



**Dear Legacy Iron Ore shareholder,**

On behalf of the Chairman, Board of Directors and Management team of Legacy Iron Ore Limited (“Legacy”), I would like to take this opportunity to provide you with the following update on our activities and strategic direction.

### ***Current Market Conditions***

The 2013 year has been a particularly challenging period for listed exploration and development companies, both in Australia and across the world. The volatility and weakness of commodity prices and a sharp reduction in the risk profile of global investors has seen a widespread sell off on equity markets. This has been particularly stark in the junior resources sector. Capital has been extremely difficult to raise and many exploration companies have effectively moved into a state of hibernation.

In the past 12 months the S&P/ASX Small Resources Index has fallen by close to 45%. Up until the start of September the year-to-date performance of the Legacy share price was in line with this index. Since that time the Legacy share price has underperformed on generally small volume trades.

I understand our shareholders have been frustrated by what has occurred on the market in the past year. Speaking on behalf of the Board and Management team, we share your frustration. I personally have a significant shareholding in Legacy and have bought shares on market in recent months, so I have also been impacted by the current sentiment.

I want to assure you that your Board and Management team are constantly reviewing Legacy’s strategy in light of the changing market conditions. I have provided a more detailed update on that strategy later in this letter.

### ***National Mineral Development Corporation***

The earlier decision by Legacy to introduce India’s National Mineral Development Corporation (NMDC) as a major shareholder has become more important in the context of the current market conditions.

We are very fortunate to have NMDC as a strong and supportive 49.4% shareholder. Having NMDC’s financial resources and technical expertise standing behind Legacy differentiates us from most exploration companies on ASX. I think this fact is often overlooked by some of our investors and the broader market so I would like to take a moment to reflect on the relationship.

NMDC is India’s largest iron ore miner with an annual production of approximately 30 million tonnes and plans to increase this to 50 million tonnes by 2014-15. In FY2012-13 NMDC reported a cash profit of Rs 96.07 billion (A\$1.64bn) and had total assets of Rs 308.94bn (A\$5.28bn). NMDC is controlled by India’s Ministry of Steel and has

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experience in exploring for a wide range of commodities including copper, tungsten, rock phosphate and coking coal.

Since NMDC made its original A\$18.89 million equity investment in Legacy in October 2011 we have dramatically advanced our flagship Mt Bevan iron ore project and made progress on a number of other fronts. This progress has included:

- Earning 60% of the Mt Bevan magnetite project;
- Delivering a major upgrade of the Mt Bevan resource to 2.26Bt;
- Generating sufficient data to move towards the establishment of a maiden JORC-compliant Indicated Resource at Mt Bevan;
- Entering the Queensland coal sector through the acquisition of a number of projects;
- Completing a maiden drill program of Queensland coal targets;
- Advancing exploration at a number of our projects across our portfolio, including the drilling of gold and manganese targets in Western Australia;
- Evaluating a variety of investment opportunities that have arisen in the current difficult market for junior explorer, developers and producers;
- Acquiring a number of prospective gold projects in Western Australia;
- Signing a deal to acquire a strategic, advanced base metal project in the Northern Territory; and
- Ongoing assessment of opportunities to unlock value for shareholders by restructuring Legacy's assets.

NMDC's support was also evident in our recent efforts to secure additional funding. As you will be aware, after we announced a \$25 million rights issue, the Legacy share price fell below the offer price, making the offer unattractive for shareholders.

The Board elected to withdraw the offer and NMDC immediately provided a short-term funding bridge by standing as guarantor to a debt facility. This enabled Legacy to achieve attractive terms and continue its existing work programs while a new funding strategy is determined. We are well progressed in this regard.

Legacy has been earmarked as a vehicle for NMDC's growth strategy in Australia. Representatives from NMDC were recently in Australia and we were left excited about the growing relationship between our two groups and the prospects for the future.

### ***Mt Bevan Iron Ore Project***

Mt Bevan is a large-scale magnetite iron ore project which is currently Legacy's flagship asset. Legacy has earned a 60% stake in the project through the expenditure of \$3.5 million and this has been a value accretive investment for Legacy shareholders.

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Through the Phase 1 and Phase 2 drilling programs at Mt Bevan, Legacy as JV Manager have defined a JORC compliant Inferred Resource of 2.26 billion tonnes at a grade of 27.6% iron (at a 15% Fe cut-off). The metallurgical test work completed to date indicates that a high quality magnetite concentrate can be produced by applying a relatively coarse grind size which will have a positive impact on future operating costs.

Legacy is the manager of the project however all work programs must be approved by an operating committee which comprises two Legacy representatives and two from Legacy's 40% joint venture partner, Hawthorn Resources Limited ("Hawthorn").

A Phase 3 drilling program completed in 2012 has provided sufficient data to upgrade a portion of this Inferred Resource to the indicated category. A Phase 4 exploration program has been proposed by Legacy as Manager and will enable this Indicated Resource calculation to be completed as well as undertaking the drilling of a number of DSO hematite targets.

Legacy continues to work with Hawthorn regarding ongoing work programs as well as the payment of outstanding cash contributions. Legacy has been disappointed by the delays that have occurred to date. This has resulted in the market discounting the value of Mt Bevan which has been disappointing to the Legacy Board and our shareholders.

Active consideration is being given to ways of resolving the impasse of the joint venture. At all times in this process Legacy has and will remain disciplined and focussed on realising value for our shareholders. We will not destroy value in pursuit of a quick solution and are willing to be patient, knowing the significant economic potential that the Mt Bevan asset holds. I hope Legacy shareholders can appreciate the need to maintain this outlook.

The Board has determined to create a new role of Chief Executive Officer Iron Ore at Legacy and the global search for a suitably qualified candidate is underway. We are looking for an experienced iron ore executive with the ability to drive exploration and development planning for Mt Bevan while having an active role in Business Development and marketing Legacy to investors. By the first quarter of 2014 we would like to have filled this role.

We continue to believe in the long-term potential of Mt Bevan. The project is in a region where a number of potential infrastructure solutions exist. We are currently evaluating which alternative will be in the best interests of Legacy shareholders.

Importantly, NMDC has a mandate to invest in mining infrastructure so the proposed expansion of Esperance Port and potential development of Oakajee Port in the future are of particular interest. Again, this is a key benefit of having NMDC as a cornerstone investor in Legacy. Further updates on this front are expected as we move into 2014.

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### ***Strategic Direction***

Legacy and NMDC continue to believe in the current strategy of building a significant producer of high quality iron ore products and other bulk commodities. We have a long-term commitment to this strategy. At the same time Legacy's Board is conscious of the prevailing market conditions and recent share price performance.

A number of strategic initiatives are being considered to see the true value of the Company's assets better reflected by the market. RBS Morgans has been appointed as corporate advisor to assist Legacy with the identification and implementation of the optimal strategy to realise the value that exists across our asset base. When market conditions are favourable we intend to look at ways of unlocking the value of our asset base that is not currently being reflected in our share price.

We will continue to seek ways to progress Mt Bevan in a disciplined and strategic manner. The project has a multi-billion tonne resource and potential to be a multi-decade long operation so we have strong support for this strategy from NMDC.

Some of our earlier stage or less prospective projects have been deprioritised and we do not intend spending significant funding on greenfields exploration in the current climate. While many companies are cutting staff, Legacy has taken the strategic decision to maintain key personnel with the belief that retaining these people through the cycle will pay dividends when the projects are ramped back up. Many of these people have intimate knowledge of these projects, and it would be difficult to replace them at short notice.

The weakness and volatility of commodity prices has demonstrated the imperative of focussing on assets with potential to sit low on the cost curve and with near-term development potential. Legacy is evaluating a number of projects in this regard. We have the advantage of being able to be opportunistic because of our relationship with NMDC and the reduced valuations of assets that have arisen in the current market conditions, places Legacy in a very strong position.

Finally we are well advanced with our funding strategy in order to prepare the company for its next stage of growth.

I hope this update provides you with a good understanding of the direction of your investment in Legacy Iron. I look forward to keeping you updated on our future progress.

Yours sincerely,

Sharon Heng  
Managing Director

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