

ASX and Media Release

Defence purports to veto Hawks Nest magnetite JV with WISCO

Western Plains Resources Ltd (ASX: **WPG**) announced on 12 June 2009 that it and Wugang Australian Resources Pty Ltd (**WISCO**) had executed a set of formal transaction documents pursuant to which WISCO would subscribe for some 12.1 million WPG shares and contribute \$45 million to the cost of undertaking a feasibility study to develop WPG's magnetite deposits in EL 4248 at Hawks Nest south of Coober Pedy in South Australia, and in so doing would earn a 50% participating interest in the project (the **WISCO Investment**).

The Hawks Nest project is located within the Woomera Prohibited Area (**WPA**). Hawks Nest is some 180 kilometres from the Woomera range head near the Woomera township and more than 800 kilometres from the Pine Gap communications station west of Alice Springs. WPG purchased the Hawks Nest tenement from SASE Pty Ltd in 2006, and has carried out exploration programs there for the last three years in accordance with the requirements of South Australian mining legislation and exploration access agreements with the Department of Defence (**Defence**).

In 2000 the Commonwealth provided a grant of \$6.5 million to SASE Pty Ltd to test new iron ore smelting technology. A fundamental part of the SASE project was the development of an iron ore mine at Hawks Nest. Both the Commonwealth and the SA governments agreed then to introduce special legislative support for the SASE project.

WPG's advisors received the attached letter from the Department of Defence late on Friday 18 September 2009. In it, Defence officials state that Defence will not support an application by WISCO to the Foreign Investment Review Board (**FIRB**) for approval of the WISCO Investment.

The content of the letter is an abrogation of undertakings by Defence officials to continue discussions with WPG, the latest undertaking having been at a meeting on 26 August, and reaffirmed in subsequent telephone discussions.

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The letter is therefore not only a surprise to WPG, but WPG understand from discussions, also to the South Australian government, Department of Primary Resources and Industry (**PIRSA**) and the federal Department of Resources, Energy and Tourism. Defence and other Commonwealth departments and agencies had been engaged in a series of productive meetings over the last few weeks that were designed to identify and mitigate Defence's concerns regarding the WISCO Investment and satisfy Defence's stated policy that the exploration, mining and defence industries could co-exist within the WPA, providing the overarching issue relating to national security was not compromised. These discussions and negotiations were progressing constructively, and further meetings had been agreed. In WPG's view, there was a strong expectation that the outcome of this process would lead to a solution that would be acceptable to all parties.

Specific comments on key issues set out in Defence's letter

The letter appears to reject the WISCO Investment on safety, operational and national security issues. WPG's comments on these points are as follows:

(a) Safety issues

The Hawks Nest tenement straddles the Stuart Highway, the main road from Adelaide and other southern cities, to Darwin. There are hundreds of vehicle movements each day on this road. Traffic on the highway can be seen from Hawks Nest. Because of its physical proximity to the highway, WPG does not believe that Defence would deliberately schedule weapons trials in the Hawks Nest area because of the possibility of such tests causing harm or inconvenience to persons legitimately using the highway.

WPG recognises that there is potential for a rogue weapon to behave erratically. WPG believes the chances of an out-of-control weapon causing harm to its personnel or assets at Hawks Nest are statistically immaterially different to the chances of such a weapon causing harm to civilian traffic on the highway. Therefore, it seems likely that Defence would take very specific measures to prevent accidents in this area.

To the best of WPG's knowledge, Defence has never closed the highway while its tests are carried out. Likewise, it has never closed the Central Australian Railway, on which the iconic passenger train The Ghan runs twice weekly, and on which, ironically, freight trains that service, amongst other users, South Australia's mining industry, travel more frequently.

WPG believes that the safety issues raised by Defence could be easily managed by the implementation of appropriate and simple protocols.

(b) *Operational issues*

The purpose of WISCO's initial investment was to undertake a feasibility study on the potential development of a mine at Hawks Nest, which would include additional resource exploration drilling to be undertaken in accordance with WPG's current exploration access deed with Defence for the Hawks Nest tenement. The proposed level of activity by the joint venture at Hawks Nest would have no greater impact than any of the other current advanced exploration projects within the WPA. However, Defence officials appear to have made their decision based on the assumption that approval for an operating mine is being sought.

The WPA covers some 127,000 square kilometres, which is about the same size as England. The footprint of a likely magnetite project at Hawks Nest would be about 10 square kilometres, including the infrastructure corridor. WPG has difficulty in understanding why Defence considers such a small area in the vast extent of the WPA would cause it to be concerned about its own operational issues.

WPG cannot move the location of its orebodies but if the result of the feasibility study was to lead to project development, WPG could move the location of its infrastructure such as haul roads, the concentrator and rail loading facility etc to less sensitive areas within the WPA. It has undertaken to do so if requested by Defence, and it has undertaken to house its personnel at the Peculiar Knob accommodation village, the location of which has already been approved by Defence.

In addition, WPG has agreed, should the result of the feasibility study lead to project development, to implement a campaign mining strategy at Hawks Nest, with run-of-mine ore stockpiles to be maintained at the remote concentrator site so that processing could continue while mining activities are halted temporarily when Defence's weapons tests are active.

The Company is confident that it could accommodate Defence's reasonable requests to evacuate the site while tests are carried out. WPG is therefore surprised that safety and operational reasons have been cited in the letter, based on recent discussions with Defence officials who have indicated that these particular issues could be satisfactorily resolved, were the result of the feasibility study to lead to project development.

(c) *National security*

The transaction documents between WPG and WISCO that establish the joint venture include firm undertakings between the parties that WPG could never lose control of the project, WISCO could never gain control of it, and no foreign persons would live or work within the WPA. These alone are major concessions from normal mining joint venture conditions by WISCO.

In subsequent discussions with Defence, WPG undertook to negotiate even tougher restrictions to mitigate Defence's concerns about national security. These measures included provisions that the operating company would be 100% WPG owned, and that Defence would have the right to nominate a director to the board of the joint venture's operating company. Defence would also have the right to locate security and intelligence agents on site (at the joint venture's expense), and that water-tight protocols would be implemented to ring fence the flow of information relating to the WPA itself from WISCO and its nominees on relevant boards and management committees. WPG also invited Defence to suggest any other constraints it thought appropriate.

WISCO is a Chinese state owned steel corporation and the nature of its ownership seems to be causing a perception to Defence that Australia's national security would be compromised if the WISCO Investment proceeds. WISCO has had a joint venture interest in a major iron ore mining project in Western Australia's Pilbara area for more than five years, and has offices in Perth and Melbourne. In WPG's view, Australian security agencies have had ample time therefore to check whether WISCO is a bona fide iron ore user, or not.

WPG believes that the national security issues that concern Defence could be handled properly by the measures already in place, those that have been suggested by WPG, and others which the joint venture may be able to implement.

More broadly, WPG senses that national security may be used increasingly by Defence as a mechanism to deter all foreign investment in exploration, mining and other projects located within the WPA.

Why has exploration and mining tenure been singled out?

The WPA is a 'prohibited area' prescribed pursuant to the Defence Regulations and its boundaries have changed over time. Currently, multiple users have access to the WPA for a variety of purposes:

- Pastoralists hold long term leases, running livestock and significant operations with itinerant workers
- Tourists and travellers pass through the WPA via the Stuart Highway and the Central Australian Railway
- Opal miners and prospectors mine and fossick for opal within the WPA
- Native title claimant groups have regular access to the WPA and, on final determination of relevant claims, will hold actual Native Title over essentially all of the WPA, with attendant rights of access.

In WPG's view, all of these groups, and others, represent an equal, if not greater, risk of security breach yet none of these groups are as heavily sanctioned as the exploration and mining industry. The suggestion that the operations of the proposed joint venture's feasibility study within the WPA and advance notice of military testing represents an unacceptable security risk is difficult to sustain, when such activities are notified as a matter of law in the Government Gazette and are the subject of regular notices to the civil aviation authorities via the NOTAM (Notice to Airmen) process.

Economic impact of a magnetite project at Hawks Nest

The economic impact of a magnetite project at Hawks Nest would not be known with confidence until the feasibility study is completed. The metrics set out below are based on the results of a 2008 scoping study.

(a) 2008 scoping study

The scoping study prepared by WPG in 2008 suggested the following:

- Capex would be around \$1 billion for six million tonnes per annum concentrate production.
- Operating revenue would be \$600 million per annum for the 30 year project life modelled
- Employment would be about 200 at the mine (Coober Pedy has one of the highest unemployment rates in Australia, especially amongst indigenous workers)
- Company tax would be \$500 million over 30 years, and state royalties \$180 million
- NPV of future cashflows approximately \$1 billion.

(b) Impact on the South Australian economy

The project if developed would make a materially positive impact on the South Australian economy.

At 6 million tonnes per annum of concentrate sales, revenue would be greater than the State's 2007 export revenue from natural gas, uranium, barley and wheat, and about the same size as that from the grape industry. Annual export tonnages would be greater than that from all of the State's seven publically accessible ports combined.

(c) *Regional infrastructure development*

Currently there is no large scale bulk commodities port in South Australia. The State Government has made plans to develop Port Bonython near Whyalla as a port to service the emerging bulk commodities sector. The stable, long life ore supply from the Hawks Nest magnetite project would play a vital role in underpinning the economic case for the early development of this new port and the vetoing of mining at Hawks Nest will substantially jeopardise this critical infrastructure development, and therefore the broader bulk commodity mining future of South Australia.

(d) *Comparison with Gorgon*

Much media attention has been given recently to the development of the Gorgon gas project on the North West Shelf because of its projected \$50 billion revenue over the project's 20 year life.

At 6 million tonnes per annum, Hawks Nest's projected revenue over its 30 year life would be \$18 billion. If the feasibility study suggests the optimum scale of development was 10 million tonnes per annum, this figure would increase to \$30 billion. Although not quite as large as Gorgon, cashflows of this magnitude would still make a huge contribution to the Australian economy.

Some consequences of a rejection by the Commonwealth of WISCO's investment application

(a) *Risk to project development*

Rejection by Defence officials of the WISCO Investment would have a much larger impact on Hawks Nest than the March 2009 rejection of the then proposal for the acquisition of the company that owns the Prominent Hill mine. Prominent Hill was then in production and this decision did not stop that mine's development and production, with its attendant benefits to the State and Commonwealth. In contrast, there is a very real risk that the Defence official's Hawks Nest decision, if it stands, will abort the feasibility study for this project and all of the benefits that would accrue if it was developed.

(b) *Country risk*

Australia, and in particular, South Australia, enjoy an excellent reputation in the international mining industry as a safe place for inherently risky resource investment. Rejection by the Defence officials of the WISCO Investment that relates to a valid exploration licence would have some of the characteristics of expropriation without compensation.

WPG is aware of only one mining project that was banned by the Commonwealth – the Fraser Island mineral sand project in the 1970s. (Other projects that did not proceed were related to the inability of the proponents to deal with the traditional owners – this is not the case with Hawks Nest).

(c) *South Australia's reputation as a mining-friendly jurisdiction*

The South Australian government has justifiably established a world-wide reputation as a mining-friendly jurisdiction. This has been widely reported by trade journals and international think-tanks and promoted by the South Australian government. Rejection by the Commonwealth of the WISCO Investment will harm that reputation, through no fault of the South Australian government.

WPG notes that there are some 128 currently active exploration licences and 73 applications for exploration licences within the WPA. These are held or under application by a total of 62 companies – some Australian, some international. WPG expects that the holders of all of these tenements will be significantly concerned by the Defence official's decision.

(d) *Australia's relationship with China*

Media comments suggest that China finds Australia's policy towards its investment in Australia's resources projects inconsistent and confusing. If the attached letter is a true reflection of the Commonwealth's position on the WISCO joint venture, it will add to that perception, particularly in the case where significant concessions have been made by WISCO in order to address Defence concerns.

WPG believe it is not in Australia's interest for this relationship to be further stressed, and the best way to deal with the growing influence of China is to encourage trade relationships.

Governance

WPG notes that the signatory to Defence's letter is an executive in the Property Services Division of Defence's Defence Support Group, and that the decision has been informed by considerations by relevant Defence officers.

WPG does not doubt the competence and integrity of these executives and military personnel. But it would seem to be an appalling approach to governance if the Commonwealth is prepared to devolve decisions that touch on Australia's foreign investment policy, foreign relations, Commonwealth-State relations, and its international investment reputation on unelected and unaccountable executives and military officers without seeking perhaps counterbalancing input from other groups within government that are responsible for managing the country's economic, trade and foreign policies.



WPG understands that the FIRB process is designed to achieve a 'whole of Government' position on proposed foreign investment in Australia. This has not been the case to date.

WPG's response to Defence's letter

WPG believes that Defence's decision is a gross overreaction to the issues that may be of legitimate concern to Defence, and that Defence's concerns are capable of being resolved by renewed constructive dialogue between the parties acting in good faith.

WPG further believes that the Commonwealth should take into account a broader range of issues than those identified by Defence. National economic development, job creation, Commonwealth and State revenues, security of mining tenure, foreign policy and foreign investment, are all issues that should be weighed by the Commonwealth.

WPG has sought to mutually agree with WISCO an extension of time to the conditions precedent period within the relevant transaction documents, in order to further pursue this matter with the Commonwealth. Amongst other things, WPG will strongly advocate that WISCO proceed to lodge its FIRB application forthwith in order to obtain a whole-of-government decision on its proposed investment.

WPG intends to continue to take whatever actions it can to preserve the value of its shareholders interests in this project.

Further Information

For further information please contact WPG's Executive Chairman Bob Duffin, on (02) 9247 3232 or 0412 234 684, or Heath Roberts, Executive Director and General Counsel on (02) 9247 7359 or 0419 473 925.



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ASPS/OUT/2009/179

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Dear Mr Punch

WESTERN PLAINS RESOURCES JOINT VENTURE PROPOSAL FOR HAWKS NEST

Thank you for providing Defence with the opportunity to comment on your client's proposed joint venture with Wuhan Iron and Steel (Group) Co. (WISCO) to conduct a "Bankable Feasibility Study" at Hawks Nest in the Woomera Prohibited Area. You seek the support of Defence for Western Plains Resources' application to the Foreign Investment Review Board concerning the proposed investment by WISCO in the Hawks Nest Iron Ore project and the further approval of the new corporate entity for exploration rights for Hawks Nest.

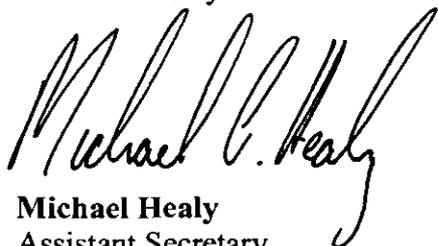
The proposal has been considered by Defence against the criteria set out in the *Foreign Acquisitions and Takeovers Act 1975*, Foreign Investment Review Board publications and the *Defence Force Regulations 1952*. Regard has been given to whether access conditions would reasonably be able to protect persons and property in the Woomera Prohibited Area, as well as official secrets. Consideration has also been given to the extent to which investments might affect Australia's ability to protect its strategic assets and or whether the proposal is consistent with Australia's national interest.

I wish to advise that the relevant officers of the department have considered both the material originally provided regarding your client's proposal and material subsequently provided in support of and by way of elaboration to that proposal. The outcome of this consideration is that, unlike previous approvals by Defence for Western Plains Resources to undertake activities in the Woomera Prohibited Area, the proposed joint venture operations at Hawks Nest would not be compatible with Defence's activities at the Woomera Prohibited Area on safety, operational and national security grounds. Defence therefore cannot grant the level of access to Hawks Nest required by your client's proposal.

Accordingly, I must advise that while to date Defence has been able to approve many of your client's current activities within the Woomera Prohibited Area, Defence is unable to support this investment proposal in the event that it is submitted formally to the Foreign Investment Review Board.

I regret that I am unable to have been of assistance in this matter.

Yours sincerely

A handwritten signature in black ink, appearing to read "Michael C. Healy". The signature is written in a cursive style with a large, sweeping initial "M".

Michael Healy
Assistant Secretary
Property Services

18 September 2009