

# Ivanhoe Australia Limited Strategic & Business Review Complete

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MELBOURNE, AUSTRALIA -- (Marketwire - Aug. 15, 2012) - [Ivanhoe Australia Limited](#) (TSX:IVA) (ASX:IVA) today released the completion of the strategic & business review announced in May 2012. The purpose of the review has been to identify immediate steps to realise shareholder value and position the company for sustainable growth.

Commenting on the review today, Ivanhoe Australia Managing Director, Inés Scotland, said, "The review has shown us we needed to act quickly to put the company on a sure footing and return it to its exploration and development roots. The company has an exciting portfolio but we have to balance our priorities so that capital is allocated in a manner that delivers value to shareholders along the way."

"We've had to make some tough decisions but we now have a clear, logical path that will provide an immediate improvement in cash flow from the Osborne operation and retain flexibility to deliver future value from our exciting exploration portfolio, Mount Elliott and Merlin projects".

## Scope of the Review

The scope of the strategic review included:

- Reviewing the sustainability of the company's expenditure and income profile and progress its growth projects;
- Identifying opportunities to improve the cash flow profile (both capital and operating costs) of Osborne; Rigorous technical and commercial assessment of the Merlin feasibility study;
- Considering development options arising from the Mount Elliott scoping study; Reviewing the scope and focus of the current exploration program and its alignment to short and medium term development goals; and
- Reviewing the cost structures and overheads of the company.

## Review Process

The strategic review was conducted in two phases, combining input from external consultants and an internal team.

The first phase of the review focused on achieving an immediate reduction in overhead costs and the operating cost base of the business. The outcomes of this phase were announced in June 2012 and resulted in annual cost savings of \$10 million to be delivered across the balance of the year. Additional savings were identified from the re-focusing of the exploration effort resulting in a reduction in exploration expenditure to approximately \$15 million per annum.

The second phase of the review focused on operational efficiency improvements company-wide, assessing the direction of the company's development program and considering business models for future development to deliver optimal value and risk mitigation for shareholders.

## Findings

The strategic review has confirmed our goal to build a profitable multi-mine, mid-tier mining company based initially on our tenements in the Cloncurry region.

To achieve this goal, it is necessary to establish an effective organisation that is skilled and focused on exploration, project evaluation and operational delivery. The company will consider joint venture arrangements for all projects to improve access to capital and skills and to manage risk in line with the

company's balance sheet and cash flow profile.

The findings of the review generated \$69 - \$74 million of capital expenditure savings over the next two years and \$44 - \$46 million of annual operating and overhead costs savings and prioritised the work program for our exploration effort and key development projects: Merlin Molybdenum-Rhenium and Mount Elliott Copper-Gold .

### Osborne Copper-Gold Operations

The Osborne operation was restarted in February 2012 with the intention of providing operating cash flow to support the company's exploration activities. The original plan was for an initial four year project life with identified targets to extend the production plan to over 10 years at an average processing rate of 1.8 - 2.0 million tonnes per annum.

The strategic review focused on the following for Osborne:

- Production and financial modelling of a number of operating scenarios to optimise cash flow generation;
- Identifying immediate operational cost savings to drive down production costs; and
- Identifying options to eliminate, defer or reduce capital requirements.

The strategic review identified that the Osborne operation would provide the best return by operating for at least the initial planned four year mine life to 2015. The revised plan will utilise ore from the Osborne, Kulthor and Starra 276 underground mines only and is based on Mineral Reserves declared in July 2012. The Osborne open pit, which contains lower grade ore and would require substantial upfront capital to develop, has been deferred from the mine plan pending further resource and economic definition work.

The mining strategy review, which involves the consolidation of the mining and maintenance activities under one contractor, is underway with implementation expected by the first quarter of 2013.

The revised Osborne operating plan is as follows.

Year	Description	Tonnes and Grade
2012	Continue mining Osborne and Kulthor	700,000 - 800,000 tonnes at
1.5% - 1.7% Cu and 0.7 - 0.9 g/t Au		
2013 & 2014	Mining Kulthor and Starra 276	1.4 - 1.6 million tonnes at
1.3% - 1.5% Cu and 0.8 - 1.0 g/t Au		
2015	Mining Kulthor and Starra 276	700,000 - 900,000 tonnes at
1.5% - 1.7% Cu and 0.8 - 1.0 g/t Au		

Once steady-state production is achieved and the Starra 276 mine is fully on-line, C1 cash operating costs are expected to average between US\$1.70 and US\$1.90 per pound of copper produced(1).

Green and brown-field exploration to target prospects close to Osborne will continue with the aim of discovering additional low-cost mill feed. It is anticipated that success with this program will extend the mine life at Osborne with drilling planned on a number of prospective targets.

In addition, work is currently underway on the Kulthor and Starra 276 deposits with the aim of delineating additional Indicated Mineral Resources from the existing Inferred Mineral Resources at these deposits. If successful, this work is expected to increase the mine life for the Osborne operation.

### Exploration

The exploration program has been rationalised and two clear priorities have been established.

The first priority is to discover a new standalone economic copper project with potential for greater than 30 million tonnes and copper grades of over 2%.

The second priority is to identify economic deposits close to the Osborne operation with low capital development costs, solid copper grades (+1.5%) and a size of greater than 5 million tonnes. As described above, it is intended that this would provide low cost mill feed to enhance the cost profile of the existing

operation and extend the potential economic life of the operation.

In line with these targets the team has now identified and prioritised 10 prospective areas for copper that meet either the larger standalone project potential or the low cost mill feed.

The exploration budget of \$15 million per annum will primarily be directed toward:

- geological assessment of areas previously drilled but with incomplete geology work
- drilling the top targets for larger copper projects followed by a few smaller targets for mill feed
- continuing the aircore geochemical program which is testing significant areas of highly prospective tenure in areas under cover that previous explorers have not been able to systematically test in the past.

### **Mount Elliott**

The large, low grade Mount Elliott project has been evaluated as a composite project that combined the low-grade copper mineralisation with higher grade copper mineralisation within a sub-portion of the project, known as SWAN.

The SWAN high-grade-zone contains significant tonnage of higher grade copper and gold mineralisation. The geology is not fully understood and further drilling is required to model the higher grade portions. An initial 6 hole drilling program with optionality to extend to 10 holes is planned to commence after data reinterpretation work is complete.

Our strategy is to add further value to the project through completion of the initial geological analysis and seek to joint venture the project at a logical point in its development.

### **Merlin Molybdenum-Rhenium Project**

The independent technical review of the Merlin project confirmed the outcomes of the feasibility study and the technical viability of the project. It has also identified that there are some opportunities to further enhance the technical and commercial aspects of the study. These include metallurgical testwork which has the potential to reduce the capital cost and improve returns. Approximately one third of the estimated capital cost for Merlin (~ \$345m in total) is associated with building a roaster to process the molybdenum concentrate and enable rhenium capture. Additional metallurgical work will be undertaken to assess the potential for delaying the construction of the roaster and selling a higher-grade molybdenum/rhenium concentrate. The roaster could then be added after the project is operational and self-funding to produce high-value molybdenum and rhenium end-products.

A sales and marketing study has also been commissioned through a leading molybdenum and rhenium consultancy company located in Chile.

This technical and commercial work will be completed by the first quarter of 2013. During this period, the company will assess the strategic partnership proposals received to date which may include a partial sale, or an arrangement more in line with an operational joint venture.

### **Financial Savings**

The savings identified during the two phases of the strategic review include \$69 - \$74 million of capital expenditure savings over the next two years and \$44 - \$51 million of annual operating and overhead costs savings. These will be implemented progressively over the balance of this year, with some elements already implemented or in the process of being implemented.

The \$69 - \$74 million of capital savings include:

- Deferral of the Osborne open pit from the mine plan reduces capital expenditure by \$29 million;
- Redesign of the Osborne - Mount Dore haul road expected to deliver capital expenditure savings of \$15 - \$20 million; and
- Consolidation of the mining and maintenance activities expected to reduce capital expenditure by

approximately \$25 million

The \$44 - \$46 million of annual operating and overhead costs savings include:

- Head office overhead costs reduced by \$6 million per annum;
- Site operating savings of \$6 million;
- Mining and maintenance costs savings expected to be between \$4 - \$6 million; and
- Exploration budget reductions of approximately \$28 million per annum.

## **Funding**

The company has actively explored a range of options to secure alternative sources of funding to progress development of its projects. These have included seeking strategic partnerships, sale of project interests and strategic equity positions at the corporate level. These activities, while ongoing, will be restructured into a more commercially acceptable framework for the parties that have expressed interest.

## **Next Steps**

Implementation of the strategic review outcomes has commenced and will continue over the coming months. These include further redundancies of personnel that will be initiated over the next two weeks. Over the ensuing period, the company will focus on:

- The ongoing exploration review and program design including drilling some previously untested highly-ranked targets;
- The metallurgy of the Merlin project;
- Better understanding the geology and grade profile of the higher grade SWAN project;
- Resource definition and economic assessment work of projects close to Osborne; and
- Continuous improvement in operations performance and cost management.

With the strategic review now complete, we have a reinvigorated team with a clear path and priorities. We believe the platform we have created is appropriate for the current external environment and provides flexibility to respond to the current volatile market conditions.

(1) Assuming a gold price of US\$1,600 per ounce.

[Turquoise Hill Resources](#) (TSX:TRQ) (NYSE:TRQ) (NASDAQ:TRQ) is Ivanhoe Australia's largest shareholder.

This information is available on our website: [www.ivanhoeaustralia.com](http://www.ivanhoeaustralia.com)

## **QAQC Statement**

Ivanhoe Australia's core sampling within mineralised zones is generally taken on continuous one-metre intervals down each drill hole, or on smaller lengths over narrow geological units, for large disseminated or weakly mineralised zones sample lengths may increase to a maximum of two metres. The core is marked with a continuous cutting line along the middle, parallel to the long axis for the purpose of preventing a sampling bias during splitting. Core is cut with a rock saw flushed continually with fresh water and one-half of NQ/HQ core or one-quarter of PQ core is taken for analysis. Reverse circulation (RC) samples are taken on continuous one- or two-metre intervals down each drill hole and collected from a rig-based cone splitter.

Sample dispatches include Certified Reference Materials (CRMs), Field Blanks, Field Duplicates, Crushed Duplicates, and Pulp Duplicates. The CRMs, Field Duplicates, and Field Blanks are randomly inserted during sampling, whereas the Crushed and Pulp Duplicates are inserted at the laboratory. CRMs are certified for gold, copper, molybdenum, and/or rhenium.

Samples are placed in plastic bags, sealed, and collected in large, labelled shipping bags that are secured

and sealed with numbered tamper-proof security tags. Samples are shipped to ALS Laboratory Group's Mineral Division at Mount Isa for preparation. Gold, copper, molybdenum, and rhenium assays, and multi-element geochemical analyses are conducted at ALS Mount Isa, Townsville, and Brisbane laboratories. ALS operates in accordance with ISO/IEC 17025.

Reference material assay values are tabulated and compared to those from established Round Robin programs. Values outside of pre-set tolerance limits are rejected and samples subject to re-assay. A reference material assay fails when the value is beyond the 3SD limit and any two consecutive assays fail when the values are beyond the 2SD limit on the same side of the mean. A Field Blank fails if the assay is over a pre-set limit.

Ivanhoe Australia also performs check assays on a regular basis at an independent third party laboratory. Ivanhoe Mines Ltd regularly conducts onsite reviews, internal audits, and laboratory audits to ensure procedural compliance for maintaining industry standard best practices.

### **Forward-looking statements**

*Certain statements made herein, including statements relating to matters that are not historical facts and statements of our beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking information and statements are typically identified by words such as "anticipate," "could," "should," "expect," "seek," "may," "intend," "likely," "plan," "estimate," "will," "believe" "potential", "likely" and similar expressions suggesting future outcomes or statements regarding an outlook. These include but are not limited to the company's expectations about expected capital and operating cost savings and potential reductions in Merlin capital expenditure.*

*All such forward-looking information and statements are based on certain assumptions and analyses made by Ivanhoe Australia's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information or statements. The reader is cautioned not to place undue reliance on forward-looking information or statements.*

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