised \$60 million (before costs) and will be used to fund working capital requirements, settle derivative hedge liabilities and repay short term working capital bridge funding.

Share Options:

There were no changes to the balance of share options held by Directors of the Company during the Quarter.

During the quarter Employees of the Company exercised 375,000 unlisted options, carrying an expiry date of 25th January 2015.

There were no changes to the balances of options held by any other parties.

Securities on issue:

There were 500,040,257 ordinary shares on issue at 31 March 2014.

There were 925,000 unlisted options outstanding at 31 March 2014.

Following completion of the Entitlement Offer Capital Raising, 120,049,919 new shares were issued on 15 April 2014, increasing total ordinary shares on issue to 620,049,919.

Cash Position:

At the end of the quarter cash reserves stood at \$4.01 million. Total drawn debt with Macquarie Bank Limited at 31 March 2014 was \$87.54 million.

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Competent persons Statements:

The information in this report that relates to Mineral Resources at Roper Bar at Areas D and E is based on information compiled by Sharron Sylvester who is a full-time employee of AMC Consultants Pty Ltd and a Member of the Australian Institute of Geoscientists and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC code). Sharron Sylvester consents to the inclusion of this information in the form and context in which they occur.

The information in this report that relates to Mineral Resources at Roper Bar at Area F is based on information compiled by Mr Aaron Meakin and Mr Andrew Bennett. Mr Aaron Meakin is a full-time employee of CSA Global Pty Ltd and is a Member of the Australasian Institute of Mining and Metallurgy. Mr Aaron Meakin has sufficient experience relevant to the styles 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 2004 edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC code). All work relating to the estimation of mineral resources has been carried out under the supervision of Mr Aaron Meakin. Mr Andrew Bennett is a full-time employee of Western Desert Resources Pty Ltd and is a Member of the Australasian Institute of Mining and Metallurgy. Mr Andrew Bennett has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2004 edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC code). All work relating to the classification of mineral resources has been carried out under the supervision of Mr Andrew Bennett. Mr Aaron Meakin and Mr Andrew Bennett consent to the inclusion of this information in the form and context in which they occur.

The information in this report that relates to the Spring Hill Mineral Resource is based on information compiled by Diederik Speijers who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Speijers is the principal of consulting firm McDonald Speijers. He 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Diederik Speijers 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 Exploration Results is based on information compiled by Graham Bubner who is a Member of the Australian Institute of Geoscientists. Mr Bubner is a full-time employee of Western Desert Resources Ltd and has sufficient experience relevant to the styles of mineralisation under consideration and to the subject matter of the report to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC code). Mr Bubner consents to the inclusion in the report of the matters based on his information in the form and context in which they occur.

Qualifying Statement

This release may include forward looking statements. These forward looking statements are based on WDR's expectations and beliefs concerning future events. Forward looking statements are inherently subject to risks, uncertainties and other factors, many of which are outside the control of WDR, which could cause actual results to differ materially from such statements. WDR makes no undertaking to subsequently update the forward looking statements made in this release to reflect events after the date of this release.