



ASX Announcement
18 October 2011

About Legacy Iron Ore

Legacy Iron Ore Limited ("Legacy" or the "Company") is a Western Australian based Exploration Company, focused on iron ore and gold exploration and discovery.

Legacy's mission is to increase shareholder wealth through capital growth, created via the discovery, development and operation of profitable mining assets.

The Company was listed on the Australian Securities Exchange on 8 July 2008. Since then, Legacy has had a number of iron ore, manganese and gold discoveries which are now undergoing drilling and resource definition.

Board and Management

Timothy Turner, Non-Executive Chairman

Sharon Heng, Managing Director

John Heberton Executive Director and Chief Executive Officer

Tao Han, Non-Executive Director

Ben Donovan, Company Secretary

Steve Shelton, Exploration Manager

Marina Watts, Senior Geologist

Key Projects

Mt Bevan Iron Ore Project

Hammersley Iron Ore Project

Robertson Range Iron Ore and Manganese Project

South Laverton Gold Project

East Kimberley Gold, Base Metals and REE Project

Enquiries

Sharon Heng

Managing Director

Phone: +61 8 9421 2005

ASX Codes: LCY, LCYO, LCYOA, LCYOB

FORTESCUE CENTRE
SUITE 32, 23 PLAIN STREET
EAST PERTH WA 6004

PO BOX 6878
EAST PERTH BC WA 6892

Phone: +61 8 9421 2005

Fax: +61 8 9421 2001

Email: info@legacyiron.com.au

Web: www.legacyiron.com.au

The Company Announcements Office
ASX Limited

Via E Lodgement

**LEGACY EXECUTES SHARE SUBSCRIPTION AGREEMENT
WITH NMDC**

KEY POINTS

- Binding Share Subscription Agreement with NMDC executed
- Placement for \$18.89m cash injection
- Drilling at Mount Bevan on track to double resource and earn 60% Joint Venture interest by 1st Quarter 2012
- AGM to be held in November 2011 to vote on Placement
- NMDC indicates intention to spend \$500m on overseas acquisitions
- NMDC indicates their commitment to underwrite estimated \$1.3 billion Mt Bevan development capex
- Advanced discussions on Australian iron ore and other projects subject to Legacy shareholders approving the Placement
- Board examining ways to spin off coal, iron ore and gold assets to realize better valuation

Legacy Iron Ore Limited ("Legacy") is pleased to announce that it has signed a binding Share Subscription Agreement ("Agreement") with National Mineral Development Corporation Ltd ("NMDC"), whereby NMDC confirms its intention to subscribe for 50% of the issued equity of Legacy for a placement of A\$18.89m ("Placement"), subject to shareholder, regulatory and FIRB approval.

A summary of the key terms of the Agreement is provided in Appendix A.

The signing of the Agreement is an important milestone in the planned evolution of Legacy from a junior explorer to a mining company, which will have the international reach and financial backing of a major government body, and is a key step in NMDC's vision of Legacy being used as a vehicle to acquire large-scale bulk commodity projects in Australia.

An Independent Experts Report and Notice of Meeting on the transaction is well advanced, with an Annual General Meeting scheduled for the end of November 2011, to allow Legacy shareholders to vote on the Placement to NMDC. The Independents Expert Report and the Notice of Meeting is to be mailed to shareholders at the end of this month.

The Agreement provides for Placement funds to be deposited into a trust account for immediate release and use following Completion, the key items for Completion being shareholder approval, FIRB approval and issuance of the new shares.

NMDC seeks to expand

The proposed investment in Legacy will not be a passive one for NMDC, with NMDC Chairman, Rana Som, continuing to confirm their commitment to develop and increase the value of their investment in Legacy through further acquisitions.

This commitment was highlighted earlier this month in India's Business Standard:

"Talking about Legacy, NMDC's first-ever foreign acquisition, Rana Som said this would be used as a foothold in Australia not only to develop the mines under Legacy but also for acquiring other mines in the country. "Ultimately, Legacy will be our Australian arm," he added. Explaining that NMDC's aim was to grow both vertically and horizontally, he said the company was setting up steel plants for vertical growth and acquiring mines for horizontal growth".

Discussions between Legacy and NMDC on the future acquisition and funding of resource projects in Australia, using Legacy as the vehicle, have been for:

- The enlarged Legacy/NMDC company to acquire a minimum of 50% and up to 100% of a project, using Legacy as the vehicle to hold that interest;
- NMDC to sole have responsibility for arranging project finance for the full development of the project, via debt financing; and
- The enlarged Legacy/NMDC company agreeing to repay the vendors of the projects certain development costs incurred to date.

The proposed acquisition model will see Legacy used to acquire a significant interest in resource projects, via the reimbursement of development costs incurred by project vendors to date, typically in the range of \$20-\$40m to begin, and NMDC charged with arranging 100% project financing through debt funding.

As speculated in various media articles, NMDC has also been in advanced discussions with a large Australian iron ore company, regarding the purchase and development of a large scale JORC classified iron ore deposit. Whilst discussions are ongoing and remain confidential, NMDC have indicated their preference to have the acquisition made through Legacy, upon shareholders agreeing to the Placement made by NMDC into Legacy.

NMDC is essentially eyeing acquisitions to expand its capacity and to ensure raw material security for its upcoming steel mills in Chhattisgarh and Karnataka. This desire to control the vertical supply chain was recently reflected in NMDC Chairman Rana Som's discussion with the Press Trust of India, where Mr Som stated that *"A navratna company can spend one-third of its net worth on overseas acquisitions which comes to USD 1.2 billion (about Rs 5,400 crore) for us. This fiscal our target is to spend up to USD 500 million and we have already shortlisted four assets abroad," NMDC Chairman Rana Som told PTI". Mr Som said due diligence is on for two coal assets and two iron ore assets.*

Mount Bevan continues to deliver

A top priority to Legacy is the ongoing drilling and advancement of the Mount Bevan iron ore asset, as part of its Joint Venture with Hawthorn Resources Limited, where by Legacy can earn a 60% interest by spending \$3.5m.

The placement funds will be used to continue and expedite the drilling at Mount Bevan and Legacy's other projects. The Placement by NMDC does not alter the ongoing earn-in by Legacy into the Mount Bevan asset, nor the ongoing relationship with Hawthorn Resources Limited, who will also share the upside from the rapid advancement of the Mount Bevan asset, after the Placement funds are received by Legacy.

As announced on 9 September 2011, drilling has continued to intersect thick magnetite sections over an enlarged strike length, increasing the likelihood of converting the exploration target of 1.5 - 2 billion tonnes into a resource classification. (see announcement dated 9 September 2011 for full details.)

Drilling continues as part of the 6,000m programme, with completion due in November 2011 and an updated JORC resource anticipated for December 2011.

Upon completion of the phase 2 drilling, Legacy will have spent approximately \$2.4m, with the remaining \$1.1m to be spent shortly after that, the aim being that Legacy will have earned its 60% interest by Q1 2012.

With this goal in mind, Legacy is working with Hawthorn Resources Limited on the best path to realise the valuation of the Mount Bevan project, as captured in the recent SRK valuation, as announced 22 September 2011.

NMDC financing capacity

NMDC currently has cash reserves in excess of US\$4 billion, and has additional lines of credit from banking syndicates, including Citibank, which have been made available for the purchase and financing of resource projects.

Once on board as the largest shareholder of Legacy, NMDC will not only be providing full funding for the ongoing development of Mount Bevan, but arranging for 100% of the required project finance as well.

NMDC have recently highlighted this in an interview report in the Indian Press, on 13 October 2011:

"Hyderabad State-owned NMDC and Australia - based Legacy Iron will jointly invest around \$1.3 billion to develop Mt Bevan iron ore project in Western Australia.

NMDC Director (Finance) S Thiagarajan said that the project will be developed on 70:30 debt and equity ratio and the investment will start pumping in once formalities for acquiring 50 per cent stake in Legacy by NMDC are completed. NMDC is buying 50 per cent stake in Legacy Iron Ore for nearly 19 million Australian dollars, which will mark the PSU's first-ever overseas acquisition.

Mt Bevan is a joint venture between Legacy and Hawthorn Resources. Legacy will earn a 60 per cent interest by spending a minimum of \$3.5 million on developing the project to a pre-feasibility status. Mt Bevan is considered to hold excellent potential for the definition of substantial Direct Shipping Ore hematite and magnetite iron resources that are located close to existing road, rail and port facilities, according to Legacy.

"Mt Bevan may need at least \$1.3 billion capex investment. Equity part of NMDC and Legacy will be 30 per cent. As soon we complete the acquisition part we will take that up. As it is they are doing some exploration there. Once we pump in the money, the work will be stepped up."

Whilst debt financing will be used to reduce the dilutionary effects on shareholders for financing 70% of any capex requirements, it is envisaged the 30% equity component of such project finance could include a rights issue for all shareholders to participate in, including NMDC. In addition, loan facilities can be arranged by the newly enlarged Legacy/NMDC entity.

Any debt finance arranged through NMDC will also have the added benefit of attractive project finance interest rates and conditions, given NMDC's financial strength and international status, in its capacity as an Indian government owned enterprise.

Spin offs

With a focus on the acquisition and development of large scale projects, as well as projects for which Legacy has current spending commitments, the Board of Legacy has been investigating the potential for extracting greater value from these assets for shareholders.

To this end, the Board is examining proposals to spin off some of the Company's gold and iron ore assets, which when combined with the acquisition of additional projects, will create a suite of projects capable of achieving attractive Initial Public offerings, with any shares to be returned to Legacy shareholders via an in-specie distribution.

Planning for the proposed format of these spin offs, including the ratio of the in-specie distribution of shares to shareholders, is currently ongoing, with a decision likely to be announced to shareholders by Q1 2012. It is noted that the Placement funds will assist in Legacy's ability to spin off assets, with sufficient cash backing to warrant potential underwriting of those Initial Public Offerings, yet still allowing Legacy shareholders to have a priority entitlement.

Legacy is also reviewing several opportunities for the purchase of metallurgical and coking coal projects in Queensland, where the development of projects by many companies has been hindered by the ability to find substantial financial backing.

It is proposed that should shareholders approve the Placement by NMDC, Legacy will seek to acquire a substantial interest in such projects, via the partial payment of incurred exploration costs and NMDC providing 100% of project financing.

Such projects will be held in subsidiaries of Legacy, also capable of being efficiently spun off and in-specied back to shareholders.

Legacy Managing Director, Sharon Heng comments

"NMDC's proposed equity in Legacy is of national significance, spearheading the first such investment by a major Indian state-owned company in an Australian listed entity. As India's largest iron ore producer and rapidly expanding steel manufacturer, with \$4 billion in cash reserves, NMDC has a logical demand for off-take as well as a range of other resources within their remit, for which Legacy will become its exclusive Australian acquisition entity."

The global scale financial strength, the off-take demand and long-term investment strategy of NMDC will provide Legacy with unrivalled ongoing development security and opportunities which will underpin Company-changing growth.

More specifically, the development benefits for Legacy, with NMDC on board will include:

- Provision of 100% project financing, including the 30% equity finance, from the 70:30 debt and equity ratio
- Ongoing development funding for all of Legacy's own projects and joint-venture interests
- Ability to stand as a cornerstone investor and underwrite future capital raisings
- Funding security, independent of global financial market cycles
- New, diverse acquisition opportunities both in Australia and internationally
- Practical experience in large scale iron ore resource development and production
- Mineral research and development capabilities

The Company will update the market shortly with the release of the Notice of Meeting.

CONTACTS

Sharon Heng
Managing Director
T: +618 9421 2005
F: +618 9421 2001

APPENDIX A – SUMMARY OF KEY TERMS

- NMDC to acquire New Shares representing 50% of the issued capital of Legacy Iron Ore Ltd for a cash consideration of A\$18.89m.
- In addition, New Options will be issued to NMDC with the same exercise price as current options on issue, but will expire 45 days later than existing options.
- However, NMDC can only exercise that number of options in a specific tranche as have been exercised by the holder or holders of the existing tranche of options.
- The issue of the New Shares and the New Options will be conditional upon:
 - Legacy Shareholders approving the issue of the New Shares and New Options at an meeting to be called within 28 days from the date of the Agreement.
 - Obtaining any ASX or ASIC regulatory approvals.
 - Foreign Investment Review Board notification/ approval.
 - Any necessary caveats being lodged on mining or tenement interests if not already lodged.
- Completion to occur within 7 days of the final satisfaction or waiver of the last condition.
- At least 14 days prior to Completion, NMDC will deposit the placement funds of \$18.89m, into a joint escrow account to be released upon evidence of the New Shares and New Options being issued.
- So long as NMDC holds at least 50% of the total number of shares on issue, they have the right to nominate 3 directors to the board of Legacy.
- Normal termination events including insolvency, material adverse effect, or breaches of the warranties of the Agreement
- Standard commercial warranties and conditions.
- During the first 60 months from the date of Completion, NMDC will be able to maintain its percentage shareholding in the Company via the participation in any new issue on the same terms as other investors, subject to the granting of an ASX waiver.
- NMDC will have a period of 45 days to nominate its participation in any capital raising.