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Formosa Plastics Group increases LOI for Hawsons Supergrade® product

Highlights

- Formosa Plastics Group (FPG) increases demand for Hawsons Supergrade® product by raising non-binding Letter of Intent (LOI) to 2.6 Mtpa
- Increase aligns with FPG's first steel production at new state-of-art facility in Ha Tinh Province, Vietnam
- 12 Mtpa of Hawsons Supergrade® product now under letters of intent for sale and purchase with blue chip customers across Asia and the Middle East, accounting for 120% of prefeasibility study output rate
- Growing demand for Hawsons Supergrade® product enables further configuration review of Hawsons Iron Project during the bankable feasibility study
- Iron ore quality differentials at record levels as demand for high grade

Hawsons Supergrade® product is now substantially oversubscribed, with emerging iron producer Carpentaria Exploration Limited (ASX:CAP) announcing today that Taiwanese conglomerate Formosa Plastics Group (FPG) has increased its non-binding Letter of Intent (LOI) to purchase Hawsons Supergrade® product to 2.6 million tonnes per annum (Mtpa) through its Authorised Representative for Australia, up from the 2.0 Mtpa agreed last September, for an initial 10-year period.

The increase follows guidance to FPG that there is approximately 12 Mtpa of spare capacity in the existing infrastructure servicing the Hawsons Iron Project, located 60 kilometres south-west of Broken Hill, NSW. Carpentaria has now secured non-binding LOIs for the sale and purchase of 12 Mtpa of Hawsons Supergrade® product, consistent with expected available tonnage in its logistics chain, but 20% more than the rate being targeted in a new prefeasibility study.

Mr Henry Cheng, Chairman, Formosa Energy said: "FPG has just produced its first steel billet at the new state-of-art facility in Ha Tinh Province, Vietnam at the start of this month and plans to rapidly expand production to potentially over 20 Mtpa in the future. This increased LOI reflects the intention for Hawsons Supergrade® to be an important long-term source of high quality feedstock for the new steel making facility in Vietnam. This timing also coincides with the establishment of an Australian presence for FPG, via Formosa Energy (FE), and we are pleased to help support the growth of Australia's iron ore industry."

Welcoming the announcement, Carpentaria's Managing Director, Quentin Hill said: "We are delighted with this new positive development and look forward to converting this LOI to a definitive binding agreement during our bankable feasibility study (BFS). Given this strong customer support, we will look to configure the Hawsons project to maximise the output of Hawsons Supergrade® product during the BFS."

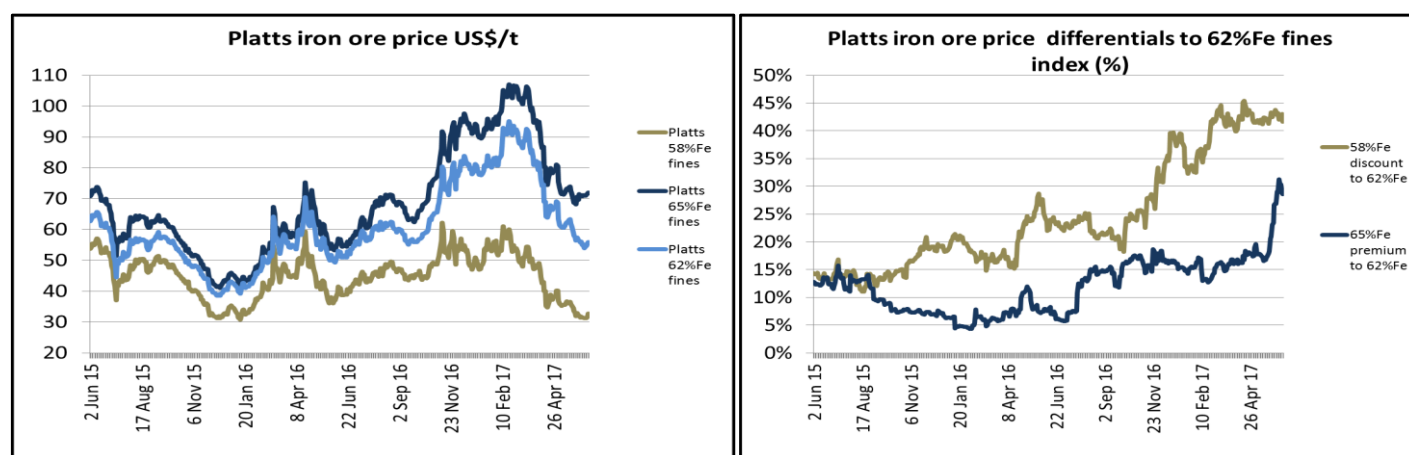
He added: “The strong demand shown for our product from international blue-chip buyers will be used to drive development of one of the leading undeveloped high quality iron ore projects in the world. Major buyers such as FPG recognise the value of securing high quality iron ore as global quality continues to decline. Those that have access to high quality feed will have an advantage over their rivals.”

This new LOI with FPG follows the 2.0 Mtpa LOI previously announced by Carpentaria on 20 September 2016, representing Carpentaria’s first blue-chip potential customer from Taiwan. Following the recent agreement with Chinese steel maker Shagang International (refer ASX announcement, 30 May 2017), Carpentaria now has LOIs with many of the world’s leading steel makers and traders, including Bahrain Steel, Emirates Steel and Kuwait Steel from the Middle East, Gunvor Group and Japan’s Mitsubishi Corporation RtM.

Founded in 1954, FPG boasts assets over US\$102 billion, annual sales revenues over US\$60 billion, operating income US\$8 billion and over 110,000 employees worldwide. A global leader in petrochemicals and plastics, the company also operates several prominent educational and medical institutions in Taiwan. FPG is already an investor in Australia’s coal and iron ore industry, with more than 30 years history of trading in Australian thermal coal and industrial salt.

Pricing differentials highlight benefits of high grade to steel mill productivity

Benchmark iron ore prices (Platts) are continuing to differentiate along quality lines, driven by current productivity driven blast furnace operating philosophies in China.



Figures 1 and 2 Iron ore pricing

The 13 June 2017 benchmark Platts 65% Fe fines price was US\$70.90/t, US\$16.90/t higher than the Benchmark IODEX 62%Fe fines of US\$54.00/t, a level not seen since October 2011 when the 62% Fe fines price was US\$170/t. In contrast, the benchmark Platts 58%Fe fines price of US\$31.30/t was almost US\$40/t lower than the 65% price and close to the historic low of US\$30.85 reached in January 2016. Yesterday’s 65%Fe differential was US\$15.00/t.

Productivity in a blast furnace is driven by low slag volume, with higher quality iron ores generating less slag volumes. Hawsons Supergrade® product, at ~70%Fe and <2.3% silica + alumina, offers near to the industry’s lowest slag volume.

Other medium-grade magnetite products, while exceeding 65%Fe, have higher slag volumes (5-6% silica + alumina) than the 65% Fe hematite fines benchmark (4% silica + alumina) and therefore would be less attractive than the 65%Fe benchmark product using the measure of blast furnace productivity.

Iron ore pricing is determined by a number of factors including supply and demand, coking coal prices, steel prices, productivity drivers and pollution outcomes. In China, if steel margins are high then higher productivity is sought.

In mature steel making markets such as Europe and Japan, capacity utilisation and productivity driven steel making is entrenched and unlikely to change because long-term trends also promote productivity. These include higher pollution control costs and higher energy costs caused by the degrading quality of coking coal and iron ore over time.

As China's steel market also matures, these same drivers have been widely forecast to apply and should this be true, would increase demand and competition for higher grade materials like Hawsons Supergrade® product across the global iron ore market.

Hawsons LOIs

The table below provides an update concerning the current range of LOIs for Hawsons Supergrade® product, from blue-chip international companies across Asia and the Middle East:

Company	Volume	Market
Formosa Plastics	2.6 Mtpa	Supergrade concentrate/pellet feed
Bahrain Steel	3.0 Mtpa	Direct reduction (DR) pellet feed
Shagang	2.5 Mtpa	Pellet feed
Mitsubishi Corporation RtM	1.0 Mtpa	Supergrade pellet feed
Gunvor	1.0 Mtpa	Supergrade concentrate
Kuwait Steel	1.0 Mtpa	DR pellet feed
Emirates Steel	0.9 Mtpa	DR pellets
Total	12.0 Mtpa	

Carpentaria's Mr Hill added: "Attracting demand from such a wide range of blue-chip buyers has bolstered confidence in our project's potential to form the basis of a premium long-term, low cost iron business. We are determined to continue our focus on developing the Hawsons project for the benefit of all stakeholders, delivering jobs and investment for Broken Hill and wealth for our shareholders."

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The information in this report that relates to Exploration Results, Exploration Targets and Resources is based on information evaluated by Mr Q.S. Hill who is a member of the Australian Institute of Geoscientists (MAIG) and who has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code"). Mr Hill is a Director of Carpentaria Exploration Ltd and he consents to the inclusion in the report of the Exploration Results in the form and context in which they appear.