

ASX Announcement

28 May 2014

External review confirms strong economics of Razorback Premium Iron Project

Key Points:

- Review by Oyster Consulting of the Pre-Feasibility Study optimisation confirms a robust approach is being taken to maximising the value of the Razorback Premium Iron Project
- Optimised financial model used in the Study has boosted both NPV and IRR
- The Oyster Review provides independent verification by industry-respected consultants and confirms that the case for advancing Razorback towards a Feasibility Study is conservative, logical and compelling

Royal Resources Limited (Royal; ASX:ROY) is pleased to announce that a full independent review of the Optimised Study of the Pre-Feasibility Study (PFS) for the Razorback Premium Iron Project (RPIP) has outlined robust economics for the project. The Scoping Level Optimisation Study, completed by Royal and reviewed by industry-respected Oyster Consulting Pty Ltd, concentrated on opportunities identified during the PFS Base Case (announced 30th January 2013).

The driver for the Oyster Consulting review was the substantial value added by Royal through their Optimisation Study of the PFS with changes made to recoveries, strip ratio, infrastructure outsourcing, in-pit crushing and conveying, production rate, and the basis for resource estimation. The changes resulted in an increase in the Net Present Value (NPV) of the project to over \$2,780M with an annual EBITDA of \$474M and included cost reductions and an increase in production from 8.2Mtpa to 9.3Mtpa. Royal's Directors determined it was prudent to ensure the PFS aligns with these new metrics and that the financial model remains valid. As required under JORC Code 2012, it must be noted that at a Scoping Level there is a lower level of technical and geological confidence associated with inferred mineral resources than at a PFS level, and therefore there is no certainty that further exploration work will result in the determination of indicated mineral resources or that the production target itself will be realised.

Oyster Consulting's review suggests that Royal has adopted a logical and robust approach to maximising the Razorback Project value. It also noted that, in many instances, Royal's optimisation study was conservative resulting in potential economic upside as further studies progress closer to the Feasibility Study. It should be noted that portions of the PFS optimisation which Oyster reviewed were still at scoping level and further work is required over coming months to bring this to PFS level. Royal is confident that this will be achieved.

Mr Phil Crabb, Chairman of Royal, said "The Board believed it was an appropriate time to look at the progress we have made and have an external review completed to underpin the next stage of development. The findings from the review by Oyster Consulting are highly encouraging and give us great confidence to advance the project to the feasibility level."

Oyster Consulting's Review of PFS Optimisation Study

The Oyster Consulting review aimed to assess the assumptions and logic underpinning the optimisation work in several key areas. Overall, the review of the Pre-Feasibility Study Optimisation work indicated a logical and robust approach to maximising the project value, and was in many instances, conservative in its cost estimations. The areas examined by the review and its key findings are described below:

1. Strip ratio improvement

- **Scope** - The move to a recovery based ore body model (which is grade driven) and the resulting impact on strip ratios.
- **Key Findings** - The adoption of a recovery driven ore body model rather than Fe head grade that drives the step change in strip ratio appears reasonable. All evidence indicates that SATMAGAN (Magnetic Susceptibility) provides an accurate measure of expected Magnetite recovery. A robust design approach has been used for the transition to a recovery based model.

2. Removal of Hematite Circuit

- **Scope** - The removal of Hematite circuit and subsequent recovery rate optimisation.
- **Key Findings** - The assumptions and logic of omitting the Hematite recovery circuit are sound, and further de-risk the PFS base case operation whilst providing for potential upside.

3. Production Rate increase

- **Scope** - Increase in overall annual production of 50%.
- **Key Findings** - The proposed optimised plant is logical and scaled effectively to support the business case of increased concentrate production to 9.3 Mtpa. Further studies are required to tighten the costs.

4. In pit crushing and conveying of ROM (IPCC)

- **Scope** - Adoption of IPCC versus the original truck/shovel mining operations.
- **Key Findings** - The adoption of In-pit crushing and Conveying systems will substantially reduce haulage costs of ore and hence overall unit costs, and are well suited to this deposit. Further studies will be required to tighten the costs.

5. Infrastructure outsourcing (including the impact of sea water to processing)

- **Scope** - Use of third party infrastructure pipeline and return saline water processing, but excluding any review of the proposed operating cost charge.
- **Key Findings** - The outsourcing of infrastructure to Braemar Infrastructure Pty Ltd and subsequent capital removal has been treated appropriately. Long distance pipelines are a well proven method for transporting mineral concentrates. Oyster did not review proposed operation cost charges.

6. Impact of Optimised Studies on Project Financials

- **Scope** - The Subsequent Capex and Opex implications of the items above.
- **Key Findings** - Overall CAPEX and OPEX for the Optimised Case are advantageous to project NPV. The financial models appear to be mechanically robust, although some aspects are at scoping level and require further studies. The operating cost charges for infrastructure access was not part of the review. These costs are at scoping level and more certainty is expected by the infrastructure provider as their studies progress. Royal has made some changes to the optimised model resulting in an improvement to the financials as announced in November 2013:
 1. NPV estimates improved from \$2,221M to \$2,781M
 2. IRR estimates increased from 34% to 39%
 3. EBITDA estimate increased from \$442M to \$474M

Summary of the Optimised PFS Study

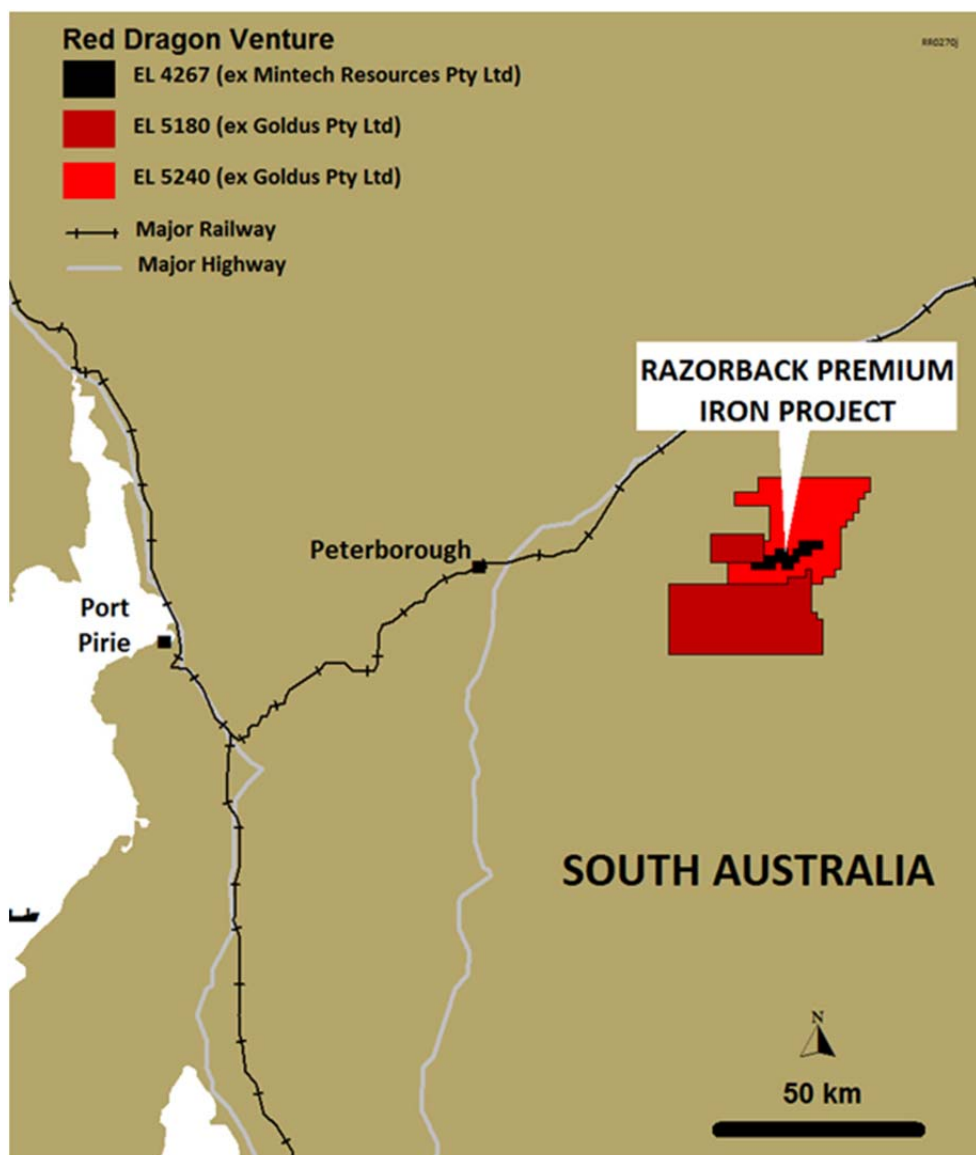
A summary of parameter changes that have been applied to the RPIP Base Case PFS as a result of Royal's Optimisation Study as announced on 27th November 2013 and changes made by Royal after the Oyster Consulting's recent review is summarised below.

Table 1: Key parameter changes from the previously announced Base Case PFS results driven by the outcomes of the Optimisation study.

Parameter	Base Case PFS January 2013	Optimised Case November 2013	Optimised Case Review May 2014
Production rate	6.2Mtpa ¹	9.3Mtpa	9.3Mtpa
Product grade	67.4% Fe	67.4% Fe	67.4% Fe
Mining rate	40Mtpa	60Mtpa	60Mtpa
Recovery	20.5%	15.5%	15.5%
Strip Ratio	0.79	0.24	0.24
Total rock mined	72Mtpa	74Mtpa	74Mtpa
Ore movement	Shovel & truck	In pit crushing & conveying	In pit crushing & conveying
Product transport to coast	Owner built, operated	Outsourced	Outsourced
Ship loading	Owner built, operated	Outsourced	Outsourced
CAPEX estimate	\$2,234 Million	\$1,200 Million	\$1,200 Million ²
Forward iron pricing	\$120/t	\$120/t	\$120/t
Forward FOREX estimate	US\$1:A\$1	US\$1:A\$1	US\$1:A\$1
OPEX estimate (C1)	\$63/t	\$69/t	\$69/t ³
NPV estimate	\$644M	\$2,221M	\$2,781M⁴
EBITDA estimate	\$187M	\$442M	\$474M⁴

1. PFS announcement assumed a 20.5% recovery, with caution, resulting in an 8.2Mtpa production rate. With a proven 15.5% recovery the production rate is 6.2Mtpa.
2. Approximately 15% of the CAPEX estimate is at Scoping Level ($\pm 50\%$) accuracy, compared to the $\pm 25\%$ accuracy of the PFS estimate.
3. To be verified on completion of the Optimisation Study, including the elevation of the In Pit Crushing and Conveying estimate to PFS accuracy and applying economies of scale to the an Expanded Production Case
4. After a review of the financial model calculations by Oyster Consulting, it was identified that that one of the formulae producing the NPV, EBITDA, and IRR required an adjustment. Royal has corrected the values in the table above from the version in the announcement on the 27th November 2013. All other values and/or variables applied to the model remain unchanged.

Figure 1: Razorback Premium Iron Project location.



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About Oyster Consulting Limited

Oyster Consulting is a Perth based company with a team of highly qualified and experienced consultants. Their focus is on business improvement through the identification and diagnosis of issues that impact on the optimisation of a project and provide customised solutions and implementation strategies.

They operate only within the resources sector and associated industries. The principal consultants who undertook the review for Royal have had extensive experience in the mining and associated infrastructure industries, with recent involvement in several advanced WA Magnetite Projects.

About Royal Resources Limited

Royal Resources is a mineral exploration company exploring for iron ore in South Australia and for iron, gold and uranium in the Northern Territory. The Razorback Premium Iron Project (RPIP) is centred on the Razorback Ridge deposit within the Red Dragon Venture. It has a JORC (2004) resource of 2.7 Billion tonnes at 15.3% recovery, including 1.04 Billion tonnes at 16.2% recovery in the Indicated Resource category.

The completed Pre-Feasibility Study shows it to be technically feasible and economically attractive. The Project is targeting production of 9.3Mtpa of premium grade magnetite concentrate by conventional open pit mining and beneficiation. The resulting low-contaminant 67.4% Fe product will attract premium pricing to hematite fines. The RPIP has a potential mine life in excess of 50 years and will employ a workforce of over 650.

The details contained in this report that pertains to ore and mineralisation is based upon information compiled by Mr Marcus Flis, BSc (Hons), MSc, a full-time employee of the Royal Resources Limited, Gavin England BSc (Hons), PhD, a full-time employee of the Royal Resources Limited and Mr Lynn Widenbar BSc(Hons), MSc, DIC, Principal Consultant Widenbar and Associates Pty Ltd . Mr Flis is a Fellow of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Widenbar is a Member of the AusIMM. Dr England is a member of Australian Institute of Geosciences (AIG). These three people 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 December 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC 2004 Code). Mr Flis and Mr Widenbar consents to the inclusion in this report of the matters based upon their information in the form and context in which it appears.

The information for the Razorback Premium Iron Project was prepared and first disclosed under the JORC Code 2004. The information has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.