21 June 2017

AUSTRALIAN OPERATIONS UPDATE

- Improved supply and demand fundamentals drive restart of Jacinth-Ambrosia (J-A) from December 2017
- Staged approach to unconventional development at Balranald preferred; evaluation continues
- Narngulu MSP considered sufficient for processing all expected Australian production; Hamilton MSP to be placed on care and maintenance from October 2017. A non cash impairment of approximately $150 million pre-tax ($105 million after tax) associated with Hamilton MSP expected as part of the half year accounts finalisation. Redundancy and restructure costs of $14 million also anticipated
- Discussions are continuing to secure appropriate offtake arrangements for Cataby project

Iluka Resources Limited (Iluka) advises the following update to its Australian operations.

Restart of Jacinth-Ambrosia

Mining and concentrating activities will recommence at J-A (Eucla Basin, South Australia) in December 2017. These activities were suspended in April 2016 for what was expected to be a period of 18 to 24 months to allow heavy mineral concentrate (HMC) inventory to be drawn down during a time of subdued market demand.

Announcing the restart, Iluka's Managing Director, Tom O'Leary, stated "Iluka continues to be encouraged by the improvement in mineral sands markets. The restart of J-A reflects the continued tightening of the zircon market and follows the substantial draw down on HMC inventory over 2017. The restart will ensure Iluka is able to continue to support its customer base."

Approximately 40 employees and 60 contractors will be recruited to support the restart.

Restart costs are expected to be ~$7 million and will be expensed in 2017. In addition, J-A cash production costs are expected to be ~$6 million in 2017. These costs are not included in the cash production costs estimate of $330 million referenced in the Key Physicals and Financials Parameters released on 31 January 2017.

Jacinth-Ambrosia remains the primary source of zircon for Iluka. At this stage Iluka expects total group zircon production to be approximately 300kt in 2018. Iluka also expects to have the ability to draw down zircon inventory over the course of 2018.

Balranald update

Work on the unconventional mining development at Balranald (Murray Basin, New South Wales) has continued in 2017. Further work this year will focus on testing an improved mining head, in a simulated environment, to assess whether it can sustain adequate life cycle times given the abrasive nature of the mining unit's operational setting. Expenditure this year is expected to be approximately $9 million.

Should the testing of the mining unit prove successful, a decision will then be made on whether to proceed with a final field trial in 2018, which is likely to cost $20-$25 million.

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Iluka has determined that it is likely that any future Balranald development will be pursued with a staged approach, given the risk profile associated with the new mining methodology. It is now proposed that a development would contemplate, at least initially, both a lower mining rate and lower capital requirement. As a result, annual production volumes are likely to be lower than had previously been envisaged, with the potential to ramp up over time. Commercial quantities of HMC are not expected to be produced before 2021.

The carrying value of the Balranald project is expected to be $45 million at the half year, with expected spend of $3 million in the second half of 2017.

Processing capacity requirements

The resultant lower annual volumes of HMC produced at Balranald, combined with likely mineral sands production from Iluka's other Australian mining, would be able to be processed at Iluka's Western Australian mineral separation plant (MSP) at Narngulu, near Geraldton, rather than requiring the additional capacity of Iluka's Hamilton MSP in the Murray Basin in Victoria, as previously proposed.

While it is possible that the Hamilton MSP may be utilised in the future to treat HMC produced from the Murray Basin by Iluka or others, there is insufficient certainty at this time to justify carrying the book value. Iluka has advised previously a suspension of operations at Hamilton from October 2017; the facility will be placed on care and maintenance at that time. An impairment charge of approximately $150 million before tax will be recorded in the half year accounts. In addition, redundancy and restructure costs of $14 million will be recorded in the half year results for 30 June 2017.

Cataby development

As advised previously, the Cataby development is execute ready. The decision to proceed with the project is dependent on securing appropriate offtake arrangements. Discussions with major chloride pigment customers and others are progressing and a further update will be provided with the 2017 half year results.

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