

18 June 2008

Company Announcements Office  
Australian Securities Exchange

## BALMORAL SOUTH IRON ORE PROJECT ON TRACK FOR 2011 COMMISSIONING

**Feasibility Study predicts \$5,075M return from 12 Mtpa project  
over life of Project**

- **Bankable Feasibility Study for 12 Mtpa project (including 7 Mtpa of pellets) completed, showing a real after tax NPV<sub>8%</sub> of \$5,075M and IRR of 20.8% based on extensive engineering studies, consultant and vendor input;**
- **Based on proposed Shougang funding model, the real NPV<sub>8%</sub> of projected cash flows for the Company (50% of total free cash flow) is \$3,010M after tax over life of Project.**
- **Capital cost of A\$2.7B (excluding owners' costs and contingency).**
- **Opportunity for further project enhancement via Shougang construction proposal.**
- **International Minerals Pty Ltd plans to issue a Feasibility Notice to Shougang on or before June 20, 2008; and**
- **Presentation of Finance Offer is required from Shougang within three (3) months from the issue of the Feasibility Notice to proceed to full project development and funding.**

### Company overview

Australasian Resources is a significant iron ore company currently developing the world-class Balmoral South Iron Ore Project in the Pilbara region of Western Australia.

### Fast Facts

ASX Code: ARH  
Shares on Issue: \$440M

### Board of Directors

Mr Domenic Martino	Chairman
Mr Andrew Caruso	Managing Director
Mr Clive Mensink	Deputy Chairman
Mr Grant Ryan	Company Secretary
Mr Vimal Sharma	Director
Mr Paul Piercy	Director
Mr Nicholas Jukes	Director

### Major Shareholding

Professor Clive Palmer *	66.59%
Timefull Investments (Shougang Concord)	6.35%
Sun Hung Kai Investment Services Ltd (APAC Resources)	4.76%
Australian Minerals (Hong Kong) Holding Ltd	3.5%

\* escrowed until April 2009

### Balmoral Project Highlights

- Right to mine 1 billion tonnes of magnetite iron ore.
- Strategic alliance with China's fourth largest steelmaker, Shougang Corporation.
- Shougang has committed A\$56 million to ARH and has the option to: inject a further A\$42 million; fully fund the project through an interest free debt facility; and purchase all iron ore products from the Balmoral South Project.

### Media contact

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Australasian Resources Limited (ASX: ARH) has achieved a critical milestone towards the Company's aspiration to be a significant, sustainable and profitable producer of quality iron ore products. The Bankable Feasibility Study for its Balmoral South Iron Ore Project ("Project") in the Pilbara region of Western Australia completed as per existing agreements with Shougang Holdings (Hong Kong) Limited.

The Project is located approximately 80km south-west of the town of Karratha in the Pilbara region of Western Australia. The Project involves the mining and processing of magnetite ore from the Susan Palmer deposit to produce 12 Mtpa of premium iron ore products for export.

Under the terms of the existing agreements, Shougang can elect to earn a 50% interest in the Project by:

- Providing 100% of the Project funding through an interest free project loan (Finance Offer);
- Guaranteeing the purchase of 100% of iron ore products from the Project; and
- Constructing the Project or guaranteeing the construction by another suitable constructor.

The Company plans to issue a Feasibility Notice to Shougang this week which signals the commencement of a three month period in which Shougang can present a Finance Offer to Australasian to finance 100% of the development of the Project.

## **FEASIBILITY STUDY - FINANCIAL EVALUATION**

### **BASIS AND ASSUMPTIONS**

The financial evaluation for the Project was completed using a cash flow model ("Project Model") to which capital and operating cost estimates, mining costs and the production schedule provide input data. The Project Model calculates an internal rate of return ("IRR") and the net present value ("NPV") resulting from real Project cash flows.

The financial evaluation is carried out over a period of 28 years, which includes:

- Construction phase of three (3) years commencing on 1 January 2009;
- Mining contractor pre-strip commencing December, 2009 and continuing through to December, 2011;
- Commissioning of plant commencing 1 October 2011 and continuing for three (3) months; and
- Production of concentrate and pellets commencing on 1 January 2012 and continuing for 25 years until 31 December, 2036.



The Project Base Case has all the facilities located at the Project site (Balmoral South). The key components of the Bankable Feasibility Study are:

- An initial 7-year mining services agreement with one of several leading Australian mining contractors (with option for renewal) involving an annual average production rate of 42 Mtpa ore and 30 Mtpa waste;
- A concentrator capable of producing 12 Mtpa of concentrate (of which 5.2 Mtpa would be exported);
- A pellet plant capable of producing 7 Mtpa supplied by one of several leading international vendors;
- A gas-fired power station supplied by one of several leading international vendors;
- Process and other water provided by a borefield adjacent to the Fortescue River;
- A 30 km long conveying system from the processing plant to a stockpile location at Cape Preston;
- A trans-shipping facility at Cape Preston which is an extension of the proposed CITIC Pacific Mining Management Pty Ltd trans-shipping facility.

The Project Model incorporates a number of general assumptions of particular note:

- Iron ore fines prices – have been based on the forecast prices incorporated in an iron ore industry report entitled “Iron Ore – Oligopolies Attract” dated 3 March 2008 (“Citi Report”) produced by Citi Investment Research (a division of Citigroup Global Markets Inc.);
- Constant concentrate and pellet prices were used in the Project Model based on Citi Report projections for the 2008/9 iron ore year.
- Freight differential for pellet prices – has been based on principals described in a CRU Strategies Limited report and quantified by Australasian Resources Ltd at US\$20.00 per tonne;
- Foreign exchange rates – have been based on the “Citi Report”.

Average real product prices over the term of the Project applied in the Project Model are as follows:

- Concentrate (68% Fe)           \$130 per tonne (FOB)
- Pellets (67% Fe)               \$214 per tonne (FOB)

## CAPITAL

The Company, in conjunction with ProMet Engineers Pty Ltd (“ProMet”), has developed a capital estimate, excluding all owners’ costs and contingency, of \$2.7B.

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## OPERATING

The operating cost estimate presented below was prepared by the Company in conjunction with ProMet.

The product operating costs (excluding royalties and fees) have been estimated as:

- Concentrate \$49 per tonne (FOB)
- Pellets \$61 per tonne (FOB)

## PROJECT RETURNS

Based on the assumptions and feasibility study outcomes, the Project is estimated to produce the following real returns:

- Discount Rate 8%
- NPV (after tax) \$5,075M
- IRR (after tax) 20.8%
- Average annual EBITDA \$1,332M
- Average annual NPAT \$821M

Based on the proposed Joint Venture arrangements contemplated with Shougang if it elects to proceed, the Company's returns, based on the estimated real Project returns, are:

- NPV<sub>8%</sub> (after tax) \$3,010M

The Company's returns under the proposed Shougang scenario are based on receiving 50% of the residual free cash flow after the loan principal payment commitments have been made in each year until the loan is fully repaid. Under the terms of the agreement, 70% of free cash flow from the Project is used to pay the outstanding loan in the first 3 years of production and 40% of free cash flow thereafter in successive years until the loan is repaid.

## OPPORTUNITIES VIA SHOUGANG

The Company anticipates that Shougang will propose additional enhancements to the Project based on its extensive experience in magnetite mining and processing.

The enhancements are expected to form a part of Shougang's Construction Proposal that is required in conjunction with the Finance Offer. The Company expects Shougang to propose the pellet plant be located in China.



## ENVIRONMENTAL APPROVAL

The Public Environmental Review ("PER") document for the Project is near completion and will be submitted this month. At the request of the Environmental Protection Authority ("EPA"), additional studies were completed during April and May, 2008 to support the PER submission.

Once submitted, these documents will be reviewed by the EPA and once approval of the document has been received, it will be released for public comment.

The documents seek approval for a 24 Mtpa operation to reflect the possibility of the Company acquiring additional tonnage which is currently in the final stages of negotiation with Mineralogy.

Australasian Resources Ltd has produced an environmental review document that clearly commits to minimising environmental impact of the Project including the port area at Cape Preston.

## SUMMARY

The Company acknowledges the excellent contribution from its staff, advisors and consultants over the past year towards the achievement of this outcome.

It aims to continue working in conjunction with Shougang in the coming months to secure the Finance Offer necessary for the Project to advance to the construction and implementation phase.

Yours sincerely



Andrew Caruso  
Managing Director

