

**Legacy Iron Ore Ltd.**

LCY AU / LCY.AX

**SPOTLIGHT**

|  |  |  |                |                        |
|--|--|--|----------------|------------------------|
| <p>➤ <b>Market Cap</b><br/><b>A\$16.3m</b></p> | <p>➤ <b>Avg Daily Turnover</b><br/><b>A\$0.01m</b></p> | <p>➤ <b>Free Float</b><br/><b>27.8%</b><br/>162.15m shares</p> | <p>Current</p> | <p><b>A\$0.028</b></p> |
|--|--|--|----------------|------------------------|

**Important:** The recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

**Moderate Volatility**

RBS Morgans Limited  
(A.B.N. 49 010 669 726) AFSL235410  
A Participant of ASX Group

www.rbsmorgans.com

**Analyst**

**James WILSON**  
T +61 8 6462 1974  
E james.wilson@rbsmorgans.com

---

**Share price info**

| Share price perf. (%) | 1M     | 3M     | 12M    |
|-----------------------|--------|--------|--------|
| Relative              | -39.9% | -40.6% | -80.5% |
| Absolute              | -46.2% | -44.0% | -62.7% |

| Major shareholders     | % held |
|------------------------|--------|
| NMDC Limited           | 49.4   |
| Heng, Kia Le           | 8.6    |
| Wealth Forever Limited | 3.9    |

**More than meets the eye....**

Legacy Iron Ore ("LCY") is developing its flagship Mt Bevan iron ore project located in the Midwest region of Western Australia. The project hosts >2Bn tonnes of high quality magnetite ore and the unique characteristics of the orebody establish the potential development of one the lowest cost magnetite projects in Australia. The company has the backing of Indian conglomerate National Mineral Development Corporation ("NMDC"), who has expressed their intention to support the projects development and unlock the infrastructure potential in the region.

**A quality deposit ➤**

Mt Bevan (LCY 60%) is a shallow orebody amenable to an open pit, low strip ratio mining operation. Metallurgical testwork to date shows the potential for excellent recoveries, yielding premium grade concentrate with low impurities. Importantly, the low strip ratio will require a smaller mining fleet and the apparent softness of the ore will reduce the power requirements for crushing (typically a significant component of cash costs).

**Positive fundamentals ➤**

The fall in the Australian Dollar and strength in iron ore prices have seen iron ore price up around AUD\$150/t. Due to the quality of the product, magnetite concentrate demands a premium over spot prices, allowing potential high margin production.

**Undemanding valuation ➤**

LCY trades on an undemanding valuation of \$16.9m despite its cornerstone backing by NMDC and solid project fundamentals. Additional value upside will come from the potential to spin-out or divest LCY's non-core assets

**Strong financial support ➤**

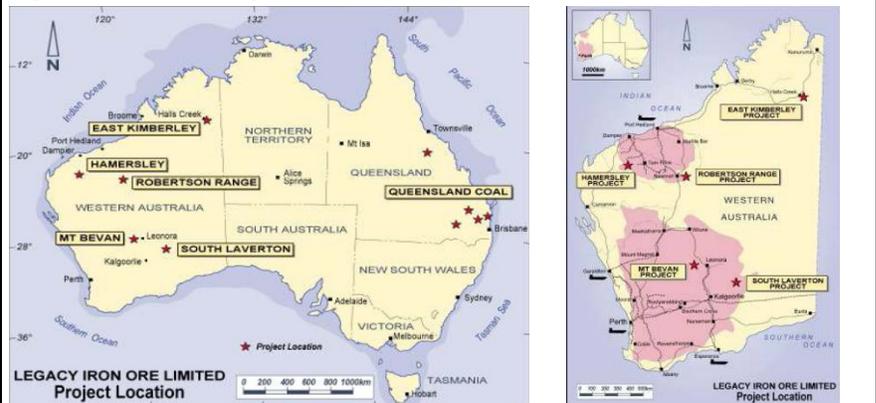
History shows that the successful development of iron ore projects requires the support of a large financier. Despite being relatively early in the development stage of the project, LCY secured the backing of NMDC who have a 49.4% equity position in LCY. The Group intends to grow its presence in Australia exclusively through LCY and is committed to the development of Mt Bevan.

We see a number of possible near term catalysts including: 1) successful divestment of non-core assets; 2) identification of DSO material; 3) release of a Prefeasibility study (PFS) for Mt Bevan; and 4) update from State Government on port developments regarding the Esperance Port.



Source: CapitalIQ

**Figure 1 Location Map**



SOURCE: RBS MORGANS, COMPANY

## 1. Mt Bevan Project

### 1.1 Project background

Mt Bevan is a joint venture between LCY (60%) and ASX listed Hawthorn Resources Ltd (40%). LCY maintains a 7.6% shareholding in Hawthorn Resources (“HAW”) as part of the joint venture which was commenced in October 2010.

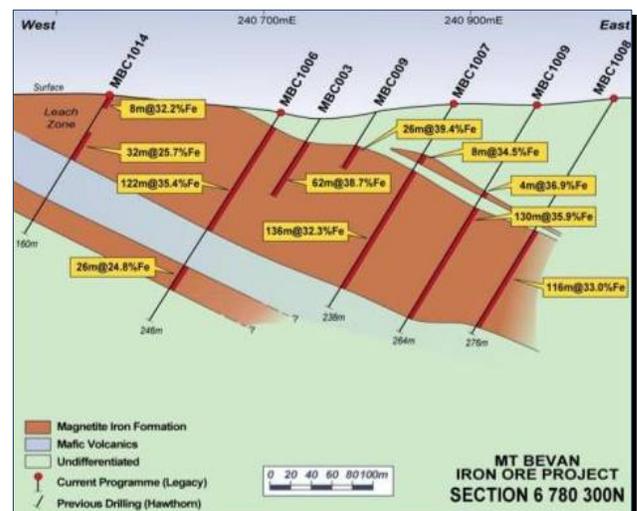
The project is located 100km north west of Menzies in the Mid-West region of Western Australia (Fig 2). There is an existing government owned rail line from Menzies to the Port of Esperance where Cliffs Resources currently exports ~11Mtpa. The WA Government has approved port expansion to 21Mtpa at Esperance where the government tendering process for the expansion is in the final stages with an expected completion date in 2015. Albany and Geraldton remain alternative route options for export.

Figure 2 Location Map



Source: Brookfield Rail

Figure 3 Mt Bevan Cross Section



SOURCE: RBS MORGANS, COMPANY

### 1.2 Resource and geology

The Mt Bevan mineralisation consists of multiple shallow dipping lodes of magnetite (Fig 3). Drilling has defined a 2.26bn tonne resource of ~27.6% Fe which remains open at depth and along the 11km long strike extent currently defined by aeromagnetics within their project area.

The company has also identified a number of potential zones of direct shippable mineralisation which it intends to test in the near future.

Davis Tube Recovery (DTR) results have shown the Mt Bevan ores have low impurities, high weight recoveries and have low crushing energy requirements, which shows the potential for a high margin lower cost operation compared to other WA magnetite projects.

### 1.3 Favourable product characteristics

Excellent results from initial product recovery testing (DTR) have been achieved with low impurities (higher selling price) and high weight recovery (more to sell) to improve project economics.

The quality and softness of the orebody also reduces energy requirements in the crushing and beneficiation process.

**Table 1 Product recovery testwork**

|                     | Mt Bevan  | Other WA Projects |
|---------------------|-----------|-------------------|
| Grind size required | 50µm→55µm | 26µm→35µm         |
| Concentrate grade   | 69%-70%   | 64%-66%           |
| Wet recovery        | 40% - 45% | 30% - 41%         |
| Energy              | ≈ 12      | ≈ 30              |

SOURCE: COMPANY

## 2. NMDC Limited

### 2.1 Background ▶

Located in India, NMDC is a Government owned public enterprise, under the control of the Ministry of Steel. The Group produces approximately 30 million tonnes of iron ore (60+ Fe) per annum and is India's single largest iron ore producer, employing over 5,700 people. At the end of FY12, NMDC has approximately US\$3.2 billion in cash reserves and in FY12 generated over US\$1.7 billion in profit after tax.

### 2.2 Commitment to Legacy ▶

In October 2010, NMDC acquired a 50% equity holding in LCY for A\$18.9m. The purpose of the investment was to grow its Australian presence exclusively through LCY and assist the company's evolution from a junior explorer to an iron ore producer of premium iron ore concentrate.

This commitment was again demonstrated after LCY most recently announced the company had secured \$2.7m in loan facilities from Citibank with the corporate guarantee provided by NMDC. It is uncommon for a shareholder to act as a loan guarantor for junior explorers and highlights the advantages of having the backing of a major shareholder with a significant balance sheet.

With a 60% interest in Mt Bevan, NMDC's investment in LCY provides a see through value on the project of A\$63m (versus current market capitalisation of A\$16.3m). We would argue that NMDC's support is a significant value-add for LCY and this is not reflected in the current share price.

|                        |                |  |                |
|------------------------|----------------|--|----------------|
| <b>QUEENSLAND</b>      |                |  |                |
| BRISBANE               | (07) 3334 4888 | PORT MACQUARIE                         | (02) 6583 1735 |
| BUNDABERG              | (07) 4153 1050 | SCONE                                  | (02) 6544 3144 |
| CAIRNS                 | (07) 4222 0555 | SYDNEY – LEVEL 9                       | (02) 8215 5000 |
| CALOUNDRA              | (07) 5491 5422 | SYDNEY – LEVEL 33                      | (02) 8216 5111 |
| CHERMSIDE              | (07) 3350 9000 | SYDNEY – MACQUARIE STREET              | (02) 9125 1788 |
| EDWARD STREET          | (07) 3121 5677 | SYDNEY – MACQUARIE STREET (Parramatta) | (02) 9615 4500 |
| EMERALD                | (07) 4988 2777 | SYDNEY – REYNOLDS EQUITIES             | (02) 9373 4452 |
| GLADSTONE              | (07) 4972 8000 | WOLLONGONG                             | (02) 4227 3022 |
| GOLD COAST             | (07) 5581 5777 |  |                |
| IPSWICH/SPRINGFIELD    | (07) 3202 3995 | <b>ACT</b>                             |                |
| MACKAY                 | (07) 4957 3033 | CANBERRA                               | (02) 6232 4999 |
| MILTON                 | (07) 3114 8600 |  |                |
| MT GRAVATT/CAPALABA    | (07) 3245 5466 | <b>VICTORIA</b>                        |                |
| NOOSA                  | (07) 5449 9511 | MELBOURNE                              | (03) 9947 4111 |
| REDCLIFFE              | (07) 3897 3999 | BRIGHTON                               | (03) 9519 3555 |
| ROCKHAMPTON            | (07) 4922 5855 | CAMBERWELL                             | (03) 9813 2945 |
| SPRING HILL            | (07) 3833 9333 | CARLTON                                | (03) 9066 3200 |
| SUNSHINE COAST         | (07) 5479 2757 | FARRER HOUSE                           | (03) 8644 5488 |
| TOOWOOMBA              | (07) 4639 1277 | GEELONG                                | (03) 5222 5128 |
| TOWNSVILLE             | (07) 4725 5787 | RICHMOND                               | (03) 9916 4000 |
| YEPPON                 | (07) 4939 3021 | SOUTH YARRA                            | (03) 9098 8511 |
|                        |                | TRARALGON                              | (03) 5176 6055 |
|                        |                | WARRNAMBOOL                            | (03) 5559 1500 |
| <b>NEW SOUTH WALES</b> |                |  |                |
| SYDNEY                 | (02) 8215 5055 | <b>WESTERN AUSTRALIA</b>               |                |
| ARMIDALE               | (02) 6770 3300 | PERTH                                  | (08) 6462 1999 |
| BALLINA                | (02) 6686 4144 |  |                |
| BALMAIN                | (02) 8755 3333 | <b>SOUTH AUSTRALIA</b>                 |                |
| CHATSWOOD              | (02) 8116 1700 | ADELAIDE                               | (08) 8464 5000 |
| COFFS HARBOUR          | (02) 6651 5700 | NORWOOD                                | (08) 8461 2800 |
| GOSFORD                | (02) 4325 0884 |  |                |
| HURSTVILLE             | (02) 9570 5755 | <b>NORTHERN TERRITORY</b>              |                |
| MERIMBULA              | (02) 6495 2869 | DARWIN                                 | (08) 8981 9555 |
| NEUTRAL BAY            | (02) 8969 7500 |  |                |
| NEWCASTLE              | (02) 4926 4044 | <b>TASMANIA</b>                        |                |
| NEWPORT                | (02) 9998 4200 | HOBART                                 | (03) 6236 9000 |
| ORANGE                 | (02) 6361 9166 |  |                |

#### DISCLAIMER

The information contained in this report is provided to you by RBS Morgans Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. RBS Morgans Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("RBS Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their RBS Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of RBS Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of RBS Morgans. While this report is based on information from sources which RBS Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect RBS Morgans judgement at this date and are subject to change. RBS Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Although CIMB Securities (Australia) Ltd (ABN 84 002 768 701), its related bodies corporate, directors and officers, employees, authorised representatives and agents ("CIMB Securities Australia") may have been involved in the preparation of certain content for this Research Report, this Research Report constitutes general advice provided by RBS Morgans to the recipient of this report under its Australian financial services licence and RBS Morgans is solely responsible for the content of this report. CIMB Securities Australia do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within.

#### DISCLOSURE OF INTEREST

RBS Morgans and CIMB Securities Australia may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. RBS Morgans or CIMB Securities Australia may previously have acted as manager or co-manager of a public offering of any such securities. RBS Morgans' affiliates or CIMB Securities Australia affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Each of RBS Morgans and CIMB Securities Australia advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of RBS Morgans' Authorised Representatives may be remunerated wholly or partly by way of commission.

#### RECOMMENDATION STRUCTURE

For a full explanation of the recommendation structure, refer to our website at [https://www.rbsmorgans.com/research\\_disclaimer](https://www.rbsmorgans.com/research_disclaimer).

**If you no longer wish to receive RBS Morgans' publications please advise your local RBS Morgans office or write to RBS Morgans Limited, Reply Paid 202, Brisbane QLD 4001 and include your account details.**

031013