

IRON ROAD LIMITED (ASX: IRD)

South Australia's next major resource project

8 November 2012

Recommendation

Spec. BUY

Company Data

Market Cap	\$92m
Shares on issue	286m
Price	\$0.32
Sector	Materials
12mth Price Range	\$0.80-\$0.26
Major Shareholders	
The Sentient Group	57.9%
Sunsuper	5.0%
Management	4.5%
Columbia University	4.0%
Duke University	3.5%
Analyst	Fleur Grose
Authorisation	Rex Adams

Iron Road is undertaking a feasibility study on the Central Eyre Iron Ore Project (CEIP). If approved, the 20Mtpa magnetite operation would be the largest project to be developed in South Australia after Olympic Dam. Our modelling suggests that even after dilution the stock could be worth at least 10 times the current share price at start up, and we rate it a Speculative Buy.

Premium price and competitive costs

The CEIP demonstrates strong project fundamentals. The deposits should support a large open cut mining operation with a low strip ratio, keeping mining costs competitive, and the material is conducive to efficient separation, resulting in low crushing and grinding costs. We estimate cash operating costs of \$55/t. The 67% Fe concentrate should sell for a significant premium over Pilbara fines due to the higher grade, the lack of impurities, and the high value in use as it does not require pelletising.

Spotlight on South Australian Iron Ore

A recent bid by an Asian consortium for Arrium which has a growing iron ore export business at Whyalla, demonstrates international interest in SA iron ore.

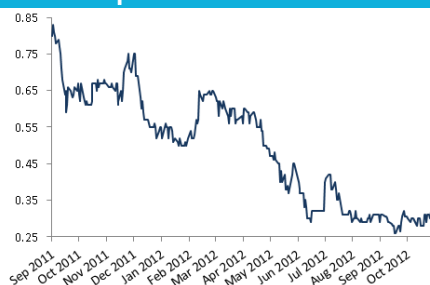
On the road to commercialisation

The feasibility should be complete by end 2013. The South Australian government and local community have been supportive and we expect regulatory approvals to be received near end 2014. Funding is then the next major step, and we see this is the major risk to development. Our conceptual model assumes that 50% of the project is sold to a partner, with the funds covering the majority of IRD's equity contribution to capex under a 60% debt/40% equity funding model. Major shareholder The Sentient Group, is expected to support the company through this process to a final investment decision.

IRD Valuation Table

	FY13 A\$m	FY14 +1 yr	FY15 +2yr	FY16 +3yr	FY17 +4yr	FY18 +5yr
CEIP	3052	3357	1846	2815	4678	5321
GIP	20	20	20	20	20	20
Sub Total Assets	3072	3377	1866	2835	4698	5341
Corporate	-262	-283	-294	-307	-317	-323
Net Cash	23	15	1067	359	-1121	-1170
Options	7	2	1	1	0	0
Total Equity Value	2840	3111	2640	2888	3260	3849
Shares on issue	286	351	653	653	654	654
Value \$/sh	9.92	8.87	4.04	4.42	4.98	5.89

IRD Shareprice



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South Australia's next major resource project

Attractive risk/reward potential

We have developed a conceptual model and funding scenario that implies that even after significant dilution a successful development could see IRD shares worth \$4 following an investment decision and \$5 at start-up in 4 years' time, suggesting significant upside.

20Mtpa magnetite project

Iron Road Limited (IRD) is advancing its Definitive Feasibility Study (DFS) on the Central Eyre Iron Ore Project (CEIP). Magnetite concentrate production is being designed for 20Mtpa for up to 30 years, so if approved, it would be the largest magnetite project in Australia, and the largest project to be developed in South Australia after Olympic Dam.

Large deposits suggest long life and competitive mining costs

The current resource is 2.1Bt @ 16.2% Fe and current drilling should take it to ~3Bt, making it the largest iron ore resource in South Australia, with further upside potential to +5Bt. The deposits within the CEIP area should support a large, long life, open cut mining operation with a low strip ratio, keeping mining costs competitive.

Ore is efficiently upgradable, limiting processing costs

The magnetite deposit is lower grade than others in Australia, however grade can be a misleading indicator of value. Low strip ratio and physical characteristics are also important. The coarse grained and consistent nature of the CEIP material is conducive to efficient magnetite separation, resulting in low crushing and grinding costs. We estimate an overall cost of \$55/t FOB pre-royalties, which is lower than other recent study estimates of \$59/t for Southdown (feasibility) and \$62/t for Mt Ida (pre-feasibility).

High grade clean concentrate to command a premium price

Test work in Japan has confirmed that the coarse grained nature of the CEIP product is suitable for sinter feed, removing the need for pelletising which costs ~\$20/t prior to blast furnace use. The CEIP concentrate should sell at a higher price than the Pilbara fines index price as the Fe content at 67% is higher than the 62% reference product, and the product should attract further premiums for its low impurities and value in use.

Access to infrastructure

The mine site is well located within 10kms of the National Highway and close to the coast. The preferred infrastructure options are to access power from Whyalla, and to transfer product via a new purpose built 145km rail line to a greenfield deep water port site, north of Port Lincoln.

The road to commercialisation supported by a major shareholder

IRD has recently raised \$40m, the majority of which is to progress the DFS due for completion by end 2013. Several key board and management appointments have been made recently to equip the team to transition towards commercialisation. Government approvals should be received by end 2014. Financing options will be pursued concurrently and could involve introducing a partner to reduce the funding requirement. We see financing as the major hurdle to a successful project. However, we are confident that IRD's major shareholder, a private resource equity group, The Sentient Group, which holds 57.9%, will support the company to a final investment decision.

Still room for new iron ore projects

The falling iron ore price and delayed resource projects have attracted much attention in recent months. We do not see this as the end for new projects, but rather the need to emphasise the favourable resource characteristics and economics of selected projects. Iron ore customers still want to support new independent supply of consistent high quality ore.

Bid for Arrium highlights interest in South Australian iron ore

We believe the recent bid for Arrium by an Asian consortium was driven by the attraction of a growing iron ore export business with access to port capacity, undervalued within a steel company. It highlights that there is international interest in South Australian iron ore.

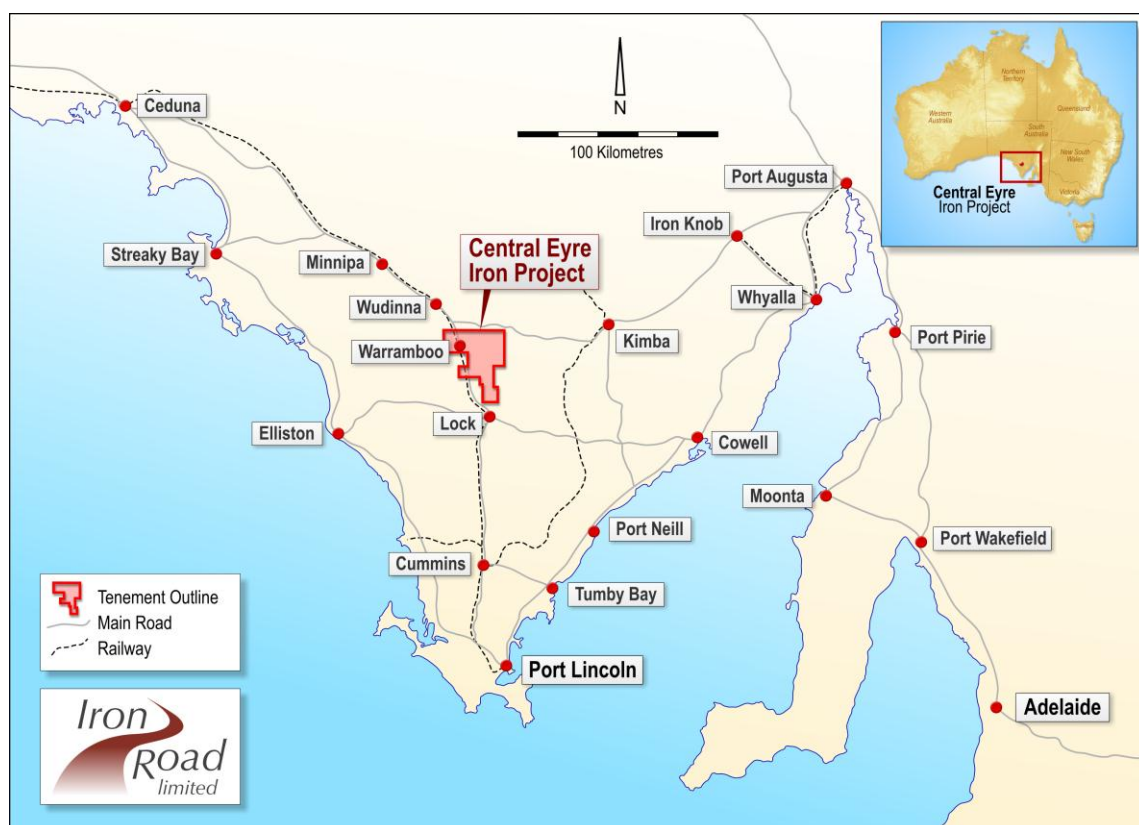
Central Eyre Iron Ore Project

A well located Project

The wholly owned Central Eyre Iron Ore Project (CEIP) is located in the centre of South Australia's Eyre Peninsula 185km to the west of Arrium's (OneSteel's) iron ore and steel-making operations at Whyalla. The deposit is in a grain growing area between the towns of Lock and Wudinna.

The existence of magnetic anomalies in the region has been known since South Australian government surveys were undertaken in the 1960's, however modern drilling and testing techniques targeting iron ore did not take place until 2000. With increasing demand for new iron ore projects, IRD acquired the lease in 2008, given its excellent location. The proximity to existing towns and infrastructure, a favourable geographic and climatic location, and a supportive government and local community would all be important factors in making the project economic.

Figure 1: CEIP location



Source: Company

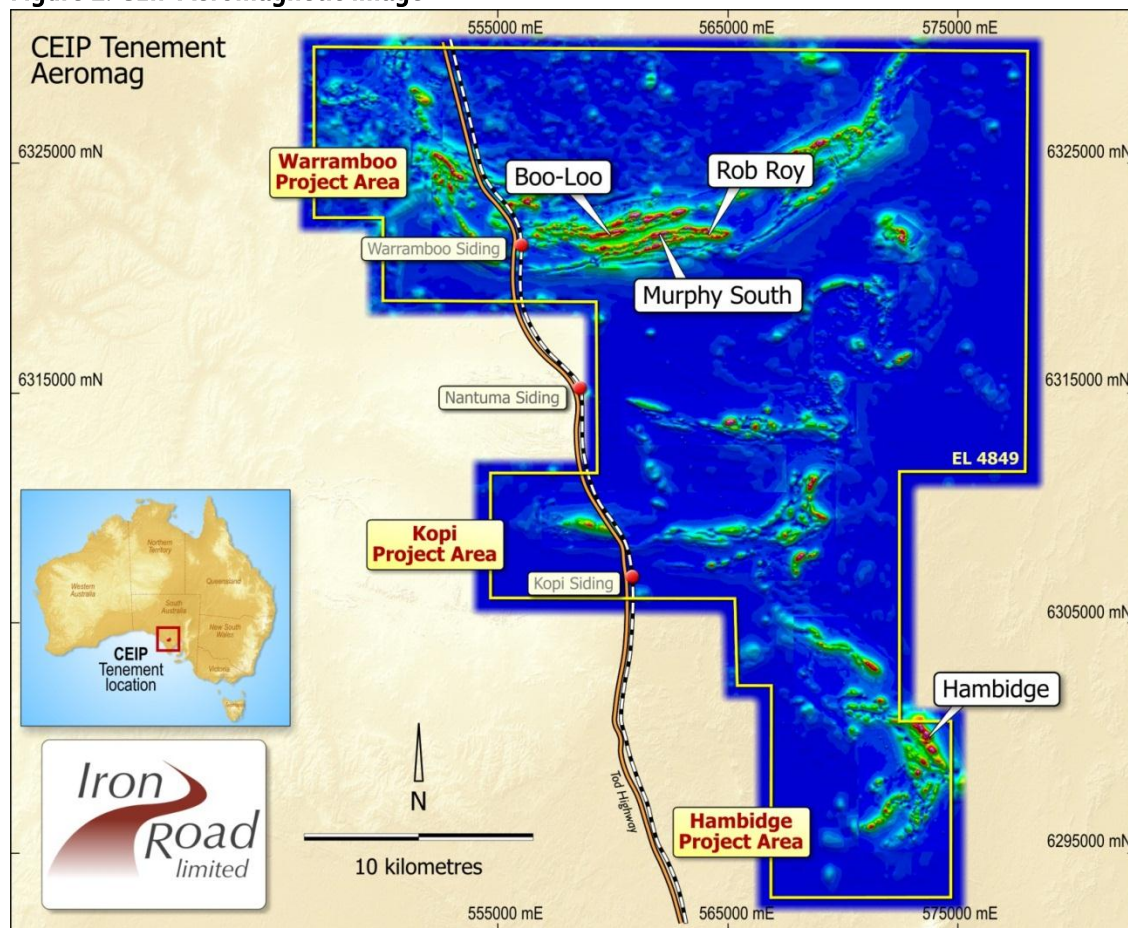
Takeover offer for Arrium focuses attention on South Australian iron ore

Western Australia is well known as the iron ore mining capital of Australia. However, South Australia also has a long history in iron ore with the Middleback Ranges being mined for over 100 years supplying ore to the steelworks at nearby Whyalla. This has been highlighted recently by the bid from an Asian consortium for Arrium (previously OneSteel), the owner these operations. The recent name change of this business was driven by a change in strategy to grow the iron ore mining, and mining consumables segments of what was previously solely a steel business. The steelworks initially used hematite ore as a feedstock, but with the growing value of hematite, the mill switched to magnetite feed in 2005, freeing up the hematite to be exported, forming the basis of a new business segment. The acquisition of WPG Resources in 2011 has enabled the iron ore mining segment to grow even larger and sales are expected to be 13Mtpa following the expansion of the Whyalla port.

We believe the bid was driven by the attraction of a growing mining business with access to port capacity, undervalued within a steel business. The bid was rejected by Arrium and considered to be opportunistic by the investment community taking advantage of recent shareprice weakness driven by negative iron ore sentiment. However it does demonstrate international interest in South Australian iron ore projects.

Largest iron ore resource in South Australia

Figure 2: CEIP Aeromagnetic image



Source: Company

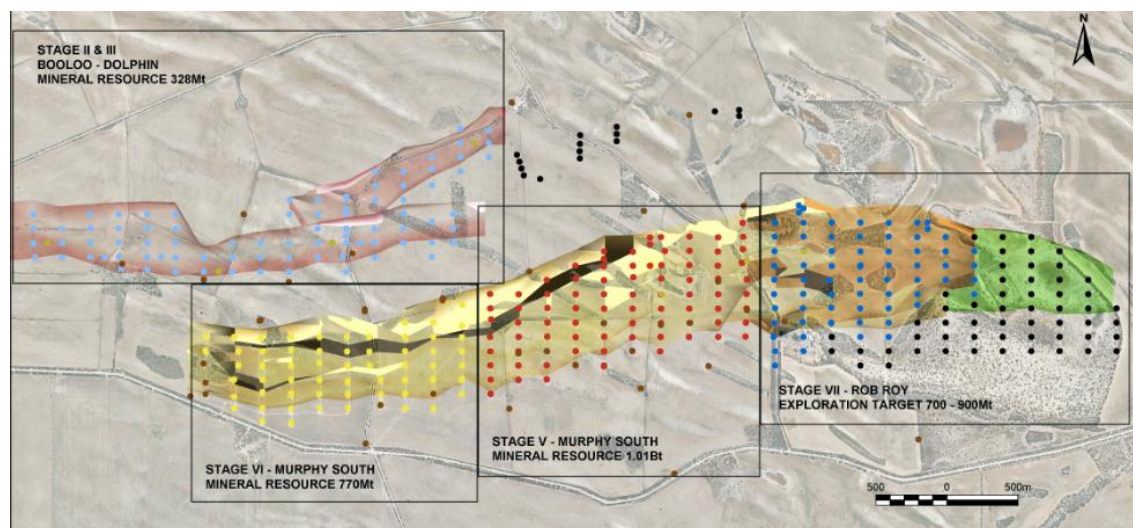
The project area covers extensive Archaean iron formations that occur as coarse grained magnetite bearing gneiss. The three main iron occurrences are Warramboe, Kopi and Hambidge. The cumulative strike length, estimated from aeromagnetic data, is at least 95kms. Following listing in June 2008, drilling began at Warramboe in September 2008, and a maiden resource of 110Mt inferred at Boo-Loo was released in August 2009. An independent evaluation by Coffey Mining in September 2009 suggested an exploration target of 2.8-5.7Bt across the three main occurrences, more than sufficient to underpin a 5-10Mtpa concentrate project for at least 20 years, and justified further work on the project.

The current resource is 2.1Bt @ 16.2% Fe, announced in December 2011, which covers the Warramboe area. However, with the current Stage VII drilling program at Rob Roy, we would expect additional resource upgrades to ~3Bt with further upside potential, making it the largest resource in South Australia. 3Bt is more than sufficient resource for a major project development. The deposit is low grade compared to other magnetite deposits, however it does have considerable benefits in mineralogy, with low variability and consistent mineralisation throughout the orebody.

A 12 hole drill program was completed at Hambidge in 2011 and an exploration target of 800-1000Mt magnetic gneiss @ 15-18% Fe has been developed for the prospect. Hambidge is 25km

south of Murphy South and has the potential to give the CEIP life extension beyond Murphy South, Boo Loo and Rob Roy.

Figure 3: Stage VII drilling underway at Rob Roy



Source: Company

Table 1: Latest resource

Location	Classification	Mt	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI %
Murphy South	Indicated	1,108	16.0	53.2	12.9	0.08	0.4
	Inferred	668	16.4	52.7	12.8	0.08	1.3
Boo-Loo	Inferred	328	17.3	52.4	11.5	0.09	2.1
Total		2,104	16.2	52.9	12.7	0.08	1.0

Source: Company

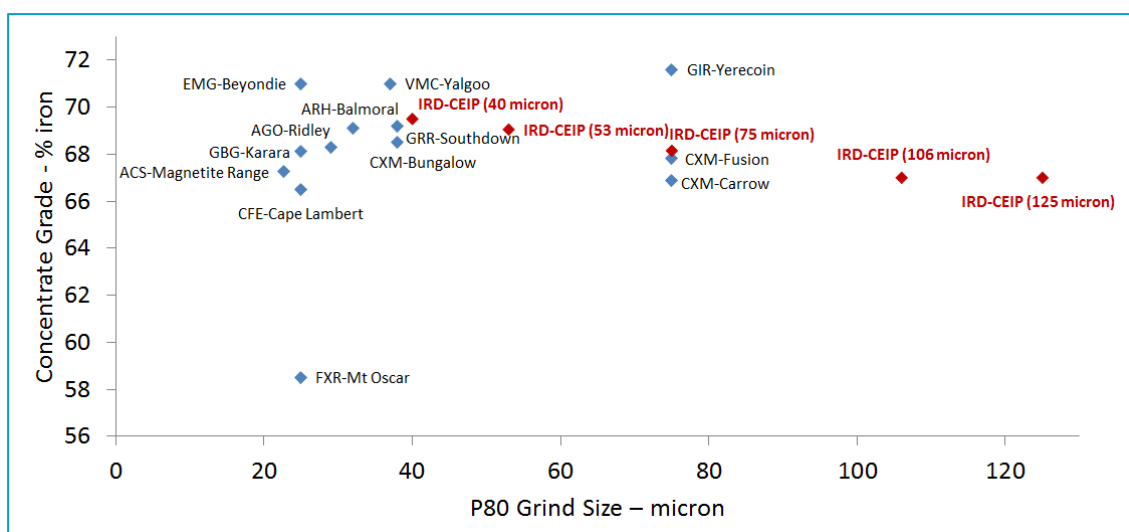
Favourable mineralogy results in low processing costs

It is important to recognise that the mineralogy of the CEIP magnetite gneiss differs from a typical BIF magnetite deposit, as shown in the table below. The CEIP magnetite is coarse grained (average size 1.5mm) and the boundaries between the magnetite and enclosing host-rock minerals are sharp and clean. These physical characteristics make the separation of the magnetite from the other material very efficient, which is likely to reduce processing costs. The chart below shows that a suitable concentrate grade for a sinter feed product can be produced by grinding to only 106 micron, coarser than other magnetite deposits, which will reduce power consumption.

Table 2: Comparison of CEIP magnetite gneiss with Typical BIF

	CEIP magnetite gneiss	Typical BIF
Age	Archaean	Proterozoic
Geological history	High grade metamorphism	Low grade metamorphism
Mineralogy	Granular, low impurities	Microcrystalline, impurities vary
Magnetite grain size	1.5mm average, crystalline sharp boundaries	Very fine grained, intergrown
Hardness	Moderate	Very hard
Deposit size	Very large	Varies
Grind size (to achieve <5% silica)	106-125µm	28-38µm
Net effect	High grade product, minimal grinding, no pelletising	Variable product quality, significant grinding, pelletising may require reverse flotation

Source: Company

Figure 4: Concentrate Grade vs Grind size

Source: Company

Study work has advanced to the DFS stage

A pre-feasibility study (PFS) was completed in May 2011, based on the latest resource at the time, of 1.2Bt @ 16.8% Fe covering Murphy South and Boo-Loo/Dolphin. The PFS found that a robust project could be developed with competitive capital and operating costs. A summary of the results is shown below. The positive results led to the undertaking of a DFS which is now underway.

An issue was completed in early September 2012 to raise \$40m, the majority of which was to progress the CEIP DFS. A new head office has been established in the Adelaide CBD, along with an owner's team of over 25 professionals overseeing engineering and design work being undertaken by specialist contractors. The following is a discussion of the key parameters, incorporating work from the PFS and updated thoughts based on DFS progress to date.

Table 3: PFS results

Item	Units	Value
Capital Cost – Directs	A\$m	1744
Capital Cost – Indirects	A\$m	508
Capital Contingency	A\$m	338
Total Capex	A\$m	2590
Cash Operating Cost FOB	A\$/t	59.01
Base Case NPV	A\$m	1,091
Strip ratio	Waste:ore	0.8 : 1.0
Process rate	Mtpa	67.6
Concentrate production	Mtpa	12.4
Concentrate grade	% iron	67
FX rate	US\$/A\$	0.8
Average iron price	US\$/dmtu	150.67
Average product price	US\$/t	100.78

Source: Company

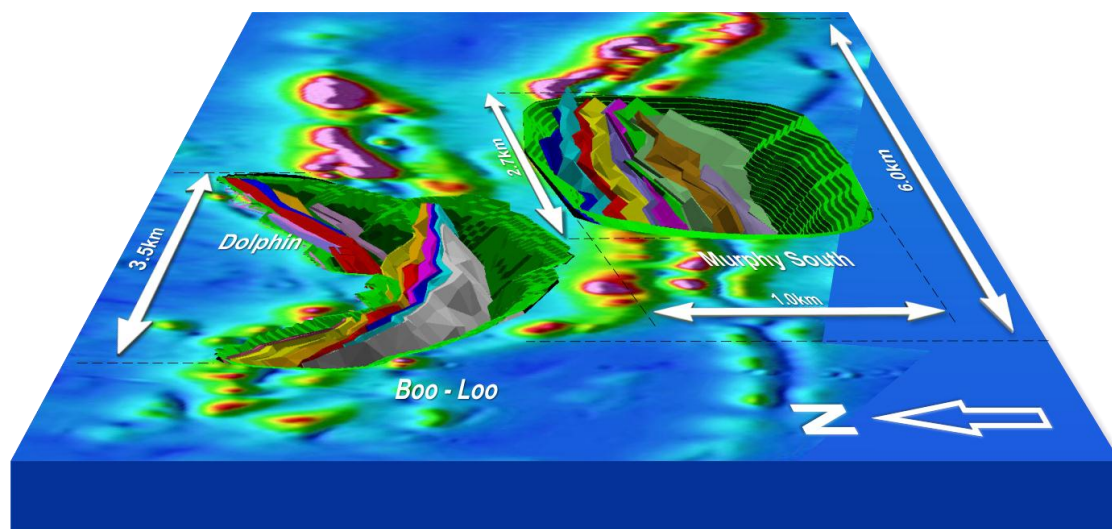
Project up scaled to 20Mtpa due to growing resource

A production rate of 12.4Mtpa was used for the PFS, however with ongoing resource increases, a higher rate of 20Mtpa is now being considered. This equates to an ore process rate of 110Mtpa. At the current resource size of 2.1Bt, that is enough for 19 years of production. With further upgrades to come, we believe a resource of >3Bt would support a 30 year mine life. There is potential for an even greater resource, however further drilling is unlikely be value accretive at this stage.

Low strip ratio mine

The geometry of the deposit is suitable for a very large open cut mine with a low strip ratio. The mining method incorporated in the PFS is a large scale conventional drill, blast, shovel, and truck mining operation. Stable ground conditions should allow large benches. Preliminary pit shells, mine designs and tailings dam were developed and scheduled for the existing Murphy South Mineral Resources for the PFS and are being optimised for the DFS.

Figure 5: Isometric view of magnetic anomaly and PFS pit outlines

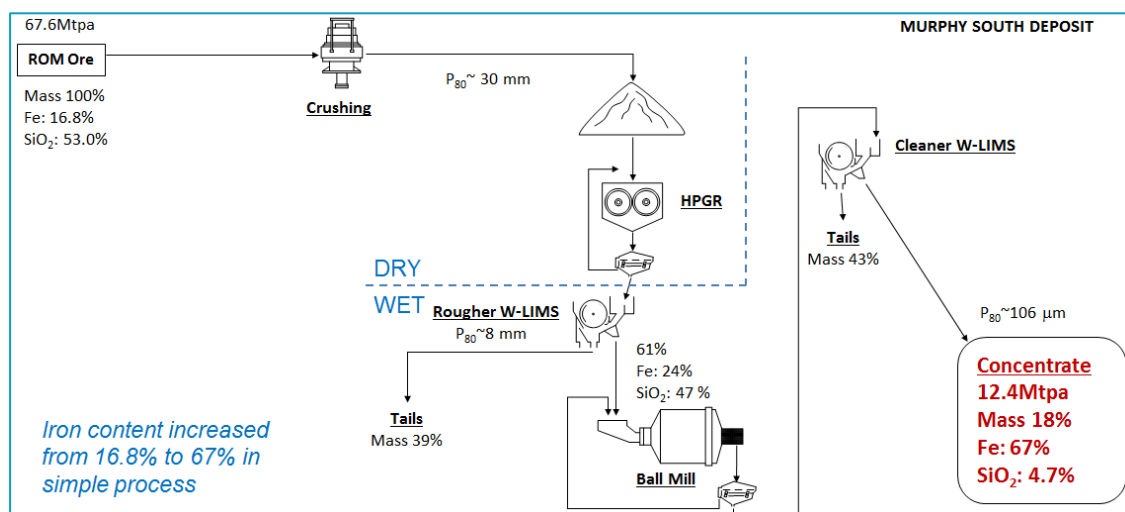


Source: Company

Straight forward processing

Metallurgical modelling has confirmed that the low grade ore is readily beneficiated with no flotation required. The optimal flow sheet identified for the PFS incorporated primary crushing, high pressure grinding rolls (HPGR), rougher wet low intensity magnetic separation (W-LIMS), milling, and cleaner W-LIMS. All of this processing equipment is available off-the-shelf. The inclusion of magnetic separation prior to the more energy intensive grinding circuit yields good separation which is key to reducing power consumption and operating costs. The figure below was developed during the PFS and shows that 39% of waste has been removed prior to milling. This is expected to improve to 40-50% waste rejection with optimisation. A final magnetic separation step yields a concentrate with a grade of 67% Fe and silica content below 5%.

Figure 6: Suggested flow sheet from PFS



Source: Company

Infrastructure options due to coastal location

Port: The PFS included all costs and charges to use a third-party deep water port, notionally located near Sheep Hill (Port Spencer). However, IRD believed that the project scale justified the development of a stand-alone facility should a third-party port not be available within the required time frame. As such, a third-party option has not progressed since the PFS completion, and IRD is considering a new common user option at an alternate site. This change should increase the capex, but reduce the opex which included a third-party access charge.

Water: The PFS provided for construction and operation of a dedicated 27GI per year desalination plant located at the port. Optimisation of the flow sheet has shown that seawater could be used for part of the process, reducing the desalination requirement by ~90%. This should reduce the water infrastructure component of the capital cost, and reduce the ongoing operating costs.

Electricity: Electrical power from the national grid will be sourced via a new 275kV transmission line between the CEIP site and Whyalla. The power requirement anticipated at the PFS stage was 200-250MW. That is likely to increase only to 320-350MW despite the process rate increase, due to further optimisation of the flow sheet.

Product Transport: The PFS assumed that concentrate would be transported via a slurry pipeline. A new standard gauge heavy haul rail line had been considered at a scoping level, and although operating costs would be higher, is now the preferred option given its scalability, and flexibility for use with coarser grind products.

High quality product suitable for sinter feed

The PFS indicated that a coarse grained sinter feedstock grading 67% Fe could be produced, and this has subsequently been confirmed in bulk samples. Sinter testwork undertaken by Nippon Steel Testing and Research (NPTR) in Japan has shown that this product will be suitable for use in sinter plants, without additional processing into pellets before use in the blast furnace. This increases the product's value in use, as it saves the steel maker pelletising costs of c.\$20/t. It also increases the available market for the product as most blast furnace based steel mills have an associated sinter plant. Most magnetite concentrates have iron liberation at finer particle sizes than the CEIP product, and are therefore pelletised or sold into the pellet feed market.

Product to attract premium pricing

Marketing consultants have suggested that this product could achieve a pricing premium up to 30% on standard Pilbara fines. By definition the 67% Fe product will achieve a higher price than the 62% benchmark product as pricing is based on iron units, and this equates to an 8% premium. A lack of impurities should also command a premium, and by way of comparison, Gindalbie's Karara product attracts a 10% quality premium which is written into its offtake agreement with its partner Ansteel. A further value in use premium could be as high as \$20/t, or 20% assuming a \$100/t price. In addition to the iron unit adjustment, we have assumed a 15% premium, which accounts for the 10% quality premium, plus a 5% value in use premium. This is offset by a freight discount due to the greater distance from the CEIP to China than from the Pilbara.

Table 4: Indicative product specification

Fe	SiO ₂	Al ₂ O ₃	TiO ₂	Mn	CaO	P XRF	S XRF	MgO
%	%	%	%	%	%	%	%	%
66.8	3.34	1.88	0.16	0.8	0.08	0.006	0.001	0.39

Source: Company

Reasonable capex for a major magnetite project

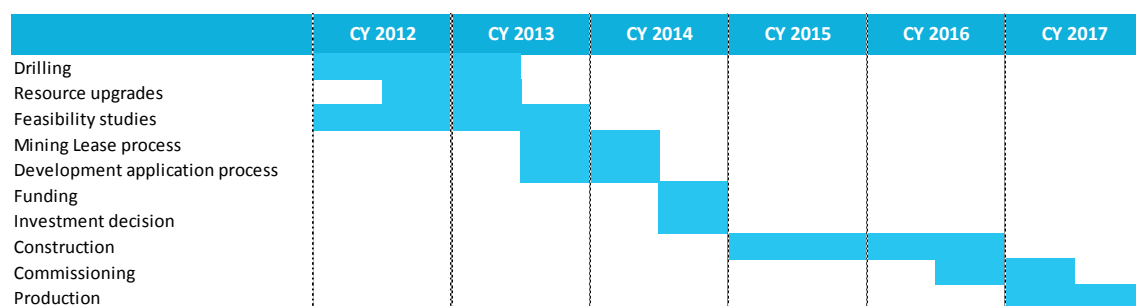
The PFS capex estimate was \$2.8bn including contingencies. The DFS is now assuming a 20Mtpa rate, and a dedicated port and rail system which should increase the capex for the project, despite there being savings in the lower desalination requirement. We estimate that capex could increase to \$4.6bn at today's prices, and could escalate further by the time construction begins to perhaps \$4.9bn. Although the absolute number sounds large, it equates to a capital intensity of \$230/t, which compares to the May 2012 feasibility number of \$290/t for the Southdown project. There may be opportunities to reduce infrastructure costs through synergies with other producers in the future, however no benefit has been assumed.

Competitive operating costs

The PFS estimate for opex was \$59/t FOB pre-royalties. This included access charges to a third-party port which will no longer be required. We estimate that with lower port charges and the benefit of scale on unit costs, opex may fall to c.\$55/t. This is lower than other recent study estimates of \$59/t for Southdown (feasibility) and \$62/t for Mt Ida (pre-feasibility), as although the other projects have higher in situ grade, they have much harder ores and require fine grinding.

The road to commercialisation

The DFS is well underway and should be completed by end 2013. Preliminary work is being undertaken in preparation for the mining lease, and major project status and development applications, due to be lodged in 2013. Government approvals should be completed by mid-2014. If financing can be arranged in a timely fashion, construction could begin in 2015, with production in 2017.

Figure 7: Conceptual timeline

Source: Blue Ocean assumptions

Strong support from government and community

South Australia is a pro-mining state, mindful of the economic benefits that Western Australia has seen in the recent mining boom. It has been supportive of this project to date, and is now especially keen to have a new major project in the state following the delay of the Olympic Dam expansion.

The local community is also supportive of a mining development in the region. The project area is on a wheat belt, much of which could be considered marginal, so mining would drought proof the local economy.

Robust economics

While the PFS results have already demonstrated that the project economics are favourable, we have developed a model using our own updated assumptions highlighted in the table below. We find that the project value has increased considerably from the PFS estimate of \$1.1bn to \$3.1bn. Higher capital costs have been offset by a higher processing rate, a longer life project, lower operating costs, and a greater price premium.

Table 5: Blue Ocean assumptions

Item	Units	Value
Capital Cost – Directs	A\$m	2977
Capital Cost – Indirects	A\$m	986
Capital Contingency	A\$m	595
Total Capex	A\$m	4558
Cash Operating Cost FOB pre-royalties	A\$/t	55
Base Case NPV	A\$m	3052
Strip ratio	Waste:ore	0.8 : 1.0
Process rate	Mtpa	110
Concentrate production	Mtpa	20
Concentrate grade	% iron	67
FX rate	US\$/A\$	0.85
Index iron ore price 62% FOB 2016	US\$/t	90
Price premium for quality	%	15
Project life	years	30
Discount rate - nominal	%	10

Source: Blue Ocean assumptions

Figure 8: Conceptual model

CEIP 100%		FY 13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Production	Mt					2	12	20	20	20	20	20
Revenue	A\$m					291	1527	2567	2631	2697	2764	2833
Realised Price	A\$/t					123	125	128	132	135	138	142
Costs	A\$m					270	887	1220	1251	1282	1314	1425
Total Cash Costs	A\$/t					88	73	61	63	64	66	71
Margin	A\$/t					35	53	67	69	71	73	70
C1 Costs	A\$/t					86	71	59	60	62	63	65
EBITDA	A\$m					19	640	1347	1380	1415	1450	1409
EBITDA margin	%					7%	42%	52%	52%	52%	52%	50%
D&A	A\$m					-20	-102	-222	-283	-286	-289	-292
EBIT	A\$m					-1	538	1125	1097	1129	1161	1116
Interest	A\$m					0	0	-280	-280	-280	-280	-280
EBT	A\$m					-1	538	845	818	849	882	837
Tax	A\$m					0	-161	-254	-245	-255	-264	-251
NPAT	A\$m					-1	376	592	572	595	617	586
Capex	A\$m			-490	-2452	-1962	0	-59	-120	-123	-126	-129
Free cash flow	A\$m			-490	-2452	-1942	479	951	932	954	976	945
NPV @ 10% d.r.	A\$m	3052										

Source: Blue Ocean assumptions

At recent spot prices of 1.03-1.05 for the A\$ and US\$90-105/t (A\$87-100/t) for iron ore 62% CFR, the valuation falls to A\$679m-A\$2534m. An IRR of 10% or better is achieved when the benchmark iron ore price in Australian dollar terms is A\$83/t CFR China or better. In other words this project provides acceptable returns on investment at long term iron ore prices above A\$83/t CFR. We see the need for recent price levels to be maintained or improved, either from a weaker A\$ or stronger market or both, to support a development decision.

Conceptual financing arrangements

Although the overall project value is high, this is matched by a high capex requirement which is unlikely to be met by one development company. Some of the value is likely to be sacrificed to other parties that are willing to share the risk of development. We have devised a conceptual funding plan whereby IRD sells half the project and 100% off-take rights to an Asian partner for a 50% discount, equivalent to c.\$923m, in FY15. The discount takes into account that the partner is obligated to arrange the debt funding and hence taking a greater share of the funding risk, as well as sharing the development risk. If the project is then financed 60% debt and 40% equity, the majority of IRD's share of capex is covered by the sell-down. We have assumed that IRD raises a further \$15m within the next 12 months to cover the final costs of the DFS, and a further \$150m to cover working capital and contingencies at the time of an investment decision.

The following valuation table incorporates all these assumptions. In FY15 the attributable value of CEIP halves as it is sold down, the cash balance increases with the proceeds of the sale, and the shares on issue increase following a final equity raising. Debt is drawdown during the construction phase in FY16/17 so the company switches to a net debt position. The conceptual value is at its lowest in FY15 at c.\$4, which takes into account full dilution. That is equivalent to c.\$3.85 in today's dollars, or at least 10x the current share price. Once the heavy expenditure phase winds down and production begins in FY 17, the valuation rises to c.\$5.

Table 6: Valuation table

	FY13	FY14	FY15	FY16	FY17	FY18
	A\$m	+1 yr	+2yr	+3yr	+4yr	+5yr
CEIP	3052	3357	1846	2815	4678	5321
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Sub Total Assets	3072	3377	1866	2835	4698	5341
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Total Equity Value	2840	3111	2640	2888	3260	3849
Shares on issue	286	351	653	653	654	654
Value \$/sh	9.92	8.87	4.04	4.42	4.98	5.89

Source: Blue Ocean assumptions

Supportive shareholders

IRD's major shareholder is The Sentient Group (57.9%), a private equity firm specialising in resource projects. It has backed all the recent funding events and is committed to seeing the project through to a final investment decision. The Sentient Chairman, Mr Peter Cassidy, has recently been appointed to the IRD Board and has taken up the role of Chairman. Other major shareholders are Sunsuper (5%), Management (4.5%), Columbia University (4.0%), and Duke University (3.5%).

De-risking the project

As the project has moved to a DFS we believe the resource risk is minimised. Well respected consultants have been used through the whole development process to ensure that all the necessary work has been completed to a high standard. As the project progresses it will be subject to normal political and permitting risks in relation to the mine site, infrastructure routes and port. Then the project must be financed and we see financing as the major hurdle to overcome. We believe this requires a substantial partner and customer for the project. Although the project is attractive and Asian steel mills have already shown interest, the negotiations are not without risk. Should the project progress to development, it will be subject to execution risks similar to other projects including timing delays, cost escalations, and labour shortages.

Gawler Project

Potential as a low cost secondary project

Figure 9: Gawler Project



Source: Company

IRD has acquired a 90% interest in the iron ore rights at Gawler. The tenements cover an area of 3380km² adjacent to the Trans-Australian railway, and within 100km of the Adelaide–Darwin railway. The Gawler Iron Project (GIP) has promise as a small scale (1-2Mtpa), low capex iron ore development, with faster start up than the CEIP. Preliminary test work indicates that a simple, possibly dry process may produce a very high grade product (~70% iron, 1.4% silica, 1.0% alumina) at a grind of -106 micron. The Boomer deposit has an exploration target of 55-95Mt magnetite gneiss with a mass recovery of 25-30%. Product could possibly be railed from a nearby existing railway siding to Port Pirie or Adelaide for shipment.

Funds were allocated from the recent issue to progress drilling and scoping for the GIP, however the CEIP remains the major focus. We have ascribed a nominal value of \$20m to the GIP.

Conclusion

IRD offers early stage entry to a new iron ore project. The CEIP has the potential to be a large, long life project, where resources already stand at 2.1Bt and have potential to reach +5Bt. Our valuation suggests significant upside even accounting for dilution to fund the project. IRD may also gain synergy benefits in the future from its first mover advantage in building strategic infrastructure in the region.

Milestones include:

- Resource upgrades as the current drilling concludes
- Further progress on port site selection end 2012
- Mining lease application in mid 2013
- Development application late 2013
- DFS updates until it concludes at the end of 2013
- Approvals mid 2014

Board and Management

IRD has made several key appointments recently, improving the breadth of skills across the board and management team. IRD's board now has a strong mix of geology, resource project, mining and finance experience. With the commencement of the feasibility study, a core team of project managers and study supervisors has been established in the new Adelaide head office.

Peter Cassidy Chairman

Mr Cassidy is co-founder and Chairman of The Sentient Group, Chairman of Enirgi Group Corporation and a director of Xinli Titanium. Prior to co-founding Sentient in 2000, Mr Cassidy established AMP Life's private equity division, worked with Ford Motor Company and was involved with industry development on behalf of Australian State and Commonwealth governments. Mr Cassidy holds a degree in geology and a first class honours degree in chemistry from the University of Tasmania and a PhD in coal science from Monash University.

Leigh Hall AM Director

Mr Hall is a highly experienced company director, with a strong background in finance and investment from a career spanning senior executive positions at AMP, membership of a range of investment oversight boards, board positions at securities industry organisations, and significant participation in government advisory boards related to the securities, corporate law, managed funds and superannuation sectors.

Julian Gosse Director

Mr Gosse has extensive experience in banking and broking in Australia and overseas and has been involved in the establishment, operation and ownership of several small businesses. Mr Gosse is currently a Director of ITL Limited, Wilson Investment Fund Limited, Clime Capital Limited and Australian Leaders Fund.

Ian Hume Director

Mr Hume's career in the resources industry stretches back over thirty years, primarily in the fields of managed fund investments, capital raising and project development. Mr Hume was a Founding Partner of The Sentient Group, a fund manager specialising in global investments in the natural resource industries.

Jerry Ellis Director

Mr Ellis' career includes three decades at BHP Ltd, Chairing the company from 1997 to 1999. He has also served on the boards of several ASX listed companies and industry bodies. Mr Ellis is currently Chairman of Landcare Australia and MBD Energy Limited and is on the Advisory Board of Anglo Coal Australia.

Andrew J Stocks Managing Director

Mr Stocks is a Mining Engineer with over twenty years' experience in the resources sector, primarily in mining operations and corporate roles. Mr Stocks was previously Managing Director of Siberia Mining until its merger with Monarch Gold, and Vice President, Operations of Crew Gold Corporation.

Larry J Ingle General Manager

Mr Ingle is a geologist with 22 years' experience in a variety of mining operations, exploration, project development and business improvement roles in Australia and Africa.

Lex Graefe Chief Financial Officer

Mr Graefe has extensive management and commercial experience working in the mining industry for the last 30 years in Australia, Africa and Asia. He worked for Rio Tinto for some 22 years up until 2004, where his later roles were as President Director of Rio Tinto Indonesia, following a term as General Manager Finance with Rio Tinto India.

Aaron Deans Project Manager

Mr Deans is a Project/Construction Manager with over 25 years' experience in all facets of the Mining and Construction industry. Mr Deans' most recent roles include Onshore Construction Manager of BHP Billiton's \$1.6 billion Macedon Gas Project, Mine Construction Lead (Definitive Phase Study) for the FAST joint venture at BHP Billiton's \$4 billion RGP 6 mine project and Construction Manager (Owner's team) for Worley Parsons on behalf of Fortescue Metals Group's \$7 billion Heng Shan Expansion. Previous experience spans Leighton Contractors, Rio Tinto, BHP-Billiton, nickel, iron ore and the power generation sectors.

Peter Bartsch Study Manager

Mr Bartsch has over 34 years' experience in metal extraction and minerals processing industries. He has contributed to evaluations for many large and small resource organisations through management of investigations and designs, which included technology leadership across feasibility studies and project delivery.

Alan Millet Infrastructure Manager

Mr Millet has worked in Japan, India, Europe and Australia in various management roles for BHP Billiton, Rio Tinto, Energy Resources Australia, PowerNet and OZ Minerals just to name a few. Mr Millet has specialised experience in development of mine infrastructure including transport systems, site support facilities and power supply.

Liz Judd

Finance Manager

Milo Res

Geology Manager

Laura Johnston

Regulation & Approvals Manager

Simon Telford

Commercial Manager

Sharon Schumacher

Project Controls Manager

Jeff Reilly

Marketing Manager

Dr Fop Vanderhor

Gawler Project Manager

Graham D Anderson

Company Secretary

Nicola Semler

Metallurgy Manager

Tim Elmer

Mining Manager

Consultant Analyst*Fleur Grose*

8 November 2012

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Analyst disclosure of interest:

The author of this report has a beneficial interest of nil shares in Iron Road Limited.

Rex Adams has a beneficial interest of 177,500 shares in Iron Road Limited.