

## Iron Ore sector update

### *Differentiating amongst the juniors in the Pilbara*

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#### July 2008

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*\*All pricing as of the COB June 27<sup>th</sup> 2008.*

#### Analysts

##### Sam Spring

+44 (0) 20 7786 4378  
sam.spring@oceanequities.co.uk

##### Natasha Liddell

+44 (0) 20 7786 4386  
natasha.liddell@oceanequities.co.uk

##### Simon Gardner-Bond

+44 (0) 20 7786 4382  
simon.gardner-bond@oceanequities.co.uk

#### Directors

##### Guy Wilkes - CEO

+44 (0) 20 7786 4372  
guy.wilkes@oceanequities.co.uk

##### Rupert Williams – Head of Sales

+44 (0) 20 7786 4373  
rupert.williams@oceanequities.co.uk

##### Will Slack – Corporate Finance

+44 (0) 20 7786 4375  
will.slack@oceanequities.co.uk

*\*Refer to the final page of this report for the full Ocean Team's contact details*

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#### Source of the opportunity

The Australian iron ore sector continues to outperform the general market and we believe offers investors attractive valuation and supportive news flow in the short to medium term. In our view the re-rating experienced over the last 18 months has been driven by improved iron ore pricing, continued de-risking of the sector and the development of respective company projects. More recently two key events have been significant catalysts to share prices in the last month and we discuss this in further detail below.

In this report we analyse a number of the factors which we believe have driven the performance of the sector and that we expect will be the key drivers for continued outperformance. However, more importantly we assess the current status of nine promising developers/producers who are based in the Pilbara and analyse which of these juniors we think are best positioned to benefit from expected structural changes in the dynamics of the Australian junior iron ore sector.

#### Analysis

In the last month there have been two significant positive developments which we believe further de-risk the junior iron ore sector, but also highlights the differences between the various projects placing a premium on quality of ore and proximity to rail:

##### 1. Additional price premium for premium products

The first significant positive for the Australian iron ore sector, juniors and majors alike, was Rio Tinto's break-through freight premium negotiations with the Asian steel mills which not only recognised a greater value-in-use for Australian sourced ore (a benefit to the whole sector), but also recognised a increased premium for higher quality products (an additional benefit only to a select few in the sector).

The premium paid for lump relative to fines increased from 28% to 40% magnifying the divergence in profitability of producers with superior product mix, higher grade and lower levels of impurities, relative to their peers. Given the outlook for freight costs and demand for steel consumption, we expect to see further divergence in pricing and differentiation between deposits.

We would anticipate investors to increasingly focus on the characteristics of the assets held by the juniors. The juniors we believe are best positioned to benefit from differentiation of grades and impurities are Atlas Iron and Ferraus based on known resources. We also highlight United Minerals Corp, because, despite not having an existing resource, assay results from its current resource definition programme support a deposit which could differentiate it from its peers in terms of grade, impurities, lump-to-fines production mix, and also importantly tonnage.

##### 2. Opening up of BHP Billiton's and Rio Tinto's railway networks

The second major development in the sector is the WA State Government supporting the opening up of the existing incumbents' rail infrastructure in the Pilbara. The recent moves by the state government are the clearest signal yet that juniors will gain access to the existing railway networks for the first time in 40 years and proposed legislation will act as a safety net for third party access. However, we believe there are incentives for both the major and junior alike to agree terms outside of any legislation and believe a break-through commercial agreement is likely to be achieved before any legislation becomes effective.

Given the significant difference in project locations relative to port and level of surrounding infrastructure we believe certain juniors will benefit more than others from an opening up of the incumbents' railways. Additionally, we believe some juniors are in a better negotiating position to obtain third party access. The juniors we believe are best positioned to benefit from the opening up of incumbents rail infrastructure are Brockman Res., Iron Ore Holdings, Ferraus and UMC.

#### Risks

Whilst we are positive about the fundamental outlook for iron ore we acknowledge the cyclical nature of the industry which is exposed to external shocks, natural disasters and volatility inherent in the financial markets.

### Source of the opportunity

The Australian iron ore sector continues to outperform the general market and we believe offers investors attractive valuation and supportive news flow in the short to medium term. In our view the re-rating experienced over the last 18 months has been driven by improved iron ore pricing, continued de-risking of the sector and the development of respective company projects.

### What has driven performance. . .

- **RIO break-through freight premium further de-risks the sector:** We believe the implications of the break-through in the annual contract price negotiation process are much greater than just an upgrade to earnings forecasts. Specifically, we believe it has structural implications to the sector as it supports a longer term freight premium. Furthermore, the breakthrough highlights the viability of the Australian junior iron ore sector which has been recognised to have a greater value-in-use to the Asian steel mills (which are the principal source of growth in the seaborne iron ore market).
- **Infrastructure access:** Recent actions from the WA State government and the National Competition Council ("NCC") have supported the juniors potentially accessing the incumbents existing rail infrastructure. Meanwhile, Fortescue has reiterated its intention to facilitate multi-user infrastructure access. These developments look set to support breaking down the barriers to entry and providing a safety net to the juniors.
- **Corporate Actions:** The sector has already seen a significant amount of corporate action and we expect the trend to continue, driven by industrial and financial investors. In particular, we highlight that steel manufacturers are increasing vertical integration up the supply chain in an attempt to reduce price volatility and secure supply, and as such are potentially willing to pay a premium to current market prices. In this report we analyse the implications of the current offer for Midwest Corp and MCC's approach for Cape Lambert to the developers/producers in the Pilbara.
- **Favourable fundamental Demand/Supply outlook:** Incremental demand of 50-60mtpa in the medium-longer term looks set to provide a favourable environment for iron ore pricing. We expect the seaborne market will remain in undersupply in 2008, supporting spot pricing. We also expect the Australian majors to further target aggressive price increases in Japanese fiscal year 09/10 contract negotiations as they attempt to gain further benefit from the current US\$45-50/t freight cost differential (Australia-China relative to Brazil-China), and further close the gap between annual contract price and spot price mechanisms.
- **Development of the sector is attracting an increased investor base:** We believe that the sector will continue to attract increased amounts of capital. This will occur as the risk profile of the junior iron ore sector continues to improve, as additional juniors achieve funding to enter into production, and as an increasing number of iron ore juniors enter major market indices.

. . . **key drivers for continued out-performance include:** supportive news flow for the sector including further developments regarding infrastructure access; ongoing and further corporate actions; development and funding of respective projects; an increasing number of juniors entering production; and a favourable outlook for pricing.

### Company Profiles

For further details regarding the current status of the nine promising Pilbara developers/producers mentioned on the front cover of this report please refer to our Company Profile section of this report which begins on page 17.

While we believe the current corporate activity in the Midwest has implications for the juniors in the Pilbara we have not proved a detailed analysis on this region, however refer to **Section 4.2 and 4.3** for a brief discussion on the Midwest.

## 1.0 Break-through negotiation further supports the Australian iron ore juniors

*RIO's price increase was above the markets expectations*

Rio Tinto ("RIO") announced on June 23<sup>rd</sup> 2008 that it had reached an agreement with China's largest steel-maker Baosteel for a 79.9%-96.5% increase in pricing for its iron ore contract deliveries for the Japanese Fiscal Year ("JFY") commencing 1 April 2008. Under this agreement the new prices for Hamersley ore will be US\$144.66c per dry metric tonne unit ("dmtu") of Pilbara blend fines/Yandicoogina fines, up 79.9% from US\$80.42c, and US\$201.69c per dmtu for Pilbara blend lump, up 96.5% from US\$102.64c. BHP Billiton ("BHPB") on July 4<sup>th</sup> announced it had settled terms in line with that received by RIO.

*Australian majors have been negotiating for 6-7 months for a freight premium*

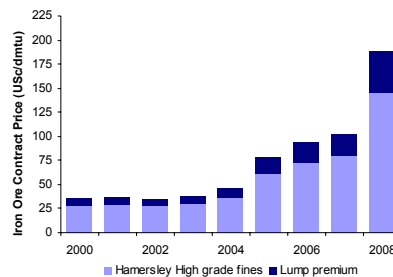
RIO and BHPB's price increases exceeded that achieved by Vale, which announced in late February that it had agreed a 65%-71% price increase with Baosteel for its Southern System-Carajas fines, which was at the time significantly above consensus expectations. The Australian majors had been negotiating for 6-7 months for a freight premium from Asian customers to reflect the large differential in freight rates between the Australia-Asia route and the longer Brazil-Asia route, which according to recent comments from BHPB is US\$45-50/t.

*Significant upgrade to earnings from the price increase but the ~US\$7.5/t freight premium is still a modest cost to Asian steel mills relative to the freight cost disadvantage of US\$45-50/t*

### 1.1 Freight premium will lead to a significant improvement in earnings

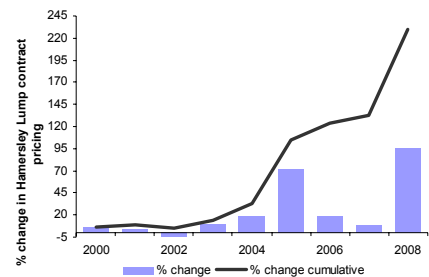
We believe RIO's announcement will lead to an upward revision in earning forecasts for the Australian iron ore sector. We estimate the freight premium alone will add an incremental ~US\$7.5/t to RIO's iron ore operations profitability or almost ~US\$1.5b to earnings, a significant year-on-year improvement particularly given the unfavourable movement in the Australian dollar ("AUD") versus the US dollar ("USD") over the last year (see Exhibit 3 for further details on AUD pricing).

**Exhibit 1: Higher grade Lump is achieving a premium price, further differentiating characteristics of deposits**



Source: Company data, Ocean Equities Research

**Exhibit 2: Cumulative price increase of 230% since 2000**  
Historic Pilbara Lump benchmark price changes



Source: Company data, Ocean Equities Research

*Break-through in traditional negotiation process and recognition of a greater value-in-use of Australian source ore*

### 1.2 Formal recognition of a greater value-in-use of Australian sourced ore

Of particular importance for majors and juniors alike in the Australian iron ore sector is that RIO's agreement is a significant break-through in the traditional price negotiation process: a freight premium has been achieved for the first time and the Asian steel mills have formally recognised that Australian sourced iron ore has a greater value-in-use than Brazilian ore (which currently supplies ~36% of the world's seaborne trade).

Given the higher cost freight environment and longer term outlook for the oil price, freight appears set to become an ever increasingly significant component in the total cost of steel production. To emphasise this point, iron ore freight costs over the last year have had a significantly greater impact on steel prices than the 9.5% increase in last year's iron ore benchmark prices.

*The freight premium partly insulates against the risk of a potential contraction in medium-longer term pricing*

### 1.3 Pricing environment remains favourable and freight premium further de-risks the Australian junior sector

We believe the break in the traditional price negotiation process will result in an aggressive resumption of negotiations into JFY09/10 as the Australian majors attempt to gain further benefit from the freight cost differential and further close the gap between the annual contract and spot price mechanisms. Furthermore, we believe it sets the precedent for a higher long term freight premium which generally is not being considered in market valuations. Not only does this provide scope for a significant improvement in sentiment for the sector, it also supports the future of the Australian junior iron ore sector (which already enjoys a relative grade and cost advantage), as it partly insulates against the risk of a potential contraction in iron ore pricing in the medium-longer term.

*We expect to see increased allocation of Australian supplied ore to the spot market as the seaborne market remains undersupplied*

We expect to see a continuation of the incumbent's strategy to increasingly take advantage of the new over-the-counter market for spot iron ore, recently established by Credit Suisse and Deutsche Bank, as the seaborne market for iron ore will remain undersupplied through 2009. Recent forecasts from Vale and RIO are for the global seaborne trade market to increase 50-60mtpa in the medium-longer term, effectively the equivalent of ~1.1-1.3 new Fortescue's coming on stream each year (FMG's first full year production rate target is 45mt). Consensus appears to be looking for another increase in contract pricing in JFY 2009/10, with Citi expecting a further 30% increase.

## 2.0 Differentiation of grades and impurities for hematite deposits

*Hematite remains the preferred iron ore for steel production and steel mills pay a premium for higher grade, low impurity lump product*

*Lump now commands a 40% premium price to fines resulting in significantly higher margins/t. We expect to see further divergence in pricing, magnifying the differentiation between deposits in the future*

Hematite ore remains the preferred iron ore for steel production and ~75% of production from Australia is high-grade Direct Shipping Ore ("DSO") hematite. JFY08/09 contract pricing has resulted in an increased disparity between higher efficiency lump versus fines. We believe this helps to differentiate between the developers/producers who have higher lump-to-fines and high grade/low impurity deposits (refer to the Appendix for the primary differences between lump and fines products, and why higher grade/lower impurity deposits receive premium pricing).

As can be seen from Exhibit 3 the AUD premium paid for lump more than doubled increasing \$0.35/t per unit of Fe to \$0.61/t under RIO's JFY08/09 agreement. Lump now commands a ~40% premium to fines, therefore developers/producers with a higher proportion of lump-to-fines and with higher grade, lower impurity deposits will receive increased premium prices for their ore which in affect have very similar production costs to their peers. Given the outlook for freight costs and demand for steel consumption, we expect to see a further divergence in pricing for lump relative to fines in the upcoming years, thus magnifying the differentiation between deposits. We would expect investors to increasingly focus on the characteristics of the assets held by the juniors.

**Exhibit 3: Exchange rate has acted as a headwind to Australian producers**

Hammersley Fine and Lump iron ore contract price as quoted in USD and converted into AUD

US\$/dry metric tonne unit 1%Fe	JFY00/01	JFY01/02	JFY02/03	JFY03/04	JFY04/05	JFY05/06	JFY06/07	JFY07/08	JFY08/09
Hammersley Fine	27.35	28.52	27.84	30.34	35.99	61.72	73.45	80.42	144.66
Hammersley Lump	35.85	37.04	35.27	38.72	45.93	78.77	93.74	102.64	201.69
USD % Change	JFY00/01	JFY01/02	JFY02/03	JFY03/04	JFY04/05	JFY05/06	JFY06/07	JFY07/08	JFY08/09
Hammersley Fine	4.3%	4.3%	-2.4%	9.0%	18.6%	71.5%	19.0%	9.5%	79.9%
Hammersley Lump	6.2%	3.3%	-4.8%	9.8%	18.6%	71.5%	19.0%	9.5%	96.5%
AUD/USD	0.56	0.51	0.56	0.70	0.74	0.75	0.76	0.87	0.94
AUD\$/dry metric tonne unit 1%Fe	JFY00/01	JFY01/02	JFY02/03	JFY03/04	JFY04/05	JFY05/06	JFY06/07	JFY07/08	JFY08/09
Hammersley Fine	49.01	55.40	49.50	43.65	48.61	81.93	96.02	92.61	153.52
Hammersley Lump	64.24	71.94	62.72	55.71	62.04	104.56	122.54	118.19	214.05
Lump Premium (AUD\$/t)	15.24	16.54	13.22	12.06	13.43	22.63	26.52	25.59	60.52
Lump Premium %	31.1%	29.9%	26.7%	27.6%	27.6%	27.6%	27.6%	27.6%	39.4%
AUD % Change	JFY00/01	JFY01/02	JFY02/03	JFY03/04	JFY04/05	JFY05/06	JFY06/07	JFY07/08	JFY08/09
Hammersley Fine	20.5%	13.0%	-10.6%	-11.8%	11.4%	68.5%	17.2%	-3.5%	65.8%
Hammersley Lump	22.5%	12.0%	-12.8%	-11.2%	11.4%	68.5%	17.2%	-3.5%	81.1%

The Japanese fiscal year (JFY) begins on 1 April.

Source: Company data, Ocean Equities research

*Marra Mamba ores are becoming the primary source of lump in the Pilbara*

The traditional supply of lump is from Brockman deposits, which are typically harder orebodies which require drilling, blasting and trucking, resulting in increased dilution and a high level of down time. The majority of Brockman deposits are held by BHPB and RIO (e.g. Mt Whaleback and Mt Tom Price/Brockman 2&4), with few juniors holding major resources. Marra Mamba ores are now becoming the primary source of lump iron ore in the Pilbara as Brockman ores are depleted. Marra Mamba ore is softer than Brockman and is also generally amenable to continual surface mining (as used by Fortescue and being trialed by BHPB and RIO), which improves grade control, efficiency of production and results in a higher lump-to-fines product ratio. The last major type of commercial deposit is Yandi/Channel Iron Deposits ("CIDs"), which produces ~50% of the hematite sourced from the Pilbara. CIDs primarily produce a fines product, with lower grade ore often easily upgraded via beneficiation.

**Exhibit 4: Typical product split of fines and lump from Australian hematite deposits**

Deposit	% Lump	% Fines	% Fe	Comments
Brockman	45%	55%	63.0%	Traditional supply of lump with excellent metallurgical properties. Harder ore body which typically requires blasting.
Yandi/CID	5%	95%	58.0%	Primarily coarse, low alumina/phosphorous sintering feed. Generally softer ore, which can reduce mining costs.
Marra Mamba	35%	65%	60.5%	Low silica/alumina with high calcined Fe. Softer ore than Brockman, which can reduce mining and dilution costs.

Source: BHPB, Baffinland, Lehman Brothers research, Ocean Equities research

*There is a significant difference in grades, impurity levels and lump-to-fines of the juniors deposits*

As can be seen from Exhibit 5 there is a significant difference in grades, impurity levels and lump-to-fines of the juniors deposits which will have a material impact on the potential profitability of the respective projects.

Exhibit 5: Summary of grades, key impurity levels and estimated lump-to-fine ratio of the juniors major projects

Company-Target	Resource mt	Fe Grade	CaFe Grade <sup>3</sup>	Est split		Summary of Impurities			Stage 1 Production
				Lump	Fines	SiO2%	Al2O3%	P%	
Atlas - Pardoo	14.7	57.0%	62.5%	40	60	6.80	1.90	0.12	Aug'08
Atlas - Abydos	8.6	57.7%	63.7%	TBC	TBC	6.30	1.50	0.04	4Q'09
BC Iron - Bonnie Creek	28.1	57.4%	65.1%	0	100	2.98	1.76	0.02	1H'10
Brockman - Marillana	56.2	57.5%	62.6%	0	100	4.17	4.03	0.08	4Q'09
Ferraus - Roberston Range MZ	40.0	58.8%	63.6%	41	59	4.83	2.79	0.11	2H'08/1H'09
Ferraus - Davidson Creek	7.4	57.8%	63.7%	TBC	TBC	4.35	2.99	0.08	1H'10
Fortescue - Rocket Fines 07 <sup>1</sup>	695	59.0%	64.6%	15	85	4.27	2.08	0.06	2Q'08
Fortescue - HG Fines 2/06 <sup>1</sup>	359	60.2%	65.2%	15	85	3.64	2.06	0.06	2Q'08
Fortescue - Solomon	1,716	56.0%	61.1%	0	100	7.01	3.47	0.07	TBC
Giralia - Beebyn	7.2	57.2%	60.4%	0	100	8.36	3.04	0.07	TBC
IOH - Phil's Creek	8.3	58.1%	62.9%	0	100	5.40	3.00	0.10	1H'10
POL - Yilgarn	30.4	58.1%	64.1%	0	100	4.50	1.60	0.16	4Q'09
UMC - Railway <sup>2</sup>	Target 100	61.7%	65.7%	35	65	2.83	2.33	0.06	4Q'09
<b>Illustration of the characteristic of selected BHPB Pilbara deposits:</b>									<b>2008E</b>
Yandi (CID)	1,844	56.6%	63.4%	5	95	6.30	1.80	0.04	52mt
MAC (Marra Mamba)	937	61.5%	65.5%	35	65	3.50	1.90	0.06	43mt
Newman Fines (Brockman)	3,038	61.0%	63.9%	40	60	5.00	2.50	0.11	35mt

<sup>1</sup> Fortescue's resource tonnage are for its Chichester Range project, Cloudbreak and Christmas Creek, includes reserves only (excluding any loss of mass in the upgrade beneficiation process). Grade and impurities are provided for the specific products presented. Solomon resource is inferred only at this stage and no date has been given for start of production.

<sup>2</sup> Grades and impurities for UMC's Railway prospect are reported assay results only. Estimated CaFe grade is based on similar Loss On Ignition ("LOI") properties at BHPB MAC deposit. UMC's estimated and lump-to-fines ratio assumes a similar split to BHPB's MAC deposit.

<sup>3</sup> Ca Fe is short for Calcined Fe. Calculated as  $CaFe = (Fe\% \times 100\%) / (100 - LOI\%)$ .

Source: Company data, Ocean Equities research

### Ocean Equities Comment

Given the improved margins offered from high grade, low impurity lump deposits relative to fines and the likely development of an increased divergence in pricing, we would expect investors to increasingly focus on the characteristics of the deposits held by the juniors.

*We believe AGO and FRS are best positioned to benefit from the characteristics of their known resources.*

We believe Atlas Iron ("AGO") and Ferraus ("FRS") are best positioned to benefit relative to their peers based on known resources and estimated lump-to-fines product mix. AGO in particular looks set to benefit in the near term from the characteristics of its deposit given the recent increase in the premium paid for lump and current undersupply of iron ore in the seaborne market. These factors place AGO in a strong position to negotiate an off-take with an Asian steel mill for production from its Pardoo project (negotiations are ongoing). FRS has commissioned mining and metallurgical studies which indicated a lump-to-fines ratio of 41:59, which is relatively high compared to other Marra Mamba deposits and a mining proposal and permitting for the Company's flagship Robertson Range deposit are ongoing.

*Drill results to date indicate UMC's Railway prospect could differentiate itself from a number of its junior peers*

While UMC is yet to publish a resource, assay results from its current resource definition programme support a high grade, low impurity Marra Mamba deposit at its Railway prospect comparable to BHPB's Area C/MAC (albeit under surface cover). This would potentially differentiate UMC from a number of its junior peers in terms of grade, impurities, lump-to-fines mix and also importantly tonnage.

### 3.0 Infrastructure Update

*Access to infrastructure is critical to unlocking the in the ground value of a number the juniors deposits*

*The original State Agreements envisaged a third party user-pays principal for rail infrastructure access*

*Recent moves from the WA State government indicate progress towards BHPB and RIO's railways being opened to third party access*

*Draft regime aims to develop a fair and reasonable third party access system more expeditiously than the process being achieved under the current Trade Practices Act*

#### **Key features:**

*Aims to develop a legislative safety net for third party rail haulage.*

*Covers rail haulage services only*

*Covers iron ore haulage only, not loading/unloading or port facilities/services*

*There will be no "free rides"*

*Incremental infrastructure will be subject to the providers existing safety and operational standards*

*Expansion to fully utilised infrastructure will be funded by the junior*

Given hematite iron ore's relatively simple mining method and low technical risk, the key barrier to entry in developing a project for a junior company is achieving appropriate access to infrastructure. It is estimated that BHPB and RIO's Pilbara rail networks are worth ~\$10b and are running near full capacity. Both of the incumbents are committing further significant amounts of capital to upgrade their networks to meet internal expansion needs, and on this basis Fortescue has had a long and unsuccessful debate with the majors and the federal government to attempt to gain access to the incumbent's networks under Part IIIA of the Trade Practices Act 1974.

The established rail infrastructure in the Pilbara, which includes some of the most efficient heavy haulage networks in the world, was constructed under an agreement between the majors and the WA State government known as State Agreements. These agreements proved the majors a reduced royalty rate which affectively helped subsidise the rail infrastructure development costs. These agreements incorporated haulage of iron ore for third parties and it was envisaged that this service would be provided on a user-pays principal, with the third party also required to pay for any expansion to the railway required to haul their iron ore. A key attribute of Fortescue's State Agreement is the requirement to provide third party access and as such the Company is branding its rail and port facilities as "multi-user" infrastructure. Recent comments from Fortescue suggest that existing infrastructure MoUs with AGO and BC Iron ("BCI") will be developed into commercially binding agreements (see **Section 3.2** for further details).

The recent moves from the WA State Government are the clearest signal yet that the BHPB and RIO's Pilbara railways will be opened up for third party use, potentially unlocking significant value for deposits which had previously been 'stranded'.

#### **3.1 The Pilbara Railways (Third Party Haulage) Regime.**

The recent draft access regime issued for public discussion in June'08 by the Department of Treasury and Finance of the WA State Government aims to develop a "fair and reasonable" third party access system for all parties more expeditiously than the current declaration applications being requested under the Trade Practices Act to enable third party access to existing rail infrastructure via haulage services. The focus on the Pilbara Railways is to produce a regime that may ultimately be applicable to other railways and become a legislative safety net for the iron ore juniors.

Key features of the regime are:

- If a commercial agreement cannot be negotiated between the majors and the juniors then the regime seeks to act as a safety net that will provide the junior with a legislated right to seek haulage within a clearly defined framework.
- The regime covers rail haulage services only, i.e. the junior will not be able to run its own trains on the provider's tracks. Thus, the majors have a mechanism to ensure that they maintain control of the networks and their related efficiency whilst potential legal liabilities are minimised.
- The regime covers iron ore haulage only, i.e. the regime does not extend to loading, unloading, mining and port facilities/services and does not extend to haulage of non-iron ore products.
- Provisions allow for the recovery of efficient costs incurred by a provider, i.e. there will be no "free rides", but at the same time all costs will be justifiable under a transparent pricing system. Haulage charges will be determined by reference to the cost of providing haulage including amounts for capital expenditures (consisting of an approved return on capital and depreciation), and operating, maintenance and overhead expenditures.
- Any infrastructure to be built by a junior to interface with existing provider's infrastructure or to expand existing infrastructure will be subject to the provider's safety and operational standards.
- Given that existing physical haulage capacity is considered to be fully utilised, any request for an expansion of haulage capacity will require additional facilities to be constructed, which will be funded by the junior on a user pays basis.

## **Unresolved issues:**

*Track versus haulage capacity*

*Method of estimating upfront capital costs and term of haulage is yet to be determined*

*Tonnage threshold is yet to be determined and is open to discussion*

*Details of the haulage pricing system are outstanding*

*We believe the regime could provide rail haulage to the juniors by 2012*

*The move by government to legislate a safety net work is a significant positive, however we believe there is an active incentive for both parties to agree commercial terms independently*

*We believe a break-through commercial agreement will be achieved before legislation becomes affective*

*A sale of 49% of Fortescue's infrastructure subsidiary could take place as a tax efficient means to return funds to shareholders or raise additional capital*

*Fortescue's infrastructure networks have excess capacity and a break-through commercial agreement is immanent*

The current draft regime has the following outstanding issues which will need to be resolved:

- **Capacity/train allocation principles.** Clarification on the proposed approach to additional haulage requirements is needed. For example, a track may have capacity but train/wagon (i.e. haulage) capacity will generally always be fully utilised. A train allocation principle is being discussed to ensure an obligation to provide haulage for certain tonnage per annum.
- **Capital costs and term of haulage.** The draft regime discusses a transparent Cap and Collar system for estimating the cost of additional facilities and equipment costs to expand capacity where necessary. The juniors would be required to make an upfront capital payment to the haulage provider. However, the regime is yet to prescribe a term for haulage (ie length of haulage agreement to ensure credit risk is minimised to the provider in unfavourable market conditions), or provide further details on the calculation methodology binding a Cap and Collar system.
- **Tonnage threshold.** The regime is yet to define whether it should apply to all third parties, or whether instead it should only apply to smaller iron ore producers with limited tonnage haulage required (for example to haul less than 5mtpa), or provide a cumulative tonnage haulage cap to existing infrastructure facilities.
- **Haulage pricing.** The regime is yet to determine a final methodology to calculate the appropriate infrastructure asset base for the purposes of determining the haulage charges and return on capital and depreciation.
- **Timeline.** The aim of the regime is to amend existing State Agreements before becoming legislation. We believe the legislative process on its own could take one year, and would then expect a potential lead time (incorporating feasibility studies, regulatory approval, environmental permitting, required construction/capacity expansion, integration of train allocations etc), of at least two years before the juniors gain access to rail haulage from the existing incumbent's networks.

### **Ocean Equities Comment**

Whilst we believe the move by the WA State Government to formulate a legislative framework as a safety net for the iron ore juniors is a significant positive, particularly given the lack of access to these networks over the last 40 years, we also believe there is an active incentive for both the majors and the juniors alike to form an independent agreement under commercial terms to the benefit of both parties. This point was recently supported by comments from Eric Ripper, WA State Treasurer, who warned the majors that federal legislation could be less flexible and convenient than commercial terms struck outside the proposed legislation.

From discussions with a number of the juniors we believe discussions are already taking place with BHPB and RIO independent of the recent draft legislation. Furthermore, we expect a break-through commercial agreement is likely to be achieved before any legislation becomes effective.

### **3.2 The incentive for Fortescue is to maximise near term third party use**

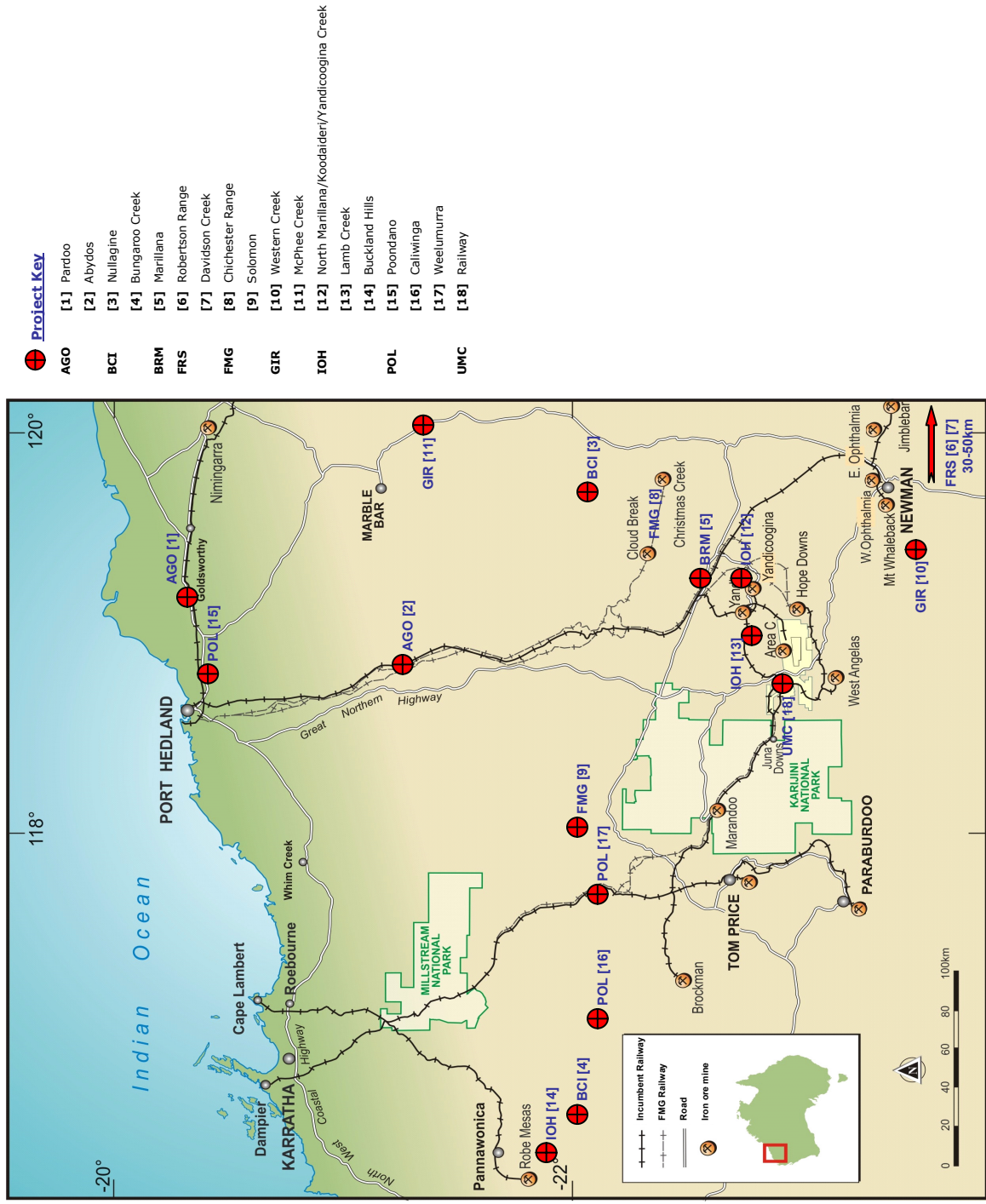
While the spotlight is on BHPB and RIO's rail networks it is worth highlighting the commercial incentive for Fortescue to maximise the use of its recently developed infrastructure through providing access to iron ore juniors.

Recent comments from Fortescue suggest that a potential sale of 49% of its Pilbara Infrastructure Fund ("PIF"), a 100% subsidiary which owns Fortescue's A\$2.8b rail and port facilities, could be on the cards post completion (which is legally defined as when the Company manages to ship 2mt in a four week period which is expected to be achieved by the end of July). A spin off of this nature could be a tax efficient means to return funds to existing shareholders whilst also potentially raising capital for the Company to expand operations (which would support recent comments of rapid acceleration post completion), or repay high yielding debt (~A\$4.3b @ ~10% interest rates).

David Flanagan, MD of Atlas Iron, recently stated that they have almost agreed commercial terms expanding their MoU with Fortescue. It is estimated that the PIF system could carry Fortescue's initial target tonnage of 45mtpa as well a further 50%+ of incremental capacity from third parties (current port capacity is 100mtpa). Fortescue's CEO, Andrew "Twiggy" Forrest, recently commented in the current pricing environment that there is room for "reasonable and competitive tariff which shares that profit with the railway provider and with the iron ore provider". Given his ~35% ownership in Fortescue he personally has a significant incentive to maximise the profitability and potential value of PIF and finally crystallise some of his significant paper wealth. We would expect that PIF would attract significant interest from a number of investor groups including: infrastructure investors; suppliers; shipping/rail groups; iron ore customers; and Pilbara iron ore juniors.



Exhibit 6: Location of principal locations of the Pilbara iron ore junior and existing infrastructure



Source: UMC, Company data, Ocean Equities estimates



**Exhibit 7: Summary of surrounding infrastructure, current company infrastructure and potential of the juniors to benefit from third party access to BHPB and RIO's existing infrastructure**

Company-Target	Haulage distance	Likely port	Surrounding infrastructure	Current production strategy	Ocean Comment	Potential to benefit from Third Party Access?	Production profile
<b>Atlas - Pardoo</b>	75km	FMG/Pt Hedland	Transacted by Great Northern Hwy and BHPB's Goldsworthy railway line	Stage 1 & 2 via road haulage.	AGO has an interim agreement with FMG to use its port facilities (1mtpa). Stage 2 production of 3mtpa will utilise the public access facility at Port Hedland (agreement signed Nov'07). AGO has moved to have the Goldsworthy line declared by the NCC.	Yes, thus potentially increasing production beyond 3mtpa without expanding the scope of its current agreement with FMG. According to AGO there is significant excess capacity on the Goldsworthy line which was built to service BHP's Goldsworthy, Shay Gap & Yarrlie mines, but only Yarrlie is still in operation (producing less than 1mtpa, capacity estimate to be 8mtpa).	Stage 1 Aug'08/ Stage 2 4Q'09
<b>Atlas - Abydos</b>	125-150km	FMG/Pt Hedland	Adjacent to the Great Northern Hwy, BHPB's Newman, FMG's and the proposed Hancock railway's.	Stage 1 road/rail & 2 rail haulage.	AGO has a MoU with FMG for rail and port services at a rate of up to 3mtpa.	Yes. While AGO has an existing MoU with FMG the currently agreed rate is only 3mtpa. AGO targets production of 9mtpa from 2011.	Stage 1 4Q'09/ Stage 2 4Q'11
<b>Atlas - Midwest</b>	~450km	Geraldton/Oakajee	Great Northern Hwy runs to the E of the tenements and proposed Midwest Corp rail close to tenements.	Dependent on development of regional infrastructure	Dependent on the development of the rail and port facilities from Weld Range to Oakajee. Most likely road haulage/rail spur to Midwest's rail head at Weld Range. Details on WA Government infrastructure development plans expected to be announced by the end of July.	Uncertain. The draft WA Government third party regime will apply to the Pilbara rail networks only, but could set a framework to be adopted in the Midwest. The potential benefit is also dependent on regional development strategy to be outlined by the State Government.	2012
<b>Atlas - Ridley (Pardoo)</b>	~75km	FMG/Pt Hedland	Transacted by Great Northern Hwy and BHPB's Goldsworthy Railway line	Will be outlined in PFS (Oct'08)	AGO has a MoU with FMG for rail and port services at a rate of up to 10mtpa of magnetite concentrate.	Yes. The Ridley prospect is neighbours the Company's Pardoo DSO resource. Refer to the above comments for Pardoo for further details.	2013
<b>BC Iron - Bonnie Creek (Nullagine)</b>	~260km	Port Hedland	~100km W of BHPB's Port Hedland-Newman Railway line and 35km N of FMG's rail network.	Stage 1 & 2 via road haulage to FMG rail	BCI has a MoU with FMG to negotiate rail and port access, which provisionally provides rail loading, haulage, port handling and ship loading services at an agreed rate of up to 5mtpa. The Scoping Study has assumed BCI will have access to this infrastructure at commercial rates.	To a limited degree. While BCI has a MoU with FMG, its current scoping study accessing FMG's rail network, & the Company's preferred rail access option would be FMG because it is the closest geographically, having access to BHPB network could improve BCI ability to negotiate commercial terms with FMG.	1H'10
<b>Brockman - Manilana</b>	~300km	Port Hedland	BHPB's Newman line ~4km to the N. FMG's Cloudbreak line 35km N (likely rail spur 80km), & RIO's Yandicoogina line 25km S	Stage 1 2-5mtpa 2H'09 Stage 2 15-25mtpa 1H'12	BRM has a range of development options due to its proximity numerous infrastructure networks. However Stage 1 & 2's most likely option will require truck haulage to FMG or BHPB rail sidings then rail to facilities (either FMG, BHPB or NWIOA) at Port Hedland	Yes. While BRM management have a good relationship with FMG, it would likely require ~80km rail spur to be constructed. Given BHPB's Newman line is 4km away, this is the preferred option which would enable reduced capex and speed up the development process.	4Q'09
<b>Ferrus - Robertson Range</b>	~525km	Port Hedland	~50km from Jimblebar railhead. FMG Cloudbreak ~220km north west.	Stage 1 & 2 likely to be via road haulage then railed under access agreement	With FRS's close proximity to BHPB's rail line (~30-50km), the most likely option is for ore to be transported to Jimblebar rather than to FMG's rail line which is ~200km away. FRS is a foundation member of the NWIOA and it is most likely that access through negotiations will be resolved commercially.	Yes. FRS would require the use of BHPB's railhead at Jimblebar either DSO to be sold at railhead or mine gate, or railed under an access agreement.	2H'08/1H'09
<b>Ferrus - Davidson Creek</b>	~500km	Port Hedland	~30km from Jimblebar railhead. FMG Cloudbreak ~200km north west	Drilling program ongoing, initial resource expected Q3'08	Refer to our comment in Section 3 for further details.	Stage 2 plan of 4-5 mtpa would support the construction of a conveyor from Robertson Range through Davidson Creek to Jimblebar.	TBC
<b>Giralla - Beebyn-Weld Range</b>	~300km	Oakajee	Adjoins MIS-Sinosteel JV tenements which lie ~280km of Geraldton	TBC. Exploration target of 40-70mt	Beebyn-Weld Range is strategically located adjacent to the Weld Range project held by MIS/Sinosteel. Access to infrastructure is dependent on the development of the port and rail facilities from Weld Range to Oakajee. Details on WA Government infrastructure development plans expected to be announced by the end of July.	Uncertain. The draft WA Government third party regime will apply to the Pilbara rail networks only, but could set a framework to be adopted in the Midwest. The potential benefit is also dependent on regional development strategy outlined by the State Government. GIR will also have the option for MGS to MIS-Sinosteel.	TBC
<b>Giralla - Western Creek</b>	~450km	Port Hedland	Adjoins BHPB's Mt Newman leases ~10km west of the Newman termination point of the BHPB rail line. ~100km SE from West Angelas	TBC. Exploration target of 50-100mt	The project lies in a region dominated by BHPB. The development of the Western Creek Project is largely dependent on gaining access to BHPB infrastructure. RIO's West Angelas deposit is ~100km to the NW.	Yes, the strategic location of the project adjacent to BHPB's Mt Newman operations (25mtpa) means that GIR has the option to have access to BHPB's infrastructure or alternatively the MGS of its ore. This will depend on the size of operations.	TBC
<b>IOH - Phil's Creek (North Manilana)</b>	~360km	Port Hedland	~360km by Great Northern Hwy to Port Hedland. located within 15km is the Great Northern Hwy, BHPB and RIO railheads	1-1.5mtpa from 2010	IOH has two major railheads within 15km of its current resource available as options. The Company is current in discussions with an existing Pilbara iron ore miner.	Yes. The Phil's Creek project is strategically located within not one, but two railheads held each by RIO and BHPB. The opening up of the rail and port infrastructure to third party access would allow IOH to have numerous options for transportation of ore to Port Hedland	2010
<b>POL - Yilgarn</b>	~300km	Kwinana	~60km north of Koolyanobbing. Existing MoU with Toll Holdings.	Stage 1 2-5mtpa / Stage 2 dependent on new discoveries 5-10mtpa	Despite the Yilgarn project being 300km from port it is extremely well positioned due to existing infrastructure in the region which does not have the capacity constraints to those currently experience in the Pilbara.	No. Third party access paper does not apply to this region which currently enjoys favourable existing port and rail infrastructure	2010
<b>POL - Poondano</b>	>300km	Port Hedland	~30km southeast of Port Hedland	1.5mtpa trucking operation	The Poondano is well positioned given its close geographical location to the port and therefore faces limited haulage infrastructure risk relative to its peers. The Company is yet to secure port access.	No. Only 30km from Port Hedland and no immediately surrounding infrastructure.	2010
<b>UMC - Railway</b>	~340km	Port Hedland	Adjacent to the Great Northern Hwy, RIO's Yandicoogina/Hope Downs/West Angelas rail spurs through the tenements. BHPB Area C railway, 20km E. FMG 110km N.	Stage 1 road & 2 road/rail haulage.	Initial 2mtpa production via truck haulage. A scoping study exploring the potential for 2mt, 5mt and 10mt pa operations is expected shortly. PFS for infrastructure access has been commissioned, including investigating a purpose built rail spur to significantly ramp up production (dependant on delineating a suitable resource, initial FMG's rail network.	Yes. UMC has an abundant amount of current, and future committed, BHPB and RIO rail infrastructure in its immediate region. Gaining access would enable UMC to quickly and target 100mt DSO	4Q'09

Source: Company data, Ocean Equities Research

### **Ocean Equities Comment**

In Exhibit 6 and 7 we have summarised the iron ore juniors and their: surrounding infrastructure; current company infrastructure strategy; and potential to benefit from third party access to BHPB and RIO's rail networks. Whilst we believe a legislative framework could provide rail haulage to the juniors by 2012 we expect commercial agreements will be achieved independently of this process and are of the opinion that juniors with high grade, low impurity resources and without existing off-take agreements in place are best placed to negotiate commercial terms with BHPB, RIO or FMG.

*AGO and BCI have existing MoUs with Fortescue and we believe both BRM and UMC are well positioned to negotiate commercial terms*

### **Fortescue multi-user infrastructure**

Atlas Iron ("AGO") and BC Iron ("BCI") both appear well positioned to convert existing MoUs into commercial agreements with Fortescue for the provision of bulk transport for their ore. BRM and UMC are in geographic locations that mean they too could benefit from accessing Fortescue's existing multi-user infrastructure network. To further illustrate this point UMC has commissioned a pre-feasibility study investigating the potential economics of building a 110km rail spur to Fortescue's rail network.

The development of Fortescue's Solomon deposit (~150km west of current operations), and its Western CID prospects will be critical in the Company's ambitions to increase production towards 200mtpa. These deposits will require further significant amounts of new rail networks to be developed which could potentially benefit a number of other prospects held by juniors which we have not discussed in this report.

*BRM and IOH are well positioned to benefit from the opening up of BHPB and RIO's rail networks*

### **Opening up of BHPB and RIO's rail networks**

We believe Brockman Resources ("BRM") and Iron Ore Holdings ("IOH") are best positioned to benefit relative to their peers from the opening up of the incumbents rail networks. Both companies have existing resources, are yet to sign off-take agreements and have management/directors that have previous experience of at least one of BHPB or RIO's iron ore divisions, while also stating that they are already in discussions with the incumbent.

At this point it is worth highlighting BRM's MD Wayne Richard's, who has extensive experience in BHPB's Pilbara operations infrastructure development, and the recently formed North West Iron Ore Alliance ("NWIOA"), are doing a significant amount of heavy lifting to set up the potential opening up of the Pilbara's infrastructure for the benefit of the junior sector. Given BRM's ambitious production plan they are probably the junior most leveraged to accessing either of the incumbent's rail networks.

*FRS is very much dependant on agreeing infrastructure terms with BHPB*

Additionally we believe Ferreus's ("FRS") deposits are very much dependant on gaining third party access to BHPB's Jimblebar network to support development into production. FRS's deposit is a typical example of a very attractive resource dependent on gaining appropriate infrastructure access to become economic and crystallise value, given the deposits remote location (at the end of BHPB's railway line). However, what we believe is in FRS's favour is its premium product ore which could assist the Company agreeing some form of commercial agreement with BHPB.

*UMC tenements sits in the hub of BHPB's central Pilbara rail network, also surrounded by RIO's railway lines*

UMC is geographically as well positioned as any junior to benefit from an opening up of both BHPB and RIO's rail networks given that its tenements are located in a hub of current, and future committed, infrastructure. Additionally if UMC is able to delineate a high grade, low impurity Marra Mamba deposit with characteristics comparable to BHPB's Area C/MAC operations or RIO's West Angelas or Hope Downs deposits, then the Company could be in a position to agree a back-to-back sale agreement (eg with an existing off-take partner of BHP's MAC production) or Mine Gate Sale ("MGS"). However, until UMC can delineate a resource (expected in July), we believe its ability to advance commercial rail access discussions is limited.

*AGO could benefit from accessing BHPB's under utilised Goldsworthy line*

Additionally we believe AGO could benefit from accessing the BHPB Goldsworthy line (which is currently not near capacity), in order to increase Pardoo production beyond 3mtpa if exploration successfully expands the resource, or service it's Ridley Magnetite project from 2013.

#### 4. Corporate activity

Recently there has been a well documented amount in corporate activity in the principal commodities required for the production of steel, ie iron ore, coal and manganese. While we prefer to invest in companies based on fundamentals rather than potential corporate activity, the actions in the Midwest and the offer from MCC for Cape Lambert's namesake project have positive implications for the valuation of the companies we have discussed based in the Pilbara.

*Increased vertical integration from steel manufacturers as a means to secure supplies highlights positive internal demand expectations*

*We believe strategic buyers payback horizon is significantly longer than financial investors leading to a potential bid premium*

##### 4.1 Outlook for further up stream integration

A few years ago conventional wisdom was for steel manufacturers to dispose of "non-core" up stream assets and focus on pure steel operations. However, the emergence of China and India as rising powers in the global steel market has resulted in increased vertical integration up the supply chain from a number of leading Asian steel manufacturers in an attempt to reduce price volatility and secure supplies.

Given the renewed importance of these up stream assets, we believe strategic industry buyer's time horizon for payback is significantly longer than the traditional financial investor. This is important because there is a potential willingness from an industry investor to pay a premium to current market prices in order to reduce volume and price volatility in the near term, while also securing certainty of longer term supplies.

Recent comments from ArcelorMittal (the world's largest steelmaker) and Tata Steel (5th largest) is that they aim to significantly increase internally sourced iron ore to 65% and 50-60% respectively of their future production needs. Recent speculation in the FT is that Lakshmi Mittal, chairman and chief executive of ArcelorMittal, is looking at entering the takeover battle for Rio Tinto by taking a stake the company or possibly acquiring some of RIO's iron ore assets if the merger with BHPB goes ahead and the new entity is forced to divest assets by anti-trust regulators. These comments come at a time when ArcelorMittal has increased its stake in Australian based Macarthur Coal to 19.9% (subject to Australian government approval, bringing its total investment to A\$843m), while South Korea's POSCO has also recently acquired a 10% stake in the metallurgical coal producer.

*Significant increase in iron ore pricing further supports increased corporate activity*

We believe the above consensus increase in iron ore pricing achieved this year and the favourable demand/supply outlook will add impetus to the Asian steel mills longer term strategy to secure up stream assets and further support increased corporate activity at a company or asset level in Australia, Brazil, Eastern Europe and Africa. Additionally, we expect increased use of OTC iron ore derivatives to more effectively hedge and managed their production costs.

The implications of this for the Australian sector is that we expect to see further acquisitions, joint ventures and off take agreements to be struck with emerging Australian iron ore producers providing a reliable source of capital, further supporting the development and valuations of the sector. Already we have seen long term tie-ups and investments between Sinosteel/Midwest, AnSteel/Gindalbie Metals, Shougang/Mt Gibson, POSCO and Mitsubishi/Murchison, Baosteel and Tangshan with Fortescue, CITI Pacific/MCC Sino project, MCC/Cape Lambert etc.

##### 4.2 Implications of the proposed acquisition of Midwest by Murchison

Taking what could be viewed as a conservative valuation for the current value of Midwest's magnetite project, Murchison has offered at least ~A\$8.5/t for Midwest's DSO resource (refer to Exhibit 8 for further details). We believe that this is a conservative valuation for the value of Midwest's DSO projects, particularly given that Sinosteel has the right to acquire a 50% interest in the flagship Weld Range project, and given the value we have attributed for the Koolanooka magnetite asset.

*Murchison is offering at least A\$8.5/t for Midwest's existing DSO resource*

*The proposed acquisition of Midwest by Murchison is an appropriate benchmark to what potentially could be paid per tonne of DSO resource in the Pilbara*

We believe the proposed acquisition of Midwest by Murchison is an appropriate benchmark for what a tonne of DSO resource in the Pilbara could be worth. Both companies are yet to confirm rail access and initial production will be transported +350km by road to port until a new railway line is built, the outcome of the WA Government's review regarding port and rail development is expected in July 2008, and both Midwest and Murchison are dependant on the completion of this infrastructure project to achieve their stage 2 production targets of 20mtpa and 25mtpa respectively from 2011/12.

Given the proposed NewCo Midwest entity will be an A\$2.7b company and will be producing less than 15mt of DSO between now and 2012 (with margins of significantly less than FMG/RIO/BHP operations), the market appears willing to already value stage 2 production of the respective companies and discount the resolution of the current uncertainties regarding port and rail infrastructure development.

If the juniors in the Pilbara are unable to secure rail access agreements (either on Fortescue's multi-user network or BHP/RIO networks), then we believe a similar type of corporate activity driven by infrastructure synergies is likely to occur in the Pilbara.

**Exhibit 8: Murchison offer is at least \$8.5/t for Midwest's DSO resource**

Priced COB June 27<sup>th</sup>

A\$m	Midwest	Murchison	NewCo
Offer/Last price (p/sh)	7.17	3.40	
Shares in issue (m)	213	409	
<b>Mcap</b>	<b>1,528</b>	<b>1,392</b>	<b>2,919</b>
Net Cash	(61)	(132)	(193)
<b>EV (A\$m)</b>	<b>1,467</b>	<b>1,260</b>	<b>2,727</b>
Koolanooka- Magnetite project <sup>1</sup>	111	n.a.	111
Implied value of DSO operations	1,356	1,260	2,616
Attributable DSO resource (mt)	157	79	236
<b>Implied value per DSO/t</b>	<b>8.6</b>	<b>15.9</b>	<b>11.1</b>

<sup>1</sup> Value for Koolanooka magnetite project is derived from the multiple from the proposed MCC/Cape Lambert transaction (see **Section 4.4** for further details).

Note: Midwest Corp has a JV with Sinosteel where Sinosteel has the right to acquire a 50% interest in the flag ship Weld Range project. Figures shown here are total deposit resource. Sinosteel has a 44% equity interest in Midwest. Additionally Murchison Metals has a 50/50 JV with Mitsubishi for its Jacks Hill and Weld Range deposits. Figures shown here are total deposit resource.

Source: Bloomberg, Company data, Ocean Equities research

**4.3 The Midwest acquisition is critical to the region's infrastructure development**

On May 26<sup>th</sup> Murchison announced its proposal to merge with Midwest and the all scrip offer from Murchison values Midwest at \$7.17p/sh, a 12.4% premium to Sinosteel's existing all cash offer of \$6.38p/sh. The offer continues the longstanding saga of who will eventually control Midwest which began in October'07 with Murchison's original \$4.38p/sh offer (a 64% discount to the current high offer price).

Given the outcome of the proposed merger is critical to the development of infrastructure in the region which other iron ore juniors are also dependant on, we can understand the Australian Governments decision (on the basis of "national interest"), to limit Sinosteel from achieving a substantial shareholding (above 15%), in both Murchison and Midwest given their respective relationships with Oakajee Port and Rail and Yilgarn which are two nominated infrastructure development parties.

*Development of regional infrastructure is critical to a number of iron ore juniors, not just Midwest and Murchison*

Cape Lambert offer is an example of a Asian strategic investor willing to pay a premium price

Australian Government approval has been given for the proposed transaction

The Cape Lambert offer sets the precedent for valuating future corporate activity for magnetite assets

#### 4.4 Cape Lambert transaction sets the benchmark for potential magnetite M&A

On February 26<sup>th</sup> 2008 China Metallurgical Group Corp ("MCC") signed a MoU with Cape Lambert for the sale of its namesake iron ore project for A\$400m (market capitalisation of Cape Lambert at the time was ~A\$135m). We believe this was a successful strategy by Cape Lambert management to crystallise near term value for shareholders for what is a long term project.

Australian Government approval has now been given for the proposed transaction and the final hurdles in the completion of the proposed transaction is Cape Lambert achieving shareholder approval (General Meeting scheduled for July 28<sup>th</sup>), and MCC achieving the required Chinese State approvals.

The Cape Lambert project has a current indicated and inferred resource of 1.56bt magnetite (Cape Lambert management believes it has the potential for a 2bt+ resource following further resource drilling completed in 2007), grading 31.2% Fe (suitable for the production of blast furnace feed pellets), with initial production expected to begin in 2011 with 5mt (ramping up 15mt). Total capex could reach \$2b and result in a long term project (mine life 30-50yrs) that is completely infrastructure self sufficient for port and transport facilities generating an all up production cost in the region of ~\$50/t. A key benefit to the project is its distance to port, as it is only ~20km from the Cape Lambert port (and an even shorter distance to the coast).

#### Ocean Equities Comment

While it is important to judge the differences between respective projects, particularly for magnetite deposits, in undertaking peer transaction analysis we believe that the Cape Lambert transaction sets the precedent for valuation for any further corporate activity regarding magnetite assets. The implication for the Pilbara hematite producers is greatest for Atlas Iron who has stated its intention to initiate a sales process for its Ridley magnetite asset (on its Pardoo tenement, 75km from Port Hedland), once its Pre Feasibility Study is complete in 4Q'08 (following a further resource upgrade). At this stage the Company's current strategy is to retain a 30% free carried interest but on the base of the Cape Lambert multiple the Ridley asset is worth at least \$200m cash, or ~20% of Atlas's EV of \$1b, which we believe would be a preferred option to shareholders.

##### Exhibit 9: Implied valuation of the sale of the Cape Lambert namesake project to MCC

AUD	
Cape Lambert resource (mt)	1,556
Total proceeds (m)	400
<b>Implied value/t</b>	<b>0.26</b>
<b>Current size of resource</b>	<b>mt</b>
Atlas - Ridley/Pardoo	853
Aurox - Balla Balla	473
Australasian - Balmoral Sth	1,000
Gindalbie - Karara	1,430
Grange - Southdown	479
Midwest - Koolanooka	430
<b>Implied value of:</b>	<b>A\$m</b>
Atlas - Ridley/Pardoo	219
Aurox - Balla Balla	122
Australasian - Balmoral Sth	257
Gindalbie - Karara	368
Grange - Southdown	123
Midwest - Koolanooka	111

\*Figures shown here are total deposits only.

Source: Company data, Ocean Equities research

##### Exhibit 10: Cape Lambert implied net cash backing is \$0.70p/h

Net cash value of Cape Lambert (AUD m)	
<b>Net Cash proceeds from Asset Disposal</b>	
Total proceeds from MCC	400.0
less taxation costs	-87.0
less finders fee	-38.0
less transaction expenses	-0.5
<b>Total</b>	<b>274.5</b>
<b>Total Cash value</b>	
Proceeds from asset disposal	274.5
Proceeds from exercise of options	74.7
Cash balance at Mar'08	8.8
Disposal of stake in International Gold Fields	3.0
<b>Total</b>	<b>360.9</b>
Fully diluted number of shares*	517.6
<b>Value per Share - Fully diluted (A\$)</b>	<b>0.70</b>
Cape Lambert stock (A\$ CFE.AU)	0.665
<b>Implied upside on cash backing only</b>	<b>4.8%</b>

\*excluding 3.3m options with exercise price of \$0.90 & 3.3m options with exercise price of \$1.40.

Source: Company data, Ocean Equities research

## 5.0 Valuation update

While we have not undertaken a detailed valuation analysis company by company we have attempted to provide the framework for the most common valuation methodologies used:

*Applying an in-situ per tonne value is a useful means to gauge the valuation the market is currently applying to Pilbara juniors*

*We believe the opening up of rail access in the longer term should result narrowing in the potential valuations across the junior sector*

*E.g. 100Mt (resource) \* 60% (Fe grade) \* \$10t (benchmark valuation) = \$600m market cap*

*The market is currently valuing a tonne of DSO at \$4.1/t*

*DCF modelling is the most common and widely used methodology but is problematic for valuating iron ore juniors*

*Despite P/E multiples relatively simplistic approach it has been a more accurate methodology than DCFs*

- **In the ground valuation** – while we acknowledge the inherent shortcomings in applying an in-situ per tonne value (discussed further in **Section 5.1**), we find it useful to gauge the valuation the market is currently applying to Pilbara juniors. This methodology is often used by analysts and investors alike because the level of uncertainties regarding the development of the explorers/developers respective projects and time horizon to production (and cash flows), means that exact valuation of these company's is problematic and the selection of an appropriate peer group provides a proxy for the valuation the market is willing to pay per tonne of resource (or target resource). Company's with proven management teams that have experience of delivering on stated targets; with projects that are closer to production; with higher grade/lump deposits; which offer blue sky expansion potential; and have infrastructure access secured; should trade at a relative premium. Therefore care must be taken in selecting an appropriate peer group but we believe the opening up of rail access in the longer term should result in a narrowing in the potential valuations across the junior sector. Two common 'in-the-ground' valuation approaches are used:

**1. Benchmark \$10t Fe content.** This is a rule of thumb metric and best explained with a simple example. Under this methodology a company with a 100mt resource grading 60% Fe would have a market cap of \$600m, ie 100Mt (resource) \* 60% (Fe grade) \* \$10t (benchmark valuation) = \$600m market cap. This approach takes into account lower grade deposits so care must be made to appropriately adjust for lower grades that often result in a higher capex profile and lower average selling price.

**2. Current peer based EV/t.** From the analysis we present in Exhibit 12 the market is currently applying a median peer multiple of \$4.1/t EV/DSO resource (which we believe is more appropriate than the average of \$6.1/t). Under this methodology a company with an existing 100mt DSO resource (or visible near term resource), would have a market cap of \$410m. This analysis only applies a multiple to high grade Direct Shipping Ore ("DSO") resources which generate premium margins and returns relative to other deposits (again refer to **Section 5.1** for further details). This is our preferred peer based valuation methodology because it is more conservative than the benchmark approach.

- **Discounted Cash Flow ("DCF")** – this is the most common and widely accepted at the most accurate valuation methodology for valuing natural resource stocks but requires significant assumptions and is best applied to projects with a higher degree of certainty (ie at earliest in the scoping study/pre-feasibility stage). Given the nature of the iron ore junior sector, this approach fails to fully reflect any value the market is applying to potential resource/project growth. Another weakness in this approach is the significant value weight given to medium-longer term cash flows (ie the terminal value), which are extremely sensitive to iron ore pricing and production profile assumptions.
- **P/E multiple** – P/E multiples are relatively simplistic but widely used. The approach is sensitive to near term margin and production assumptions, which the company and market has greater certainty over. This methodology overcomes the issue of longer term pricing assumptions and the weight of the terminal value. Given the above consensus increases in iron ore pricing recently a P/E approach has been a better tool than DCF for the valuation of the junior iron ore sector. P/E multiples were used by Charlie Aitken to first successfully call Fortescue a \$100p/sh stock (current adjusted share price is ~\$121p/sh).

Fortescue's chief financial officer, Chris Catlow, recently announced that the Company expected to make around \$3.4b EBITDA in the next financial year, with mining costs of \$20/t (ex. royalties and oil at US\$100/bbl), and achieving an average selling price of ~\$90/t. The Company targets a 55mtpa production rate by November 2008, ramping up to 100mtpa during FY09-10 following an expansion of operations. Incorporating this guidance and making some simplistic assumptions (refer to Exhibit 9), Fortescue is trading at 16.4x next years earnings and it appears the market is valuing the Company's improving production and profitability profile.

The market appears to be valuing 24 month forward earnings at 9x's

Interestingly on 24 month earnings both Fortescue and Atlas are trading ~9x earnings (a 10-12x range would not be unreasonable), and 6.5x cash flows. On the assumptions below and at 12 times earnings Fortescue would be worth \$16.6p/sh and Atlas \$4.7p/sh (current share prices of \$12.1 and \$3.7 respectively), refer to Exhibit 11 for a simple sensitivity analysis.

**Exhibit 11: Illustration of Fortescue and Atlas's P/E multiples**

		FMG		AGO
		12mth fwd	24mth fwd	24mth fwd
Production	(mt)	55	100	4
Ave price	(\$A/t)	90	90	90
Mining cost	(\$A/t)	20	20	40
Admin/Royalty etc	(\$A/t)	10	10	10
Margin	(\$A/t)	60	60	40
EBITDA	(\$m)	3,300	6,000	160
Corp Tax	(30%)	-990	-1,800	-48
Net Profit	(\$m)	2,310	4,200	112
Fully diluted no shares	(m)	2,821	2,821	328
EPS	(\$A)	0.82	1.49	0.34
EV/EBITDA		11.5	6.3	6.5
Earnings		16.4	9.0	9.3
Simple Earnings-based share price targets (\$A p/sh)				
P/E 8x's		5.3	10.6	3.3
P/E 10x's		6.9	13.6	4.0
P/E 12x's		8.5	16.6	4.7
P/E 14x's		10.2	19.6	5.3

Source: Company data, Ocean Equities estimates

Different levels of risks involved in the sector mean that the market is presently applying a range of values to the resources held by junior DSO iron ore companies

### 5.1 Current peer based valuation

Exhibit 12 shows that the market is at present applying a wide range of values for resources held by junior hematite iron ore companies which are currently ramping up or are hoping to start production in the near/medium term. For this analysis we have only included target resources of high grade DSO hematite deposits which due to the differing capex profiles of magnetite and lower grade beneficiation hematite.

The reasons for the dispersion of values reflects differing degrees of discounts being applied to reflect the different levels of risks facing the respective companies primarily due to: perceived risks inherent in getting the various projects through to production; different grades and impurities of resources; differing likelihood of future increases to resources; strategies for infrastructure access; differing levels of company profiles in the market; speculation over potential corporate activity and the presence of other non-hematite assets (e.g. TTY – non iron ore assets, including 19.9% of Monarch Gold; and Atlas Iron – having a significant magnetite resource and a 19.9% investment in Warrick Resources, etc).

We believe \$4.1/t EV/DSO resource is conservative

Therefore care must be taken when generalising a benchmark resource multiple. For the purposes of peer based valuation we have taken the median peer multiple of \$4.1/t EV/Resource which we believe is more appropriate and conservative, than the average of \$6.1/t or other higher valuation multiples often used by other analysts.



**Exhibit 12: Peer group comparisons and valuation**

Median peer valuation multiple includes current DSO resources or visible near term company target resources. Priced COB June 27<sup>th</sup>.

Company	Ticker	Performance			Mkt Cap	Net Cash (Debt)	EV	Resource <sup>1</sup>		Est Grade	Production		Future date	EV/Resource	EV/Target Res	Key Project(s)	
		3M	6M	12M				Current	Target		Near term	Future					
		A\$	%	A\$	A\$	A\$	mt	mt	Fe%	mt	mt	x	x				
Fortescue	FMG	12.13	84.3	258.9	34,224	(3,635)	37,859	4,160	7,960	59.5%	45	100	2011	9.1	4.8	Chichester & Solomon	
Mt Gibson Iron	MGX	3.28	14.3	144.8	2,670	(101)	2,771	103	103	62.2%	5.5	10	2011	26.8	26.8	Tallering Peak & Extension Hill & Koolan Island	
Murchison Metals	MMX	3.4	(12.8)	(1.7)	1,482	154	1,328	79	79	60.5%	2	25	2011	16.8	16.8	Jack Hills	
Midwest Corp	MIS	6.38	6.3	31.8	1,364	61	1,303	157	311	58.4%	1.5	22	2011	8.3	4.2	Koolanooka/Blue Hills & Weld Range	
Atlas Iron	AGO	3.74	86.1	59.8	1,227	183	1,044	23	140	57.3%	1	16	2012	45.6	7.5	Pardoo & Abydos	
Gindalbie	GBG	1.365	92.3	13.8	33.2	711	86	624	27	90	59-60%	-	2	2009	23.0	6.9	Mungada
Sundance Res	SDL	0.345	50.0	(18.8)	(25.8)	681	75	605	190	60.0%	-	35	2012	3.2	3.2	Mbalam - Cameroon	
United Minerals Corp	UMC	2.53	76.9	104.9	125.9	401	24	377	-	~60%	-	2	2009	n.a.	3.8	Railway	
Giralla Res	GIR	2.15	72.0	67.9	244.2	386	78	307	7	100	57%+	-	na	42.7	3.1	Incl. Beebyn/Midwest, Western Ck Pilbara	
Red Hill Iron Ltd	RHI	6.6	9.8	40.4	140.0	277	9	267	70	70	57.2%	-	5	2012	3.8	3.8	Red Hill JV
Ferrous Ltd	FRS	1.705	78.2	38.7	87.0	255	12	243	47	100	57-60%	-	na	5.1	2.4	Roberston Range & Davidson Creek	
Brockman Res	BRM	2.47	33.5	116.7	431.2	262	39	223	56	56	57.5%	-	2	2009	4.0	4.0	Marillana
Territory Res	TTY	0.82	(9.9)	(35.9)	(44.8)	218	16	202	10	30	60.5%	1.5	3	2009	20.8	6.7	Frances Creek - NT
Golden West Res	GWR	2.00	119.8	(11.5)	(10.8)	249	58	191	86	120	60.1%	-	10	2011	2.2	1.6	Wiluna West
BC Iron	BCI	1.535	41.5	-	(19.2)	99	11	88	28	58	55-58%	-	3	2010	3.1	1.5	Nulligine
Polaris Metals	POL	0.435	(18.4)	(27.8)	4.6	82	13	69	30	100	57-58%	-	2.5	2009	2.3	0.7	Yilgarn
Iron Ore Holdings	IOH	0.68	13.3	(8.1)	9.7	90	36	55	8	8	58.1%	-	1.5	2010	6.6	6.6	Phil's Creek
Cretex Metals	CXM	0.45	28.6	3.4	(1.9)	71	24	47	9	10	59.8%	-	2	2009	5.2	4.7	Wilgerup - SA

Average	6.1
Median	4.1

**Notes:**  
Refer to Company Profile section in this report for further details on the Company's.

<sup>1</sup> Resources only include high grade hematite deposits. Fortescue's resource target includes its Chichester and Solomon targets only.

<sup>2</sup> Murchison Metals has a 50/50 JV with Mitsubishi for its Jacks Hill and Weld Range deposits. Figures shown here are total deposit resource and production.

<sup>3</sup> Midwest Corp has a JV with Sinosteel where Sinosteel has the right to acquire a 50% interest in the flag ship Weld Range project. Figures shown here are total deposit resource and production.

- Murchison announced its proposal to merge with Midwest in an all scrip offer which values Midwest at \$7.17p/sh, a 12.4% premium to Sinosteel's existing all cash offer of \$6.38p/sh. Sinosteel currently holds 43.6% of Midwest.  
- Sundance owns 90% of its projects which are based in Cameroon. Gindalbie shares a 50/50 JV with AnSteel for its Karara project, Red Hill Iron has a 40% participating interest in its namesake project with API. Giralla holds a number of investments in ASX listed resource companies and holds a Uranium and Nickel JV.  
- The dispersion of EV/Resource multiples reflect the different levels of risks facing the respective companies and primarily include: perceived risks inherent in getting the various projects through to production, different grades and impurities of resources, different prospectively of future increasing resources, strategies taken/availability of infrastructure access, differing level of company profiles in the market, and the presence of other non-hematite assets.

Source: Bloomberg, Company data, Ocean Equities estimates

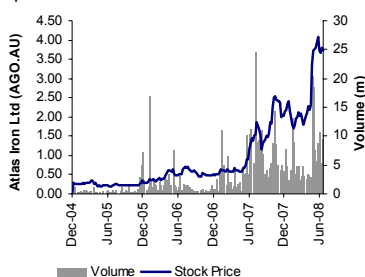
## Company Profiles

<http://www.atlasiron.com.au/>

### Summary financials

Last trade:	\$3.74
12mth high/low:	\$4.37 - \$0.95
Ave daily volume (YTD):	1.24m
Fully diluted market capitalisation	\$1,227m
Debt	nil
Current cash balance	\$159m
Cash from options	\$23.8m
EV	\$1,044m

Est near term capex/opex - \$10m (Stage 1Pardoo); ~\$55m (Stage 2 DSO); & \$55m exploration



### Directors / Senior Management

Mr David Nixon (Non Exec. Chairman)  
Mr David Flanagan (Managing Director)  
Ms Jyn Sim Baker (Director)  
Mr David Hannon (Non Exec. Director)  
Mr Geoff Clifford (Non Exec. Director)  
Mr Mark Hancock (CFO)

### Recent Capital raisings

- April 2008 placement of 50m shares raising \$100m @ \$2.00
- August 2007 placement of 59.5m shares raising \$85m @ \$1.43
- October 2006 placement of 40m shares and 80m options raising \$20m @ \$0.50
- AGO is fully funded into production for its Pardoo and Abydos DSO operations

### Major Shareholders

IMC Group	19.5%
LinQ Resource Fund	8%
Top 20 Shareholders	61%

### Company background

Atlas Iron ("AGO") originally listed in December 2004 as Atlas Gold Ltd but within 9 months focused attention to iron ore tenements, in particular its Pardoo DSO prospect which had a historical hematite resource from previous BHP Goldsworthy exploration. AGO has since listing increased its prospective landholding from 2,220km<sup>2</sup> to over 6,200km<sup>2</sup> through numerous agreements and acquisitions; however discussion from the Company's MD David Flanagan is there is now strong demand for iron ore tenements and companies pushing up prices.

Since August'07 the Company has raised \$185m in equity the most recent placement was 50m shares @ \$2.00p/sh in April'08, which will provided sufficient financing for its two Pilbara DSO operations into production, and was the initial catalyst for AGO's share price hitting \$4+p/sh and the Company entering the S&P ASX 200 index in late May.

The Company in addition to its 100% owned iron ore prospects holds a 40% stake of Shaw River Resources (worth \$4m), and recently increased its holding in iron ore developer Warwick Resources to 19.5% (worth \$10m/1,700 km<sup>2</sup> of prospective tenements near Newman).

### Principal Projects & Exploration/Resource

AGO owns four key projects: **Pardoo** (14.3mt @ 57% Fe); **Abydos** (8.6mt @ 57.7% Fe); **Midwest** (maiden DSO resource expected 3Q'08); and **Ridley magnetite** (853mt @ 37.2% Fe/upgrade expected 3Q'08). AGO has recently commissioned a \$55m exploration programme and upgraded its exploration target to 120-180mt DSO, with potentially 90-140mt alone coming from numerous small deposits at its Abydos prospect. Refer to "Atlas Iron's principal project(s) summary" on the opposite page and Exhibit 14 and 15 in the Appendix for future details.

### Strategy

The Company will commence production in August from its Pardoo project, trucking its DSO product 75km to Port Hedland. Initial production is targeted to be 1mtpa before ramping up to 6mt pa in 2010 from Pardoo and Abydos. Longer term AGO aims to produce up to 19mtpa from its four key projects, with the expansion plans relying on gaining rail access and port handing from Fortescue (MoU signed June'07).

AGO has started discussions with a number of foreign parties regarding their potential involvement in the development of its Ridley magnetite project, which is expected to accelerate and potentially materialise following the PFS (expected in 4Q'08). Refer to our analysis and comment in the earlier **Section 4.4** for the potential transaction value of this asset.

The Company's two Midwest DSO targets are located in the Jack Hills and Mt Weld areas of the Midwest region surrounded by both Murchison's and Midwest's existing resources. AGO has a 30-40mt exploration target of DSO grading 60-63% Fe. The longer term development of this project is very much dependant on the regions rail and port infrastructure, and the WA Government plans for infrastructure development in the region are expected to be announced by the end July.

### Expected newsflow

News flow is expected to remain positive for AGO including: off-take agreement for Pardoo production expected shortly; environmental approvals in mid-July; Pardoo entering production and the Company's first iron ore shipment (August/September); resource upgrades for Pardoo, Abydos and Ridley in 3Q'08; maiden Midwest resource; and the completion of the Ridley pre feasibility study 4Q'08.

### Ocean Comment

We believe AGO has set the benchmark for a number of its peers. The Company is set to become the first junior in the Pilbara to: deliver DSO to port via truck haulage; secure access at the Utah Point public berth at Port Hedland; and agree commercial terms with Fortescue for infrastructure access in order to expand its production profile.

Excluding a \$225m of value attributable to its Ridley magnetite deposit and other non-core assets, AGO trades at a premium to its peers (\$5.9/DSOt). We believe this premium reflects the Company entering production in the near term, having favourable deposit locations relative to port and access to infrastructure (refer to **Section 3**) and a favourable product mix of lump-to-fines (refer to **Section 2**).

We believe the Company's multi project portfolio expansion plans, with estimated capex in the next two years in the order of \$70m, will be funded from existing cash reserves (currently ~\$159m), and internal cash flows. If the volatility and uplift in Fortescue's recent share price as it entered production is an appropriate gauge for AGO we would expect a number of attractive trading opportunities to present themselves in the upcoming months.

## Atlas Iron Ltd (AGO.AU)

### SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Near term DSO production from Pardoo/scoping study compete on Abydos</li> <li>- Existing 22.9mt DSO reserve near existing infrastructure</li> <li>- Expected low opex/capex resulting in strong near term cash flow</li> <li>- Fully funded with strong management team</li> </ul>	<ul style="list-style-type: none"> <li>- Capex profile from operating a number of multi-stage satellite deposits</li> <li>- Dependence on agreeing rail infrastructure to increase scale of its Pilbara and Midwest projects</li> <li>- Has issued significant amounts of funds at dilutive prices</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Off-take agreement for its Pardoo production</li> <li>- Existing MoU with FMG for bulk transport, agreement on commercial terms</li> <li>- Exploration potential at Abydos/Midwest and other acquired tenements</li> <li>- Sale/JV/Offtake with an Asian steel mill for its Ridley magnetite project</li> </ul>	<ul style="list-style-type: none"> <li>- AGO has stated significant targets for its Pardoo/Abydos/Midwest projects which are dependant on exploration success to support Stage 2 production plans</li> <li>- Agreeing terms with FMG for transport and development of infrastructure in the Midwest</li> </ul>

Source: Ocean Equities Research

### Atlas Iron's principal project(s) summary

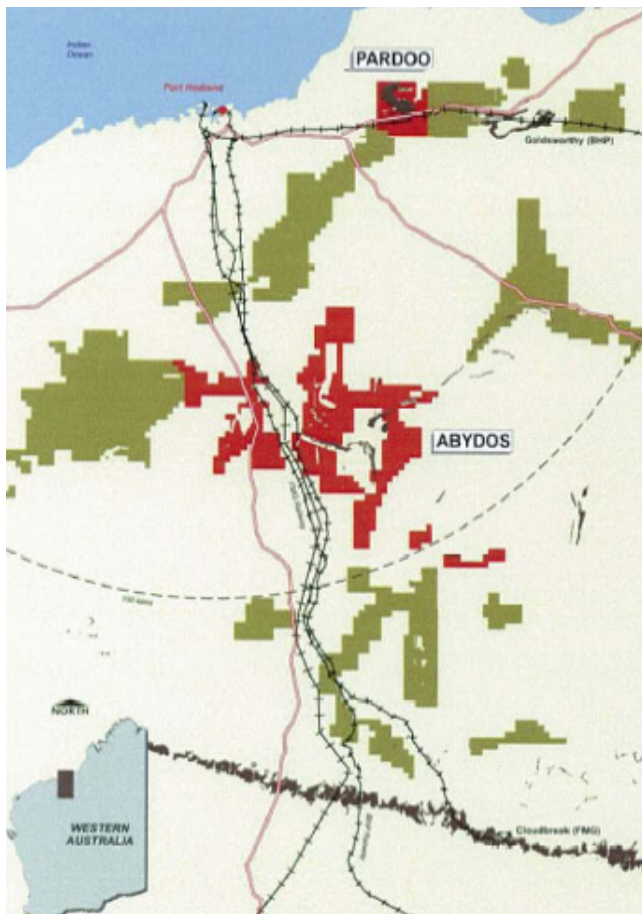
Primary Target(s)	Current Resource	Fe Grade	Type of deposit	Current stage of project	Stage 1 Production	Development options	Haulage distance	Likely port
Pardoo	14.7mt	57.0%	DSO	Current reserve 5.4mt @ 57.4% Fe. Target DSO 30-40mt @ 57-60% Fe.	1mt pa then 3mt pa	1mt pa production from August via truck haulage. Stage 1 capex \$10m/Opex \$30-40/t. Stage 2 is expected 4Q'09 with capex ~\$14.5m.	75km	FMG/ Pt Hedland
Abydos	8.6mt	57.7%	DSO	Targeting 90-140mt DSO at 57-60% Fe.	3mt pa production from 4Q'09.	Stage 1 opex \$35-40/t & capital cost haulage: Road \$38.5m/Rail \$46.5m. Stage 2 production of 9mtpa from 4Q'11 via rail.	125-150km	FMG/ Pt Hedland
Midwest	na	na	DSO	Deposit is adjacent/along strike to MMX's Jacks Hill. AGO targets 30-40mt DSO at 60-63% Fe.	4mt production from 2012.	~450 km north-east of Geraldton. Project development is dependant of Midwest port and rail development.	~450km	Geraldton/ Oakajee
Ridley	853mt	37.2%	Magnetite	JORC upgrade is expected in July. AGO targets a 1-1.5bt resource. PFS expected in October.	10mt pa concentrate from 2013.	Include in Pardoo tenement. Opex \$39.5/t. Capital cost \$1.3-1.5b + \$500m contingency. Transportation via pipeline/rail.	75km	FMG/ Pt Hedland

Source: Atlas Iron Ltd, Ocean Equities estimates

### Principal tenement location plan

#### Pilbara

The Pardoo tenement includes the DSO and Ridley magnetite prospects and is only ~75km from Port Hedland



#### Midwest

Atlas's Mt Gould (M52/236) and Weld Range (M20/118) are located in the Jack Hills and Mt Weld areas of the Midwest region



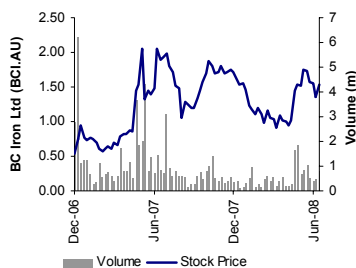
Source: Atlas Iron Ltd

<http://www.bcion.com.au>

### Summary financials

Last trade:	\$1.54
12mth high/low:	\$2.16 - \$0.75
Ave daily volume (YTD):	0.11m
Fully diluted market capitalisation	\$99m
Debt	nil
Current cash balance	\$10m
Cash from options	\$2m
EV	\$88m

Est near term capex - \$85m (Nullagine)



### Directors / Senior Management

Mr Tony Kiernan (Non Exec. Chairman)  
Mr Michael Young (Managing Director)  
Mr Steven Chadwick (Non Exec. Director)  
Mr Terrence Ransted (Non Exec. Director)  
Mr Garth Higgs (Non Exec. Director)

### Recent Capital raisings

- Nov'07 placement of 5.4m shares raising \$9.18m @ \$1.70  
- BC Iron is fully funded for resource definition and its current feasibility programme but will need further capital prior to entering production

### Major Shareholders

Consolidated Minerals 26% (escrow Dec08)  
Alkane Resources 15% (escrow Dec08)  
UBS Wealth Management Australia 8.2%

### Company background

BC Iron ("BCI") listed on the ASX in December 2006 and delineated a maiden resource at its Nullagine Project within 15 months of listing. The Company was formed by combining the iron ore interests of Alkane Exploration Ltd and Consolidated Minerals Ltd, which are now both major shareholders in BC Iron (see below for further details).

### Principal Projects

The Company's principal prospects include Channel Iron Deposits ("CID") at the **Nullagine Project**, which lies 35km north of Fortescue's Christmas Creek operation and includes the Bonnie Creek (which hosts 5 targets, of which only Coongan Well and Outcamp Well are at JORC status), Shaw River, and Nullagine River targets, as well as the **Bungaroo Creek** grass roots exploration project which lies adjacent to RIO's Bungaroo CID deposit.

### Exploration/Resource

A 4,500m exploration programme commenced in April 2007 at the Bonnie Creek and Nullagine River CID targets, followed up by a further 2,800m programme in June 2007. In March 2008 BCI announced a maiden resource of 47.2Mt at 53.6% Fe (61.5% CaFe) at Nullagine, including a high-grade DSO resource of 28.1Mt grading 57.4% Fe (65.1% CaFe).

### Strategy

The Company's stated objective is to generate cash flows as soon as possible by bringing the Nullagine Project into production. BCI's current target is to be in production by 1H'10.

The nearer term strategy is to increase the Company's JORC resource. BCI has stated its target to increase its DSO resource by 30mt at the Nullagine project on the basis of outcrop measurements and drilling data. A 25-30,000m resource in-fill and extension drilling programme has recently commenced which is expected to take two to three months to complete with two mounted RC rigs.

The recently completed scoping study for the Nullagine Project indicates a 3mtpa DSO operation from 2010 ramping up to 5mtpa from its Outcamp and Coongan Well deposits. Project capital costs are estimated to be \$85m with a cash operating cost of \$42/tonne (including transportation). The scoping study was commissioned in January following an initial drilling programme that collected sufficient data for an initial JORC compliant resource (which was released in March'08). A feasibility study has now been commenced to fast-track development into production.

Despite Fortescue being a natural source of infrastructure access to BCI, the Company is a member of the recently formed North West Iron Ore Alliance.

### Expected newsflow

News flow is expected to be dominated by the development of its Nullagine project including: a resource upgrade, including an indicated and measured resource, expected 2H'08; heritage surveys 2H'08; and completion of recently commissioned prefeasibility study in 2H'08/1H'09. Additionally we believe news flow surrounding Atlas Iron agreeing commercial terms (expected shortly), would be well received and provided the benchmark for BCI going forward.

### Ocean Comment

We believe it is a positive signal that the Company has accelerated the development of its flagship Nullagine project following the recent release of its scoping study. A prefeasibility study has now been commissioned, the original scheduled date was 4Q'08 following a further resource upgrade, and we expect the Company will now be in a more favourable position to accelerate negotiations with Fortescue to further develop its existing MoU.

While BCI does not offer the potential scale of a number of other juniors we believe it is in a relative strong position given: it has an existing provisional agreement for bulk transport of up to 5mtpa with Fortescue; it has an existing high grade (Ca Fe 65.1%), low impurity CID resource comparable to, if not marginally better than, BHPB's Yandi and RIO's Robe River deposits; exploration potential remains favourable, evidenced by the Company aiming to double its existing DSO resource in the near term; the development of its Nullagine Project should be a relatively simple mine, crush and truck operation, with low to moderate opex and capex (depending on the final development strategy chosen for the project), with scope to increase production through beneficiation of lower grade, non-DSO ore.

The Company is fully funded for its current resource expansion and feasibility study programmes but will require a further capital injection prior to entering production. News flow is expected to remain positive and BCI currently trades at a significant discount to its peers. We believe BCI is an attractive, albeit smaller scale story (current EV \$88m).



## BC Iron Ltd (BCI.AU)

### SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Existing resource; significant upgrade expected 2H'08</li> <li>- Low contaminants; high calcined Fe% CID</li> <li>- Attractive valuation and news flow is expected to be supportive</li> </ul>	<ul style="list-style-type: none"> <li>- Current scale of operations does not offer as much blue sky upside potential as a number of other iron ore juniors</li> <li>- Low relative cash position</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Favourable scoping study, prefeasibility study commissioned</li> <li>- Existing MoU with FMG for bulk transport</li> <li>- Exploration potential at the Nullagine and Bungaroo prospects</li> </ul>	<ul style="list-style-type: none"> <li>- 41% of the Company is held by two parties in escrow until December'08</li> <li>- Agreeing terms with FMG for transport; dependant on a positive PFS</li> <li>- Access to future financing to fund BCI into production</li> </ul>

Source: Ocean Equities Research

### BC Iron's principal project(s) summary

Primary Target(s)	Current Resource	Fe Grade	Type of deposit	Current stage of project	Stage 1 Production	Development options	Distance to rail	Haulage distance	Likely port
Bonnie Ck - Outcamp	20.7mt	57.3%	DSO CID	Scoping study complete, PFS commissioned, extension/infill drilling ongoing (resource upgrade 2H'08)	3Mtpa from 1H'10	Option 1. MGS to FMG Option 2. Mine and Sell FOB/CFR using FMG infrastructure	35-75km	~260km	Port Hedland
Bonnie Ck - Coongan	7.4mt	57.8%	DSO CID						
Bonnie Creek - Total	47.2mt	53.6%	CID						

Source: BC Iron, Ocean Equities estimates

### Principal tenement location plan

BCI's flagship Nullagine project lies only 35km north of Fortescue's Christmas Creek operation



Source: BC Iron

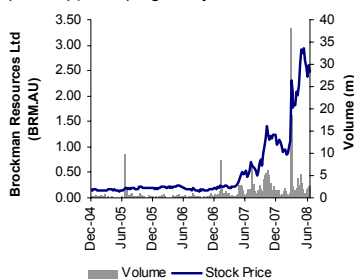
<http://www.brockman.com.au>

### Summary financials

Last trade:	\$2.47
12mth high/low:	\$3.21 - \$0.36
Ave daily volume (YTD):	0.81m
Fully diluted market capitalisation*	\$262m
Debt	nil
Current cash balance*	\$36m
Cash from options	\$3.2m
EV*	\$223m

\* excluding recent capital raise

Est near term capex - at least \$70m (cost of pre-strip). Scoping study \$542-755m.



### Directors / Senior Management

Mr Ross Norgard (Chairman, Director)  
 Mr Wayne Richards (Managing Director)  
 Mr Colin Paterson (Director)  
 Mr Ross Ashton (Non Exec. Director)

### Recent Capital raisings

- June 2008 placement of 45m shares to raise A\$112.5M @ A\$2.50/share – funds used to accelerate the development of Marillana Project into production in 2009.
- Dec 2007 placement of 7.75m shares to raise A\$8.14m @ A\$.150/share
- Following recent capital raising BRM should be fully funded into production for its DSO operations. However, capital costs and funding requirements depend on the different logistical and infrastructure options

### Major Shareholders

(Pre June placement of 45m shares)

Ross Norgard	16.5%
Flinders Investments	6.9%
Top 20 Shareholders	66%

### Company background

Brockman Resources ("BRM") was listed as Yilgarn Mining Ltd in August 2004, originally operating as an iron ore, nickel, copper and gold exploration and development company. In November 2007 the Company's name was changed to reflect the strategic decision taken to position itself as a potential iron ore producer, focusing on its Marillana iron ore project. BRM is lead by its managing director Wayne Richards who has extensive iron ore project and infrastructure development experience in the Pilbara gained through holding senior executive positions within BHPB Iron Ore.

### Principal Projects

The **Marillana Iron Ore Project** is located in the Hamersley iron ore province and situated 100km north-west of Newman. It covers a 16km strike length along the base of the Hamersley Range, prospective for CIDs, and neighbours BHPB's Yandi mine and RIO's Yandicoogina mine while Fortescue's flagship Cloudbreak operations and rail line are 35km northeast. Indeed there are three rail systems within 40km of the project with the closest line being BHPB's Newman railway 4km to the north. The Marillana lease has been actively worked on by BRM since late 2006, and prior to that, exploration was undertaken in 1996 by Hamersley Iron.

Aside from the Marillana tenement, the Company has several granted and priority tenement applications over "Brockman" iron ore formation units within its portfolio. Given the Company's sole focus on iron ore we believe there to be the potential to extract value from the sale of non-core assets including a number of nickel, gold and base metal projects.

### Exploration/Resource

Drilling at the Marillana project in the last year has returned a 1.1bt resource of CID/Detrilal deposits with an average grade of 44.2%, which includes a DSO component of 56.2mt @ 57.5% Fe (62.6% Fe on a calcined basis). Recent metallurgical test work on the detrital mineralisation has demonstrated the potential to upgrade this mineralisation to a 59.2% Fe product with an average weight recovery of 59%. Based on these results, the beneficiation feed has the potential to produce 680mt of "marketable" product grading 59.1% Fe (including the DSO material). The Company is planning an aggressive exploration programme in 2008, coupled with additional metallurgical test work.

### Strategy

The scoping study which was completed in April 2008 investigating the potential for a multi-stage operation, with initial production of 2-5mtpa (beginning in late 2009), ramping up to 15-25mtpa (2013). The Company is advancing discussions with third party infrastructure owners and the Port Hedland Port Authority to secure appropriate access to infrastructure and logistics which is critical to the Company achieving its ambitious production plans.

With the recent completion of the scoping study, BRM is now conducting a feasibility study based on its expanded resource base with an overall resource upgrade for Marillana expected in July'08. BRM is fully funded into production for its DSO operations and the Company intends to divest the non-core assets of the business such that the focus is to become an iron ore producer in 4Q'09.

### Expected newsflow

BRM's newsflow is expected to be strong in the near term and we expect: resource upgrade for Marillana July'08; mine proposal submission for a 2mtpa operation August'08; infill drilling programme at Rockhole Bore 2H'08; completion of existing metallurgical test work and development of production test pit 2H'08; confirmation of infrastructure access 2H'08. We expect the completion of the feasibility study by early 2009 and expect further developments regarding the spin-off of the non-core assets.

### Ocean Comment

BRM looks set to be a significant beneficiary of steps being made to open up the incumbents' rail networks given its geographical location and aggressive production profile (which is dependent on gaining appropriate access to infrastructure). The Company's worst case near term production plan is to begin 2mtpa DSO production from 4Q'09 trucking ore to Port Hedland.

The market currently appears unwilling to value anything more than this worse case scenario or place any value on the significant deposits of "marketable" grade ore which are held by the Company. While we believe the Company has a strong management team and the process of beneficiating lower grade ore is proven (currently employed by the majors in the Pilbara), we would expect this "discount" to remain the case until the Company can deliver to the market two key events: 1) BRM securing infrastructure access which provides capacity for its Stage 1 production plans of 5mtpa and supports an expansion to Stage 2; and 2) Further beneficiation work supporting the grade and level of impurities of its lower grade ore, and the potential capex required for this processing.



**Brockman Resources Ltd (BRM.AU)**

**SWOT analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Existing DSO resource and large scale lower grade "marketable" deposit</li> <li>- Strong management team and fully funded into production</li> <li>- Geographically well positioned; 3 rail systems within 40kms</li> </ul>	<ul style="list-style-type: none"> <li>- Unwillingness of the market to value BRM's aggressive production profile until infrastructure access is agreed &amp; further beneficiation work supports an economic product</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- PFS study, beneficiation work and infrastructure negotiations ongoing</li> <li>- Resource upgrade expected July, with significant further exploration potential</li> <li>- Off-take discussions taking place: sale of non-core assets</li> </ul>	<ul style="list-style-type: none"> <li>- Not securing appropriate access to infrastructure</li> <li>- Beneficiation work fails to satisfy the market of a economic product</li> <li>- Resource definition risk, in particular failure to increase DSO resources</li> </ul>

Source: Ocean Equities Research

**Brockman's principal project(s) summary**

Primary Target(s)	Current Resource	Fe Grade	Type of deposit	Current stage of project	Stage 1 Production	Development options	Haulage distance	Likely port
Marillana - DSO	56.2mt	57.5%	CID/ Detrital	Stage 1 - Scoping study completed, PFS underway, upgrade of overall resources 3Q'08.  Stage 2 - PFS to outline details of beneficiation plant.	Stage 1 2-5mtpa 2H'09	Stage 1 production via truck haulage (to FMG's/BHP rail sidings; or directly to Port Hedland), to Utah Point or FMG's port facilities.	350km	Port Hedland
Marillana - Beneficiation	625mt	59.2%	CID/ Detrital		Stage 2 15-25mtpa 1H'12			
Marillana - Total	1,062mt	44.2%	CID/ Detrital					

Source: Brockman Resources Ltd, Ocean Equities estimates

**Principal tenement location plan**

**Brockman's regional exploration portfolio**

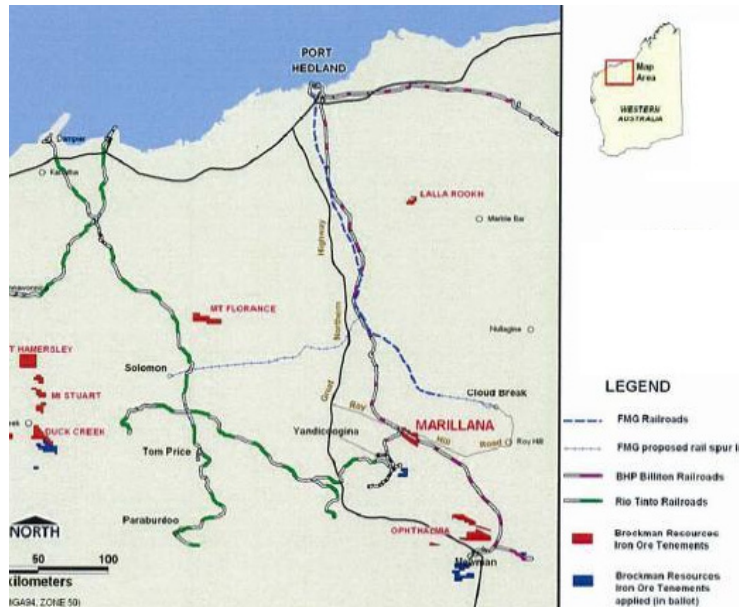
BRM has portfolio of base and precious metals assets and has the potential to create value from the sale of these non-core assets



Source: Brockman Resources Ltd

**Principal iron ore tenements in the Pilbara**

BRM iron ore tenement locations and existing rail infrastructure

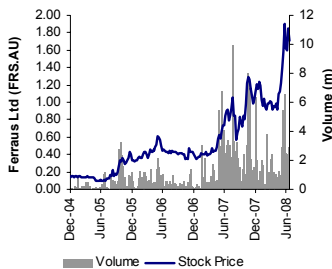


<http://www.ferraus.com>

### Summary financials

Last trade:	\$1.71
12mth high/low:	\$2.02 - \$0.50
Ave daily volume (YTD):	0.43m
Fully diluted market capitalisation	\$255m
Debt	nil
Current cash balance	\$9.6m
Cash from options	\$2.5m
EV	\$243m

Est near term capex - na



### Directors / Senior Management

Mr John Nyvit (Chairman)  
Mr David Turvey (Managing Director)  
Mr Robert Greenslade (Director)  
Mr Jim Wall (Non Exec. Director)

### Recent Capital raisings

- \*May'08 WMC placement of up to 16.9m shares raising \$19.4m @ \$1.15
- \*May'08 rights issue of up to 7.2m shares raising \$8.3m @ \$1.15
- May'08 placement of 6.75m shares raising \$8.3m @ \$1.15
- Jan'08 placement of 10m shares raising \$10m @ \$1

FRS is fully funded for its exploration, evaluation and development program for 2008 and in to 2009.

\* Shareholder approval achieved on June 26th

### Major Shareholders

Post Placement – up to:

Joe Singer & Associates	29.6%
(Including Penfold)	10.8%;
China WMC	9.1%;
John Nyvit Family Trust	6.9%;
Equant Resources	2.0%;
Joe Singer	0.8%)
Non-Associate Shareholders	70.4%

### Company background

FerrAus ("FRS") is an exploration company focused on discovery and production of ferrous raw materials, including iron ore, manganese, and nickel in Western Australian. FRS wholly owns over 560km<sup>2</sup> of prospective iron ore tenements in the East Pilbara region with a potential strike length of 30-40km.

### Principal Projects

The Company's flagship and priority project is its **Robertson Range** iron ore prospect where continuous drilling and evaluation programmes since late 2005 have delineated a current resource of 45mt at 58.8% Fe in two zones, with the expectation that further drill programmes will materially expand the resource. Mine feasibility studies/permitting are ongoing. The Company's other primary iron ore target is its **Davidson Creek** prospect.

FRS's manganese asset is its wholly owned **Enachedong** exploration tenement, covering 205km<sup>2</sup> and located 60km from the operating Woodie Woodie manganese mine owned by Palmary Enterprises. Priority targets have been identified and a drill programme is expected 2H'08. FRS's nickel asset is its **Silver Swan North** project, 45km north-east of Kalgoorlie, where it has a farm-out agreement with the Mithrill/BHPB alliance earning a 51% interest.

### Exploration/Resource

The Company has stated a resource target of 100mt, ranging 57-60% Fe, to be delineated by the end of 2008, and has committed in excess of \$5m in funding to increasing the size of the resource at Robertson Range as well as the Davidson Creek and Murrumunda targets.

At its flagship Robertson Range prospect previous exploration by RIO identified mineralisation over a 1km strike length. Subsequent exploration by FRS has extended this to over 15km, with 4 new targets identified. The Company believes Robertson Range has potential of 125-160mt DSO (current resource 45mt @ 58.8% Fe), and has commissioned a 40,000m RC and 6,000m Diamond drill programme which is expected to lead to a resource upgraded in September'08.

The Davidson Creek prospect has 5 areas of mineralisation confirmed and 4 targets to test, and the Company has stated a potential target of 115-155mt DSO. An extensive 50,000m RC and 5,000m diamond drill programme has been commissioned with a resource statement expected in 3Q'08. The Company has identified the potential for Marra Mamba as well as Brockman-type iron ore deposits on both its Davidson Creek and Murrumunda tenements.

### Strategy

The Company's key objective is the development of the Robertson Range iron ore project which is seen by management as the project able to deliver the most shareholder value. The Company is employing a dual focused strategy: fast tracking the development of the Robertson Range project towards production; and building a materially larger resource inventory, thereby increasing the company's production profile, enhancing ore blending/scheduling, target cost savings (opex and capex), and leveraging potential infrastructure options.

The Company has disclosed a mineralisation potential of 240-315mt Fe, which it believes will support a 10-15mtpa operation. Initial production of 2mtpa could commence potentially 2H'09 dependant on permitting, feasibility studies and infrastructure agreements.

### Expected newsflow

Drilling programmes are expected to continue at Robertson Range expansion with a resource upgrade expected September 2008. Updated and initial resource statements for Davidson Creek and Murrumunda are scheduled for late 3Q'08.

### Ocean Comment

FRS has highlighted a number of substantial high grade resource targets and offers investors significant exploration blue-sky potential relative to a number of its junior peers, albeit with significant exploration risk as a number of these targets have been inferred on gravity survey data and neighbouring resource size/grades only.

A key element to the development of the iron ore projects is FRS gaining appropriate access to infrastructure given the significant distances its prospects from Port Hedland. Therefore agreeing access to BHPB's Newman/Jimblebar rail infrastructure is critical (even FMG's rail network is 200km+ away). A key element which we believe is in FRS favour is that metallurgical studies to date have supported a favourable lump-to-fines ratio of 41-59% at its Robertson Range Marra Mamba deposit which enjoys a Fe grade of 58.9%. The Company is currently investigating the following alternatives to develop its projects: 1. MGS; 2. transportation through a co-operative cost and profit share agreement; or 3. seeking access under the WA Government rail access regime. FRS is a foundation member of the North West Iron Ore Alliance.

**FerrAus Ltd (FRS.AU)**

**SWOT analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Significant exploration potential; blue-sky target in the market place</li> <li>- Mine planning studies and permitting ongoing</li> <li>- High grade, low impurity DSO with favourable lump-to-fines product split</li> </ul>	<ul style="list-style-type: none"> <li>- Limited options to access required infrastructure</li> <li>- Significant distance to port, limits the economics of a trucking operation</li> <li>- A number of resource targets have been inferred on gravity survey data</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Resource potential of 240-315mt Fe: supporting a 10-15mtpa operation</li> <li>- Entering near term production and achieving material resource upgrades</li> <li>- Upside to the resolution of infrastructure access</li> </ul>	<ul style="list-style-type: none"> <li>- Obtaining access agreement to infrastructure</li> <li>- Significant exploration risk</li> <li>- Potential major shareholder</li> </ul>

Source: Ocean Equities Research

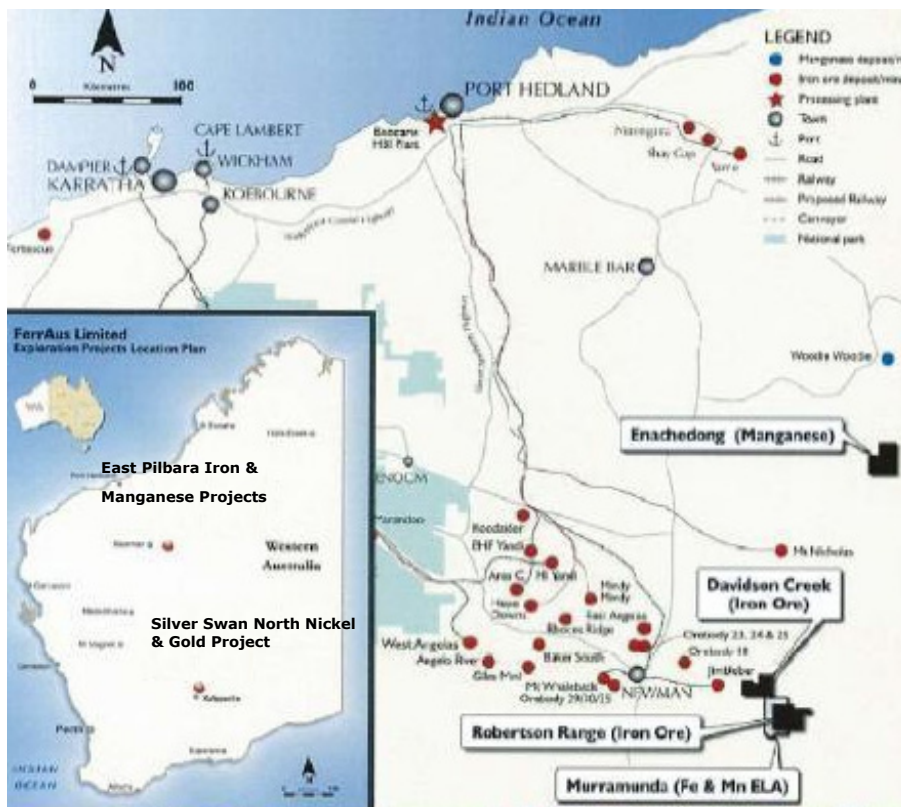
**FerrAus's principal project(s) summary**

Primary Target(s)	Current Resource	Fe Grade	Type of deposit	Current stage of project	Stage 1 Production	Development options	Haulage distance	Likely port
Roberston Range - Main Zone	40mt	58.8%	Marra Mamba	Mining proposal submitted Dec'07 for stage 1 production commencing by 2009. 40,000m RC/6,000m diamond drilling going with resource upgrade expected Sept'08	2mtpa from 2H'08/1H'09	Mining proposal submitted Dec'07 for stage 1 production commencing by 2009. 40,000m RC/6,000m diamond drilling going with resource upgrade expected Sept'08. Development into production of both projects is dependent on agreeing rail infrastructure (preferred option is BHPB Jumblebar line)	~525km	Port Hedland
Roberston Range - SW Zone	5mt	59.6%	Marra Mamba					
Davidson Creek	7.4mt	57.8%	MM & BM	7km of strike. Drilling programme ongoing (resource upgrade 3Q'08)	na		~500km	

Source: FerrAus Ltd, Ocean Equities estimates

**Principal tenement location plan**

FerrAus tenements are located near the end of BHPB Jumblebar railway line, limiting potential infrastructure options.



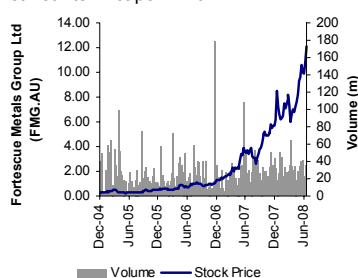
Source: FerrAus Ltd

<http://www.fmg.com.au>

### Summary financials

Last trade:	\$12.13
12mth high/low:	\$13.15 - \$2.50
Ave daily volume (YTD):	7.43m
Fully diluted market capitalisation	\$34,242m
Debt	\$4,296
Current cash balance	\$654m
Cash from options	\$7m
EV	\$37,859m

Est near term capex - na



### Directors / Senior Management

Mr Herb Elliott (Non Exec. Chairman)  
 Mr Andrew Forrest (Exec. Director, CEO)  
 Mr Graeme Rowley, AM (Exec. Dir., COO)  
 Mr Russell Scrimshaw (Executive Director)  
 Mr Ken Ambrecht (Non Exec. Director)  
 Mr Joseph Steinberg (Non Exec. Director)  
 Mr Geoff Brayshaw (Independent Director)  
 Mr Christopher Catlow (CFO)

### Recent Capital raisings

- July'07 placement of 14m shares raising \$504m @ \$36
- Aug'06 - Leucadia placement of 26.4m shares raising US\$300m @ c.A\$15 & US\$100m subordinated loan note facility repayable in August 2019
- Aug'06 \$2.7b secured high-yield debt underwriting including:
  - US\$250m of Senior Secured Floating Rate Notes due 2011;
  - US\$320m of 10.0% Senior Secured Notes due 2013;
  - €315m of 9.75% Senior Secured Notes due 2013; and
  - US\$1,080m of 10.625% Senior Secured Notes due 2016.

### Major Shareholders

Andrew Forrest	36%
Leucadia	10%
ANZ Nominees	10%
Citicorp Nominees	~8%
National Nominees	~7%
Top 20 Shareholders	91.6%

### Company background

Fortescue Metals Group ("FMG") brands itself as "The New Force in Iron Ore" and despite achieving what few believed was possible in developing a resource, landholding and infrastructure system of scale that looks set to challenge the domination of the traditional diversified majors, the Company continues to have its doubters.

Since July 2003 FMG has increased its total tenement holdings from 487km<sup>2</sup> to above 40,000km<sup>2</sup>, and since initial infrastructure construction commenced in February 2006 the Company has spent ~\$2.8b to build a 260km rail network (which has already had 100 train journeys), and new port facility at Port Hedland (first shipment May 15<sup>th</sup>). The Company has recently shipped its first 1mt and has already overtaken Portman as Australia's no. 3 iron ore exporter.

### Principal Projects

FMG's principal projects are **Chichester** (which includes Cloudbreak and Christmas Creek), and **Solomon**, which have a reserve and resource of 1.1bt and 1.7bt respectively and have been delineated on less than 15% of the Company's tenement portfolio. The Chichester Range deposits are primary Marra Mamba style mineralisation, suitable for continual surface mining, while drilling at Solomon has delineated CID and Brockman mineralisation. Initial production will begin from the Chichester Range project, primary from Cloudbreak.

### Exploration/Resource

The Company has an existing 4.16bt resource and current targets are expected to increase this to 8.8bt (with a total upside potential resource of 21bt). The main exploration focus remains the Solomon project area, ~150km west of existing mining and rail infrastructure, with 6 RC drilling rigs and 2 diamond drilling rigs on site. Grades and contaminants of this resource to date are unfavourable relative to its existing deposits and to those of the juniors (refer to Exhibit 5).

FMG will produce 3 products; lump, fines and "rocket" (previously super value), with simple beneficiation of ores through crushing, screening and "desanding" (desanding involves removing smaller particles which contain higher silica and alumina containments).

### Strategy

FMG is expecting to produce 22mt by 31 Dec 2008 and achieve a 55mtpa rate by November 2008 from open cut mining at Christmas Creek and Cloudbreak. Expansions plans to 100mtpa are expect to be achieved in FY09/10 from operations in the Chichester Ranges, with further expansions to 200mtpa in concept stage (refer to the "Principal tenement location plan" on the opposite page), dependent on current drilling targets proving up significant economic resources in the Solomon region.

A key milestone for Fortescue is "project completion", legally defined as when the Company manages to ship 2mt in a four week period. At this stage restrictive covenants placed by US bond holders are lifted, giving Fortescue the right to start expanding the project, potentially using its scrip as acquisition paper, and potential spinning off 49% of its subsidiary infrastructure company.

FMG has recently reiterated its target for costs to be \$20/t (ex. royalties, at an average oil price of US\$100/bbl), with an average selling price of \$90/t. The Company forecasts \$3.4b EBITDA next financial year. FMG's base case production target and expansion to 100mtpa is already committed and we expect strong customer support for its current products and future expansion. In the current market environment we believe that FMG can achieve its expansion plans from internal cash flow's.

### Expected newsflow

Key upcoming events include: official project "completion" (expected by the end of July); further resource upgrades at key targets including Solomon; agreeing commercial terms with iron ore juniors; and facilitating bulk transport of iron ore for a third party.

### Ocean Comment

Whilst the Company's resource upgrade targets, production profile and cost guidance seem aggressive, management have done an extremely good job so far on delivering on equally ambitious targets. If you assume FMG achieves its 24 month forward production target, the valuation remains attractive on the basis of operations (even assuming flat pricing - refer to Exhibit 11), and is further supported by the optionality provided by the Company regaining strategic flexibility post project completion to create shareholder value (ie rapidly expanding operations, spinning-off part of the infrastructure assets, repaying high yielding debt, acquiring promising iron ore juniors etc).



**Fortescue Metals Group Ltd (FMG.AU)**

**SWOT analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Significant resource; infrastructure and landholding</li> <li>- Highly incentivised management team with a track record of delivery</li> <li>- \$30b company, with strong support and relationship with key customers</li> </ul>	<ul style="list-style-type: none"> <li>- Significant dependence on Solomon deposit to expand production which to date has return low Fe resources</li> <li>- \$4.3b of high yield debt currently on its balance sheet</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Regaining strategic flexibility post completion. Use of free cash flow incl. rapid acceleration of operations and the potential to acquire other iron ore assets</li> <li>- Selling minority interest of the infrastructure asset, repayment of high yielding debt</li> </ul>	<ul style="list-style-type: none"> <li>- Surface miners appear appropriate but unproven at such high volumes</li> <li>- Execution Risk on resource; infrastructure and production strategies</li> <li>- Significant degree of operating leverage, increasing exposure to a downturn</li> </ul>

Source: Ocean Equities Research

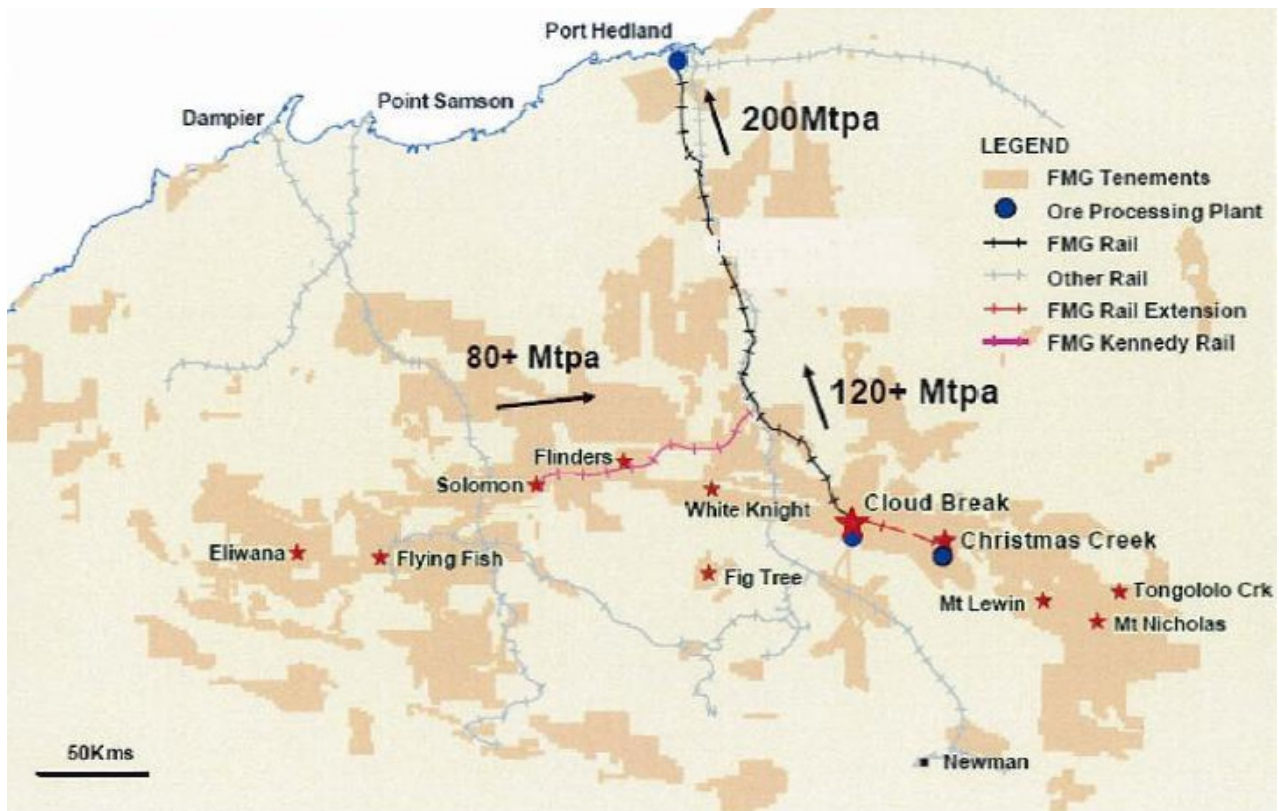
**Fortescue’s principal project(s) summary**

Primary Target(s)	Current Resource	Fe Grade	Type of deposit	Current stage of project	Stage 1 Production	Development options	Haulage distance	Likely port
Christmas Creek	619mt	59.1%	Marra Mamba	FMG is expecting to produce 22mt by Dec'08/55mtpa rate by Nov'08 from Christmas Creek & Cloudbreak, before increasing to a production rate of 100mtpa in FY09/10.	45mt in the first year of production	Dedicated railway and port facilities are constructed which currently have excess capacity	260km	Herb Elliot Pt Hedland
Cloudbreak	434mt	59.1%	Marra Mamba					
Solomon	1,716mt	56.4%	CID	Solomon & Western deposits are expected to provide 80mtpa, for FMG to achieve its 200mtpa target	na	Railway line "Kennedy" extension will need to constructed	~310km	

Source: Fortescue, Ocean Equities estimates

**Principal tenement location plan**

The Pilbara holdings are dominated by the majors with Fortescue having the largest holding with ~40km<sup>2</sup>, followed by Rio Tinto ~11km<sup>2</sup> and BHP ~7km<sup>2</sup>. The below map illustrates Fortescue’s expansion strategy to get to 200mtpa production.



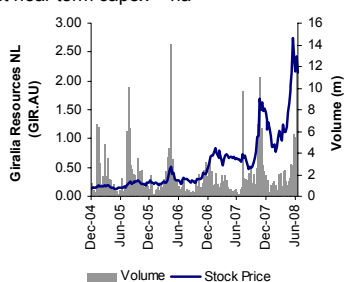
Source: Fortescue

<http://www.giralia.com.au>

### Summary financials

Last trade: \$2.15  
12mth high/low: \$2.84 - \$0.45  
Ave daily volume (YTD): 0.43m

Fully diluted market capitalisation \$386m  
Debt nil  
Current cash balance \$77m  
Cash from options \$1.38m  
EV \$307m  
Est near term capex - na



### Directors / Senior Management

Mr Graham Riley (Chairman, Director)  
Mr Mike Joyce (Managing Director)  
Mr Stanley Macdonald (Executive Director)  
Mr Julian Goldsworthy (Explorat. Manager)  
Mr Bruce Acutt (Company Secretary/CFO)

### Recent Capital raisings/disposals

- March 26<sup>th</sup> GIR agreement to:  
1. disposal of its 16.8% stake in Red Hill Iron Ltd to AMIC  
2. secure strategic support from AMCI as a new shareholder via a 9.9% placement raising \$22.75m @ \$1.30 p/sh  
- April 2007 placement of 8m shares to raise A\$6.24m @ A\$0.78/share

### Major Shareholders

AMCI Capital	9.9%
HSBC Cust. Nom.	6.7%
Yandal Inv	5.8%
Breamlea P/L	5.7%
Top 20 Shareholders	54%

### Company background

Giralia Resources ("GIR") listed in 1987 as a mineral exploration and development company. The Company's project portfolio now includes a number of core 100% owned iron ore projects as well as a suite of exploration companies and investments which has been inherited largely as a result of the spin-off of independently managed/funded companies over the last 2 years.

In March'08 AMCI (a private coal and bulk commodities group) acquired a 9.9% strategic stakeholding through a placement at \$1.30p/sh, and GIR entered into a binding agreement to sell its stake in Red Hill Iron Ltd. Through these transactions the Company increased its cash reserves to \$77m and GIR is now well positioned for the on going exploration work being carried out on its projects.

### Principal Projects

The **Beebyn-Weld Range** project is situated in the Weld range district of the Midwest region and adjoins Midwest Corp-Sinosteel JV deposits. An initial resource of 7.2mt @ 57.2% Fe for half of prospective zone has been delineated in December'07. A new discovery has been made at the nearby **Beebynganna Hills** project, where 7 new zones of hematite have been discovered (grades up to 65% Fe), and drilling is ongoing.

In March'08 GIR made the discovery of **Western Creek**, 10km west of Newman, exhibiting outcropping of Marra Mamba iron ore and identified as direct extensions to BHP Silver Knight deposit. Other iron ore projects include: **Earaheedy**, 570km<sup>2</sup> landholding 200km south of Newman where historic exploration has high grade mineralisation; **McPhee** DSO targets, 220km south-east from Port Hedland and hosts a CID mineralisation similar to that identified by BC Iron immediately to the south; and **Yerecoin** magnetite prospect (150km north of Perth).

Other non-iron ore assets include the 100% GIR **Snake Well gold project** which has an existing resource of 2.84mt @ 1.9 g/t Au, plus nearby felsic volcanics host high grade zinc intersections, as well as the **Lake Frome Uranium JV** and **Dalton Nickel sulphide JV**.

### Exploration/Resource

Given GIR's cash position and significant iron ore land package, and limited existing resource, the Company is now commissioning a number of exploration and resource definition programmes across its 5 targets.

### Strategy

The Company has a successfully history of developing and spinning-off various natural resource based projects. GIR's current focus is the aggressive exploration of its iron ore portfolio with a focus of delineating material resources at its priority targets.

The most advanced drill programme to date is at GIR's Western Creek prospect. The Company targets a maiden resource of between 50-100mt of DSO Marra Mamba which is expected shortly. Initial drill intersections included 50m @ 60.4% Fe and 50m @ 58.2% Fe, however recent comments from the Company are that infill resource definition holes have returned thinner and lower grade results than earlier wide spaced holes and that while drill results to the North are promising they are insufficient to be included in the maiden resource.

At its Midwest projects an exploration drill programme has recently been commissioned with the ambition of increasing its resource from 7.2mt to 50-80mt. The surface samples returned from the Beebynganna Hills Prospect indicate potential for significant drilling results to emerge as the drilling programme is expected to commence June-July 2008. At the Earraheedy Project, a new drilling program is set to commence 2H'08 and is expected to produce positive results.

### Expected newsflow

Newsflow is expected to be dominated by exploration results at the Company's DSO targets: Western Creek, maiden JORC resource expected July 2008; continued drilling results from the prospective Earraheedy Project, Beebynganna Prospect and the McPhee Creek project; and collation of drilling results from the projects for initial resource definition.

### Ocean Comment

GIR has provided the market with significant exploration targets and we expect the driver of the Company's share price in the near-medium term will be their ability to deliver on these and to then be able to demonstrate their ability to rapidly develop these projects towards production.

The Company has proven its ability to create value for shareholders through corporate means and given its suite of assets, and existing cash balance, we believe they have every opportunity to do this again going forward.

**Giralia Resources NL (GIR.AU)**

**SWOT analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Significant cash position &amp; diversified commodity/investment portfolio (~\$86m)</li> <li>- Multiple location iron ore portfolio, will a number of exploration targets</li> <li>- History of successfully spinning-off non-core assets</li> </ul>	<ul style="list-style-type: none"> <li>- Limited existing resource &amp; no timeline for commencement of potential production</li> <li>- Current stage of iron prospects don't warrant commissioning of a scoping study</li> <li>- Multiple asset portfolio has result in lack of development of iron ore assets</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Potential to develop and dispose of its magnetite asset (150km N of Perth)</li> <li>- Western Creek exploration has indicated potential for a significant high grade deposit, while Beebyn/Midwest has 7 new discovery zones</li> </ul>	<ul style="list-style-type: none"> <li>- Fe tenements are significant distances from port &amp; require access to infrastructure</li> <li>- Uncertainty of infrastructure development in the Midwest, it most advanced project</li> <li>- Exploration risk, significant DSO targets have been provided to the market</li> </ul>

Source: Ocean Equities Research

**Giralia's principal project(s) summary**

Primary Target(s)	Current Resource	Fe Grade	Type of deposit	Current stage of project	Stage 1 Production	Development options	Distance to rail	Haulage distance	Likely port
Beebyn-Weld Range	7.2mt	57.2%	DSO	Ongoing follow up drill programme on several other targets not included in initial resource	Exploration target of 40-70mt	Dependant of Midwest infrastructure development - proposed rail spur from MIS-Sinosteel JV.	>5km	300km	Oakajee
Western Creek	na	na	DSO Marra Mamba	Initial resource expected early July. Follow up drilling required post current programme to the North	Exploration target of 50-100mt	MGS to BHPB or independent infrastructure (depend on deposit size)	15km	426	Port Hedland

Source: Giralia Resources, Ocean Equities estimates

**Principal tenement location plan**

Giralia iron ore tenement plan



Source: Giralia Resources



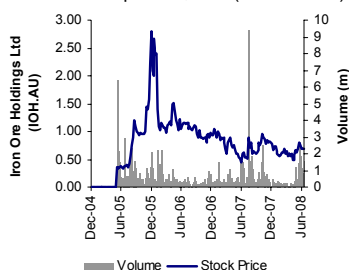
## Iron Ore Holdings Ltd (IOH.AU)

<http://www.ironoreholdings.com>

Last trade: \$0.68  
 12mth high/low: \$1.03 - \$0.48  
 Ave daily volume (YTD): 0.12m

### Summary financials

Fully diluted market capitalisation \$90m  
 Debt nil  
 Current cash balance \$22m  
 Cash from options \$14m  
 EV \$55m  
 Est near term capex - <\$10m (Phil's Creek)



### Directors / Senior Management

Mr Malcolm Randall (Chairman)  
 Mr Matthew Rimes (Managing Director)  
 Mr Godfrey Taylor (Non Exec. Director)  
 The Hon Richard Court (Non Exec. Director)

### Recent Capital raisings

- April 2008 rights issue of 33.2m shares raising \$21m @ A\$0.55  
 - IOH is fully funded for its current drilling and metallurgical test programmes. A further \$8m has been allocated to the development of the Phil's Creek project, but the Company will need further capital prior to entering production

### Major Shareholders

Wroxby (Kerry Stokes)	52%
IOH Management	7%
Sumisho Iron	6%
Echelon Resources	3%
Top 20 Shareholders	70%

### Company background

Iron Ore Holdings ("IOH") was established in December 2003 and listed on the ASX in May 2005, enjoying an early mover advantage into the iron ore sector securing a number of highly prospective tenements that are strategically placed adjacent to existing infrastructure. The Company's initial projects are located in close proximity to each other and are situated on the Marillana-Yandicoogina-Weeli Wolli creek drainage system, which currently supports BHPB's Yandi mine (production of ~42mtpa and a resource of 1,246mt @ 57.7% Fe) and RIO's Yandicoogina mine (production of ~52mtpa and a resource of 675mt @ 57.9% Fe).

In April 2008, IOH announced a rights issue which was sub-underwritten by its major shareholder. The rights issue raised ~\$21m to accelerate the Company's exploration activities. A number of influential corporate identities have a significant interest in the success of IOH including Kerry Stokes, who is the major shareholder (52%), through his private investment company Wroxby, and Hon Richard Court, who is an IOH non-exec director and ex premier of Western Australia. Meanwhile, the Company's management has an extensive amount of experience in Pilbara iron ore with Mal Randall, Chairman, having 40 years exp - ex Hamersley Iron/Rio Tinto iron ore, and Matthew Rimes, MD with 30 years exp - ex Robe River.

### Principal Projects

IOH's principal project is its **Phil's Creek prospect**, with an existing 8.3mt DSO resource @ 58.1%Fe, a similar grade to the neighbouring BHPB and Rio's CID/pisolite mines. A resource expansion drilling programme has recently commenced with the aim of further developing the prospect following a scoping study which was completed in December 2007 and explored a potential trucking operation or MGS to an iron ore producer. The scoping study indicated robust economics (pre-tax NPV of \$68m), and we expect beneficiation test work on lower grade ore, further expansion drilling and an improved iron ore price environment will significantly improve the potential profitability of the prospect.

IOH has a lower grade resource at its **Extension prospect** (46.8mt resource @ 50%Fe) which could be amenable to beneficiation given the low levels of phosphorous, but the Company also has 16 other potential untested exploration targets.

### Exploration/Resource

The proceeds from the rights issue will be used to accelerate exploration and development of the Company's priority targets with an estimated allocation of; \$8m to further developing Phil's Creek; \$7m to explore the Yandicoogina tenements; and \$3.2m to explore the Buckland Hills tenements. A 70 hole, 2,200m drill and metallurgical test programme has recently commenced focusing on three principal targets including Phil's Creek (resource extension drilling and metallurgical testing); the Extension prospect (resource extension drilling and metallurgical testing); and a maiden resource drill programme at **Lamb's Creek** in the Horseshoe prospect.

### Strategy

The Company's strategy is to prove up and mine commercial quantities of direct shipping channel iron deposit type iron ore. The initial scoping study envisaged production from mid 2010 via contract mining with low upfront capital costs (estimate of capex of <\$10m for a 1.5mtpa operation at Phil's Creek).

In April 2007, IOH expanded its land package by 640km<sup>2</sup> through acquiring PEL Iron Ore PL which included three iron ore projects and ten tenements, including the **Buckland Hills** prospect, which is 7km from RIO's Mesa J mine (production of ~26mtpa/resource 135mt @ 56.4% Fe). Through the current exploration programme the Company aims to increase its resource base and further improve the economics of its flagship Phil's Creek project. In the Company's recent rights prospectus it was disclosed that preliminary discussions are currently taking place with an iron ore miner in the Pilbara in connection with possible transactions including ore sales, farm-ins and mining of non-core assets of the Company's counterparty.

### Expected newsflow

IOH is expected to enter a period of increasing newsflow which will be dominated by drilling and metallurgical testing updates, and eventually a potential material upgrade to its JORC resource.

### Ocean Comment

IOH is now fully funded for its ongoing drilling and metallurgical test programmes and is entering a period on expected positive newsflow where the Company aims to significantly improve the economics of its flagship Phil's Creek DSO project, which we believe should further support its discussions to secure rail access, a MGS, or farm-in agreement with an existing miner. As discussed in **Section 3**, IOH is well positioned to benefit from the WA State Government third party haulage regime.

**Iron Ore Holdings Ltd (IOH.AU)**

**SWOT analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Existing resource &amp; positive scoping study for the Phil's Creek project. Project development is ongoing; extension drilling &amp; metallurgical testing underway.</li> <li>- Strong corner stone investor &amp; management team with extensive Fe experience</li> </ul>	<ul style="list-style-type: none"> <li>- Current scale of Phil's Creek is limited, other current resource is low grade</li> <li>- Cash position only funds the current exploration programme, the Company will need further capital prior to entering production</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Development of preliminary discussions with an Central Pilbara iron ore miner</li> <li>- Potential favourable results from ongoing exploration/beneficiation programmes</li> <li>- Enter production in 2010 with minimal capex and low opex</li> </ul>	<ul style="list-style-type: none"> <li>- Negotiations with miner break-down, or even if discussions are successful that the costs of production and exploration are increased.</li> <li>- Current work programmes are unsuccessful resulting in limited access to liquidity</li> </ul>

Source: Ocean Equities Research

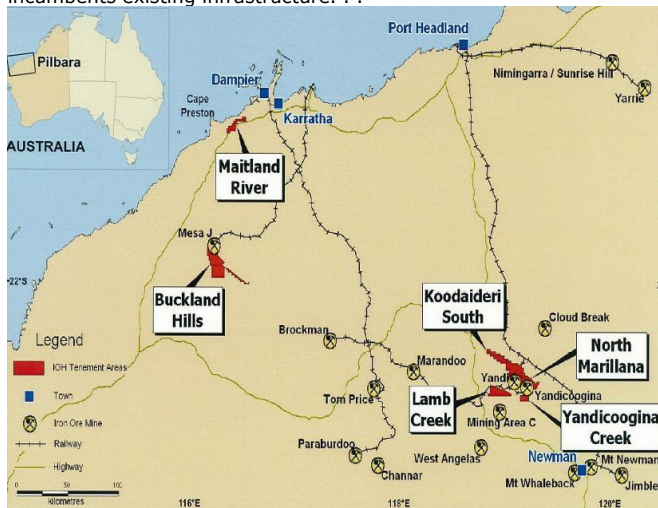
**Iron Ore Holding's principal project(s) summary**

Primary Target(s)	Current Resource	Fe Grade	Type of deposit	Current stage of project	Stage 1 Production	Development options	Haulage distance	Likely port
Phil's Creek	8.3mt	58.1%	DSO pisolite	Positive scoping study complete. Potential low capex (<A\$10m) and contract mining operation.	1-1.5mtpa from 2010	Drilling programme has recently commenced with the objective of increasing the resource tonnage. Metallurgical testing is ongoing.	~360km	Port Hedland
Extension Prospect	46.8mt	50.0%	CID	- A recent diamond drilling and metallurgical/beneficiation programme has recently commenced to assess the potential to improve iron grades and remove contaminants to commercial levels. Exploration drilling is ongoing.				
Horseshoe Prospect	na	na	CID target	- An initial 34 hole RC drilling exploration will be carried out on mapped CID where thicknesses of up to 19m have been recorded at the Lamb's Creek target. Exploration drilling is ongoing.				

Source: Iron Ore Holdings, Ocean Equities estimates

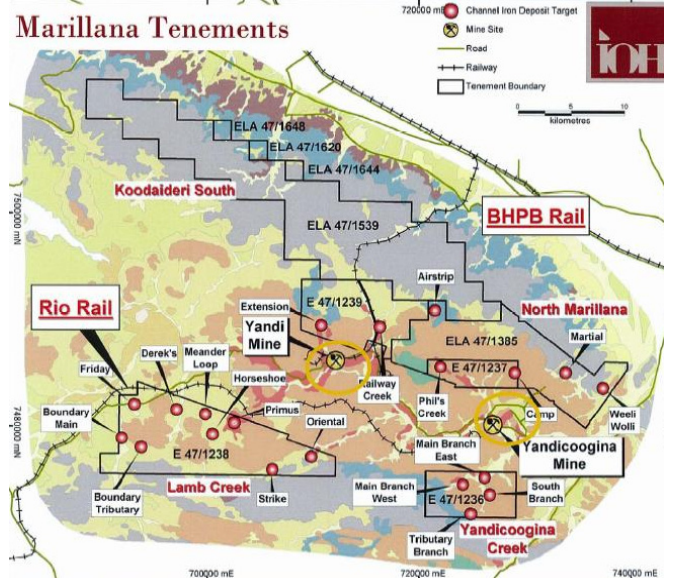
**Principal tenement location plan**

Iron Ore Holdings tenements are well positioned relative to the incumbents existing infrastructure. . .



Source: Iron Ore Holdings

. . . surrounded by both BHPB and RIO's existing operations



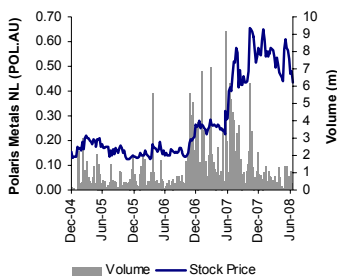
<http://www.polarismetals.com.au>

### Summary financials

Last trade: \$0.44  
12mth high/low: \$0.75 - \$0.36  
Ave daily volume (YTD): 0.17m

Fully diluted market capitalisation \$82m  
Debt \$0.03m  
Current cash balance \$5.1m  
Cash from options \$7.5m  
EV \$69m

Est near term capex - na



### Directors / Senior Management

Mr Lew Cross (Non Exec. Chairman)  
Mr Jonathan Lea (Managing Director)  
Mr Kevin Schultz (Non Exec. Director)  
Mr Ian Buchhorn (Non Exec. Director)  
Mr Ken Hellsten (Non Exec. Director)  
Mr Alan Tough (Non Exec. Director)  
Mr Trevor Verran (CFO)

### Recent Capital raisings

- June 2008 1:5 rights issue of 25.8m shares to raise A\$11.6m @ A\$0.45/share  
- Oct 2007 1:10 rights issue of 11.2m shares to raise A\$6.7m @ A\$0.60/share

### Major Shareholders

(Post June rights issue)  
Heron Resources Ltd 25.2%  
Lion Diversified Holdings 19.7%  
Bell Potter Nominees 3.4%

### Company background

Polaris Metals ("POL") listed in 2004 as a multi-commodity exploration/development company whose portfolio included iron ore, nickel, platinum, copper, and uranium, as well as gold. POL's principal focus is now its iron ore tenements in the Pilbara and Yilgarn regions of Western Australia spanning over 4,700km<sup>2</sup>. The Company continues to build a strategic and financial relationship a major shareholder Lion Group (of Malaysia), in anticipation of entering iron ore production in 2010.

In March'08 the Company spun-out its nickel assets to Southern Cross Goldfields and retains a 20% interest in Northern Uranium.

### Principal Projects

The **Poondano project** comprises a series of low grade CIDs and is located only 30km from Port Hedland. Sampling indicates that the pisolitic CID in Central Poondano is up to 9m thick with average surface grades ranging from 55.8% - 58.0% Fe and the Company is targeting 10-15mt resource.

The **Yilgarn Iron Ore Project** ("YIOP") is wholly owned by POL and located approximately 60km north of Koolyanobbing. A feasibility study has been commissioned exploring the development of a 2.5mtpa DSO operation based on a known resource of 20.3mt at Carina, and the study is expected shortly. The Company is targeting a total resource of 100mt+ (80-90mt target established by previous exploration drilling), supporting a 5-10mtpa operation.

### Exploration/Resource

In addition to its key projects currently under development, POL has a number of 100% owned exploration projects in prospective regions in WA. The **Weelumurra** and **Caliwinga Creek** projects cover 170km<sup>2</sup>. The Wellumurra tenement lies in close proximity to Fortescue's Serenity and Solomon East deposits (1bt and 700mt resources respectively), and the Caliwinga prospect has returned reconnaissance samples of 53-64% Fe and CIDs up to 25m thick.

### Strategy

POL aims to fast track the development of its projects into production which is expected to potentially begin from both principal projects in 2010. To this end the Company has commissioned pre-feasibility studies for its two key projects. Initial production is expect to be 4mtpa, ramping up to over 10mtpa in the longer term.

The conceptual plan for Poondano is a 1.5mtpa trucking operation to the port, which would require minimal infrastructure but involve a crushing/screening plant in order to achieve commercial shipping grades. Metallurgical testing will commence mid year which are expected to facilitate further development of the project and support the economics of a saleable product. Negotiations are on-going to formalise access to the Utah Point Public Access Berth but are dependent on a viable resource being defined.

The current feasibility study for YIOP is investigating the use of the existing rail link to the Kwinana Port. The Company believes that access to port and rail, as well as negotiated access to Portman Mining's haulage road, should support a relatively quick and low capex development of the project. POL has an existing MoU with Toll Holdings for service agreements in respect of ore haulage, port and ship loading services for both its projects.

### Expected newsflow

Findings of the Yilgarn PFS due mid-2008, with the Poondano PFS to shortly follow. Drilling is ongoing and we expect further resources upgrades in 2H'08.

### Ocean Comment

We believe the key attraction to both POL's principal projects is the respective locations to existing infrastructure. However, we believe the market rightfully places little value on POL's Poondano project given its apparent low grade, limited scale non-JORC target resource.

The key to the Company going forward is the YIOP, which despite having a limited resource at the moment, appears to have promising scope to increase resources. YIOP may also benefit from the existing rail and port infrastructure in the region which does not have the capacity constraints to those currently experience in the Pilbara. Also, while little work has been undertaken at the Wellumurra tenement it is worth highlight that it neighbours Fortescue's Solomon target which is a key element in its expansion plans to 200mtpa.

## Polaris Metals NL (POL.AU)

### SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Multiple iron ore portfolio with relatively favourable access to infrastructure</li> <li>- Strong financial and strategic relationship with a major shareholder</li> <li>- PFS for both projects already commissioned</li> </ul>	<ul style="list-style-type: none"> <li>-The principal risk associated with the Yilgarn Iron Ore Project's development is a prop</li> <li>- Yet to delineate a resource for Poondano, which appears to be a low grade deposit</li> <li>- XXX</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Exploration potential of the YIOP and Weelumurra projects</li> <li>- Formally agreeing commercial terms for infrastructure access</li> <li>- Drilling and metallurgical programmes support the development of Poondano project</li> </ul>	<ul style="list-style-type: none"> <li>- Ability to secure port access at Port Hedland, in the Yilgarn region</li> <li>- Cash reserve even after recent rights issue is limited</li> <li>- Resource risk: both grades and tonnage</li> </ul>

Source: Ocean Equities Research

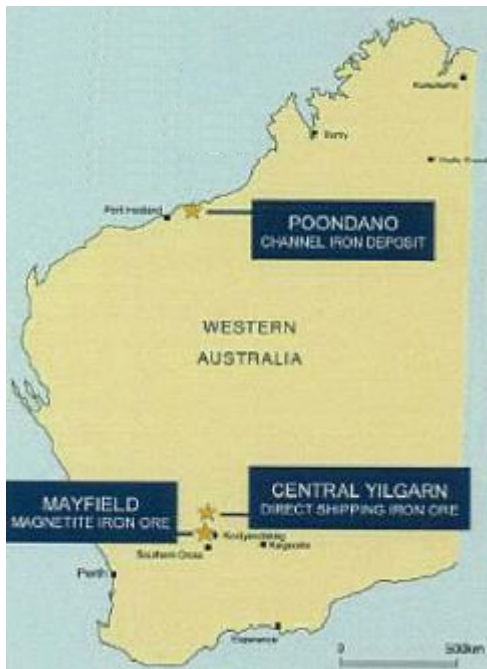
### Polaris's principal project(s) summary

Primary Target(s)	Current Resource	Fe Grade	Type of deposit	Current stage of project	Stage 1 Production	Development options	Distance to rail	Haulage distance	Likely port
Yilgarn	30.4mt	58.1%	DSO	PFS mid-2008; BFS commencing shortly after. Ongoing drilling	2.5mtpa	PFS commissioned exploring utilising existing rail link to the Kwinana Port. Stage 2 dependent conceptual	60km	>300km	Kwinana
Poondano	ave. surface grades 55.8% - 58.0%		lowe grade CID	PFS mid-'08; Metallurgical testing mid-'08 and BFS commencing shortly after if favourable. Ongoing drilling for maiden resource.	1.5mtpa	Trucking to the port with minimal infrastructure capex, however a wash/screening plant will be required to achieve a saleable product	na	~30km	Port Hedland

Source: Polaris Metals, Ocean Equities estimates

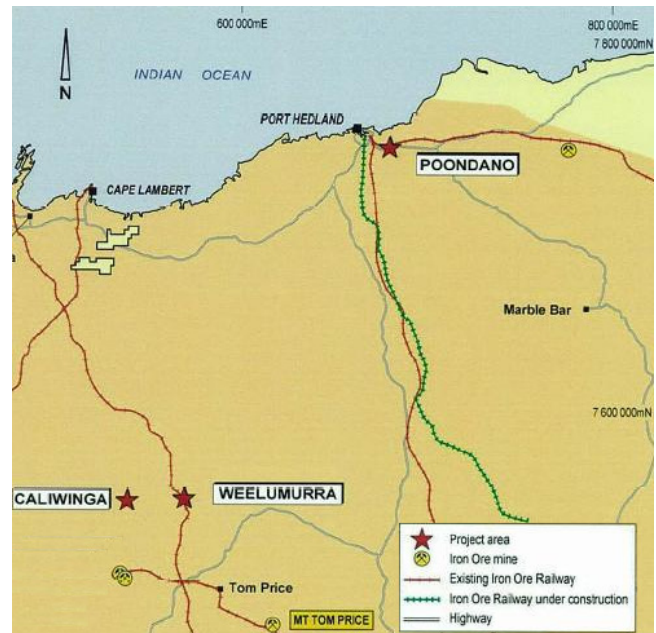
### Principal tenement location plan

#### Polaris key production targets



Source: Polaris Metals

#### Principal iron ore tenements in the Pilbara



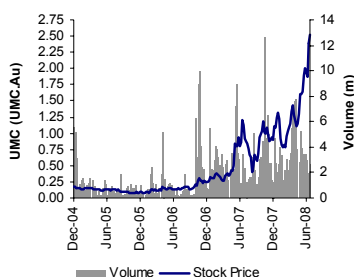


<http://www.unitedminerals.com.au>

### Summary financials

Last trade: \$2.53  
12mth high/low: \$2.65 - \$0.38  
Ave daily volume (YTD): 0.8m

Fully diluted market capitalisation \$401m  
Debt nil  
Current cash balance \$17m  
Cash from options \$7m  
EV \$377m  
Est near term capex - na, Scoping Study expected shortly



### Directors / Senior Management

Mr Philip Crabb (Non Exec. Chairman)  
Mr Matthew Hogan (CEO)  
Mr Barry Fehlberg (Executive Director)  
Mr Malcolm Randall (Non Exec. Director)  
Mr Alan Birchmore (Non Exec. Director)  
Mr David Craig (Non Exec. Director)

### Recent Capital raisings

- May'08 placement of 5m shares raising \$8.75m @ \$1.75  
- UMC is fully funded for resource definition and its current feasibility programme but will need further capital prior to entering production

### Major Shareholders

Thundelerra	13%
Al Rajhi	8.6%
Deephaven	8.5%
Management & Ass	15.2%
Top 20 Shareholders	42.4%

### Disclosures:

*Ocean Equities Ltd is seeking investment business from United Minerals Corporation NL and holds a proprietary investment in the shares of the company.*

*Ocean Equities Ltd acted as Lead Manager to UMC's May'08 placement that raised \$8.75m at \$1.75. It received a fee for this service.*

### Company background

UMC listed in December 2004 as United Kimberley Diamonds with three exploration tenements in the Kimberley. Whilst diamonds were found they were not deemed to be economic. The transition of UMC from a diamond explorer to an iron ore/bauxite play in 2005/06 has been opportunistic and, in our view, hugely successful.

The Company has entered the Pilbara iron ore region and Kimberley bauxite province as an early entrant, securing highly prospective tenements in prime locations, as the outlook for both commodities has become significantly more favourable. In late 2007, UMC formed a bauxite/alumina JV with Norsk Hydro (the 3<sup>rd</sup> largest globally integrated aluminium producer), which currently covers 7,129km<sup>2</sup> of tenements in an established bauxite province.

### Principal Projects

UMC's iron ore tenements are ex-BHPB ground with mineralisation mostly under quaternary cover (soils and gravels), resulting in no previous exploration. BHPB was forced to relinquish the tenements under the Goldsworthy Act in order to convert its Area C holding from a Temporary Resource to a Mining Lease. The tenements neighbour a number of BHPB and Rio Tinto iron ore operations/infrastructure, and share a number of geological fault lines and features.

### Exploration/Resource

UMC is still very much in the early stage of exploration with the current focus on delineating a maiden resource at its **Railway target** which covers ~4km<sup>2</sup> of the Company's total 264 km<sup>2</sup> of land holding and was only discovered in October 2007.

External consultants in February indentified a resource target of 100mt of high-grade, low impurity Marra Mamba ore after diamond drilling confirmed a 1,000m lateral extent of potential blanket mineralisation to the east of the original 1,500m north-south discovery line (best intersection at the time was 36m @ 63.2% Fe). A RC drill programme was then commissioned and while assay results have been received for less than 50% of the holes drilled to date, initial results have highlighted the risk to the target 100mt resource being to the upside. Recent drill results have returned materially improved widths, including 100m grading 61.1% Fe and 80m grading 64.4% Fe, illustrating structural folding and fault repeats resulting in unusually large widths of DSO Marra Mamba mineralisation. Importantly a strong lateral continuity of thick, high grade, low impurity mineralisation has been delineated over 300m east-west and 160m north-south (with an average of 30m in the west to an average 90m in the east), outlining a large open pitted body, with a low strip ratio, in the central part of the target drill zone.

The Company has indentified 14 new exploration targets and has recently commissioned drill programmes at 3 priority targets which are expected to begin from mid-July (refer to UMC's principal project summary for further details). These targets have the potential to quickly and materially increase the Company's DSO resource and impact the way the project is developed.

### Strategy

UMC aims to be in production in late 2009 initially via a 2mtpa trucking operation from the Railway prospect utilising the public berth at Port Hedland. Development of the prospect is being fast tracked following the positive findings of an internal scoping study, which looked at developing a 2mtpa DSO operation, expanding to 10mtpa. UMC will publish details of the study once a maiden JORC resource is defined, however the findings were sufficient for the Company to commission a pre-feasibility study to explore infrastructure access; in particular the economics of building a 110km rail spur to Fortescue's multi-user infrastructure network.

### Expected newsflow

We believe that UMC's share price has recently been driven by improving exploration results and de-risking of the project which has included; further material drill results highlighting the growing potential of the Railway prospect; substantiation of highly prospective exploration targets, and; backing of a financial investor to support the accelerated development of the project. We expect supportive news flow to continue, driven by; the release of UMC's maiden JORC resource at Railway; the Railway scoping study, and; the acceleration of the development of its iron ore projects (including drilling at its priority exploration targets; potential agreement regarding port access; further discussions regarding rail access strategies etc).

### Ocean Comment

Maiden and upgraded JORC resources have recently acted as significant catalysts for a number of iron ore juniors. While we believe a DSO resource of 20mt at Railway would be sufficient to warrant development into production, 100mt of high grade, low impurity Marra Mamba would result in the largest attributable resource amongst the iron ore juniors and, potentially more importantly, highlight the prospectively of UMC's remaining unexplored tenements.

**United Minerals Ltd (UMC.AU)**

**SWOT analysis (for UMC's Iron Ore assets only)**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Highly prospective 264skm land holder in the centre of BHPB/RIO's operations</li> <li>- Drilling to date has identified high grade, low impurity DSO</li> <li>- Various potential routes to market (road haulage &amp; BHP/RIO/FMG rail networks)</li> </ul>	<ul style="list-style-type: none"> <li>- Still an exploration play and is therefore yet to negotiate rail/port access</li> <li>- Low public profile because the company is pre-JORC Resource/Scoping Study</li> <li>- UMC's tenements are ~340km from Port Hedland via the Great Northern Hwy</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Maiden JORC resource is expected shortly for Railway (target 100mt DSO), to be followed by a scoping study. Infrastructure PFS already commissioned</li> <li>- 14 exploration targets identified; 3 priority drill programmes commissioned</li> <li>- Potential to have the largest attributable DSO resource outside of the majors</li> </ul>	<ul style="list-style-type: none"> <li>- Take out before the full value of UMC's projects is reflected in its share price</li> <li>- Appropriate access to the required infrastructure to develop the project</li> <li>- Exploration/Resource definition risk</li> <li>- Access to future financing to fund UMC into production/time to the market</li> </ul>

Source: Ocean Equities Research

**UMC's principal project(s) summary**

Primary Target(s)	Target Resource	Fe Grade	Type of deposit	Current stage of project	Stage 1 Production	Development options	Haulage distance	Likely port
Railway	~100mt	~60%	DSO Marra Mamba	Phase 1 inferred programme complete/~50% of assay received. Phase 2 indicated programme ongoing	2mtpa from late 2009	Initial 2mtpa production via truck haulage. A scoping study exploring the potential for 2mt, 5mt and 10mt pa operations is expected shortly	~340km	Port Hedland

**Priority exploration targets (of 14 identified targets):**

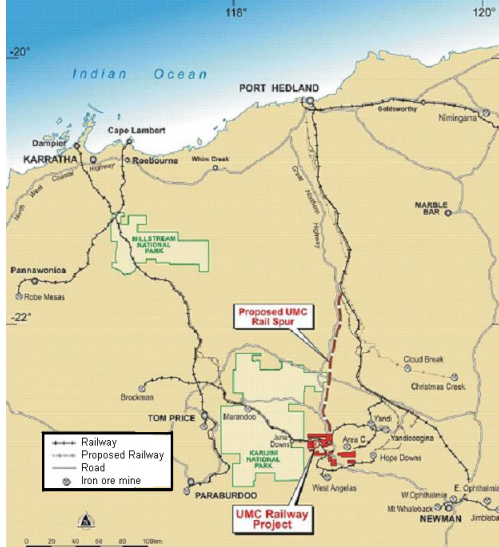
Railway East	3km long shallow Marra Mamba formation	DSO Marra Mamba	- Recent aeromagnetic and gravity data has identified a long shallow Marra Mamba priority one drill target area, as well as defining two gravity anomalies as buried hematite detrital targets. An initial 20 hole drill programme of up to 3,000m of RC drilling is expected to commence in mid July.
Northern CID mineralisation	Outcropping 6km to the NE of the Railway deposit	CID	- The target area has the potential to be the headwaters to the Yandi Channel Iron Deposits which form major iron ore production centres for both BHPB (Yandi) and RIO (Yandicoogina), which have existing resources of 2bt+ of CID. Field mapping and sampling is now underway to delineate priority drill targets. Drilling is expected to commence late July.
Jumbo Junction	Target area significantly larger than Railway	DSO Marra Mamba	- Jumbo Junction has a similar but larger aeromagnetic signature to the Railway prospect and lies across the western nose of the Weeli Wolli Anticline, only 5km directly along strike to the west from the BHP's Area C area.

Source: UMC, Ocean Equities estimates

**Principal tenement location plan**

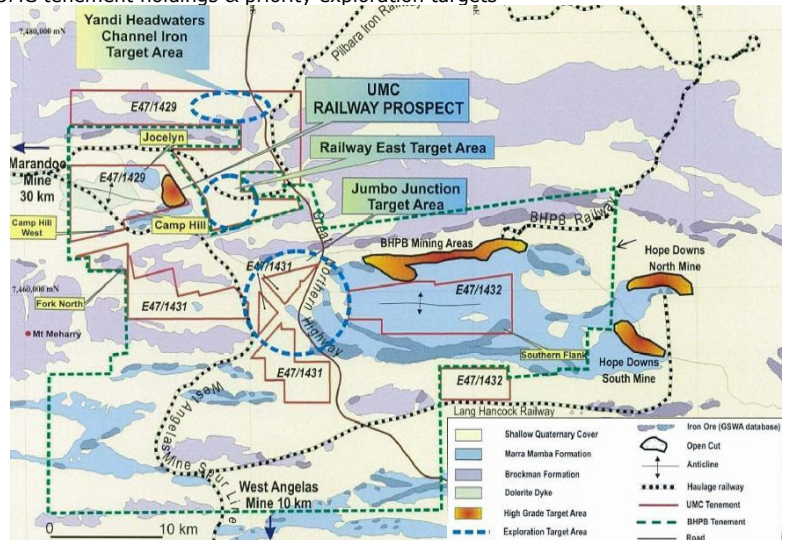
**UMC's iron ore tenement's . . .**

UMC's tenements are in the heart of the Pilbara, surrounded BHPB/RIO's operations/ infrastructure



**. . . share a number of geographical features of BHPB & RIO's neighbouring projects**

**UMC tenement holdings & priority exploration targets**



## Appendix

### A1. Iron ore qualities

#### Fe grade and impurity levels

As a general rule the higher the iron content of the ore used, the more efficient the blast furnace, and the more the steel mill will be willing to pay for the ore, therefore grade is important. However the productivity of a blast furnace also depends on the chemical constituents and impurities of the iron ore being used, therefore silica, alumina, phosphorus etc levels are also very important because these reduce the productivity of a blast furnace. Ores with higher than benchmark impurities faces significant penalties due to smelter pricing structures.

#### Lump versus Fines

The difference between lump and fines primarily is the size of the particle. Fines generally consist of particle that measure less than 4.75mm in diameter after the crushing and screened process, while larger particles are iron ore lump which measure greater than 4.75mm.

The revolution of continuous surface miners is having a significant impact on techniques used to mine iron ore in the Pilbara as it is producing higher quality ore with more lump and reduced fines relative to the traditional blasting mining method.

The cost of producing lump or fines is generally similar, and the iron content is typically similar as well, however fines sell at a discount to because they must be sintered by the steelmaker before being added to a blast furnace.

### A2. Quick background on Midwest & Murchison

Midwest is not yet in production (scheduled to begin early 2009), with initial stage 1 production (2009-11) expected to be 1.5mtpa being transported by road haulage at an estimated cash operating costs of ~A\$42/t.

Murchison is currently in production with 1.5mtpa of DSO being trucked from its Jack Hills mine to the Geraldton port (380km to the south-west). In order to secure funding to develop the stage 1 project (2007-2011), Murchison signed an off take agreement with fixed price contacts. Year one shipments were contracted at US\$58/t and stage 1 operations are expected to generate an average cash operating margin of A\$19/t (generate net cash flow of \$56m).

Exhibit 13: Summary Murchison and Midwest's operations

Company	Project	Resource	Fe Grade	Production		Date of Stage 2	Est Op cost (A\$/t)		Stage of development	Comments
				Stage 1	Stage 2		Current	Future		
Murchison Metals*	Jack Hills DSO	79.1	60.5%	2	25	2011	56	21	Production	- First shipment delivered in February 2007. Stage 1 production is transported by road haulage.
	Jacks Hills Benefication	445	35.4%	n.a.	n.a.	2011	n.a.	n.a.	Advanced Feasibility	
	Weld Range	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Exploration	- 3 tenements adjacent to Midwest's Weld Range.
<b>TI hematite (DSO &amp; beneficiation)</b>		<b>524.1</b>	<b>39.19%</b>	<b>1.5</b>	<b>25</b>		<b>56</b>	<b>21</b>		<b>Stage 2 operating cost are estimated to be ~A\$21/t</b>
Midwest Corp**	Koolanooka/Blue Hills	8.4	57.7%	1.5	1.5	n.a.	42	n.a.	Production	- Expected to commence production 4Q'08
	Weld Range	133.4	58.5%	0	15-20	2011	n.a.	n.a.	Advanced Feasibility	- Pre-Feasibility Study 3Q'08, commence production 2011
	Jacks Hill	15.4	59.7%	0	5	2013	n.a.	n.a.	Pre-Feasibility	- Scoping Study 2Q'08, commence production 2013
	Koolanooka- Magnetite	430	35%	0	n.a.	n.a.	n.a.	n.a.	Exploration	- Subject to Government Strategic review
	Robinson Range	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Exploration	- Initial resource expected 4Q'08
<b>TI hematite</b>		<b>157.2</b>	<b>58.57%</b>	<b>1.5</b>	<b>20</b>	<b>2011</b>	<b>42</b>	<b>27</b>		<b>Stage 2 operating cost are estimated to be ~A\$27/t</b>
<b>NewCo</b>		<b>681.3</b>	<b>43.66%</b>	<b>3</b>	<b>45</b>	<b>2011</b>	<b>49</b>	<b>24</b>		<b>Excluding any operational/infrastructure synergies</b>

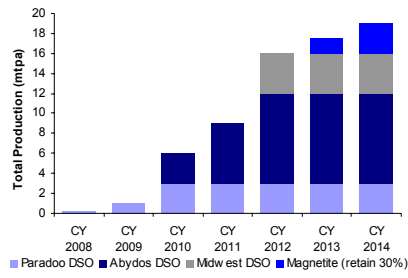
\* Murchison Metals has a 50/50 JV with Mitsubishi for its Jacks Hill and Weld Range deposits. Figures shown here are total deposit resource and production.

\*\* Midwest Corp has a JV with Sinosteel where Sinosteel has the right to acquire a 50% interest in the flag ship Weld Range project. Figures shown here are total deposit resource and production.

Source: Company data, Ocean Equities estimates

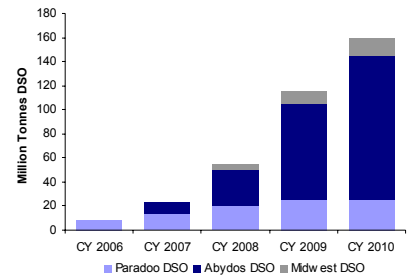


**Exhibit 14: Atlas's Target Production profile**



Source: Atlas Iron Ltd, Ocean Equities estimates

**Exhibit 15: Atlas's Target DSO Resource profile**



Source: Atlas Iron Ltd, Ocean Equities estimates

**Related fundamental research**

March 28<sup>th</sup> - UMC: "Iron Ore Junior with Blue Sky Bauxite JV – Initiation of Coverage"

March 5<sup>th</sup> - Iron Ore sector review: "Leveraging exposure to iron ore through Australian pure plays"

## OCEAN EQUITIES Ltd

INDEPENDENT PARTNERSHIP SPECIALISING  
IN THE NATURAL RESOURCE SECTOR

3 Copthall Avenue  
London EC2R 7BH

Tel: +44 (0)207 786 4370

Fax: +44 (0)207 786 4371

E-mail: [info@oceanequities.co.uk](mailto:info@oceanequities.co.uk)

Website: [www.oceanequities.co.uk](http://www.oceanequities.co.uk) Bloomberg: OELR [GO]

### **Guy Wilkes**

CEO

+44 (0) 20 7786 4372

[guy.wilkes@oceanequities.co.uk](mailto:guy.wilkes@oceanequities.co.uk)

### **Rupert Williams**

Director, Head of Sales

+44 (0) 20 7786 4373

[rupert.williams@oceanequities.co.uk](mailto:rupert.williams@oceanequities.co.uk)

### **Will Slack**

Director, Corporate Finance

+44 (0) 20 7786 4375

[will.slack@oceanequities.co.uk](mailto:will.slack@oceanequities.co.uk)

### **Simon Gardner-Bond**

Mining Analyst

+44 (0) 20 7786 4382

[simon.gardner-bond@oceanequities.co.uk](mailto:simon.gardner-bond@oceanequities.co.uk)

### **Sam Spring**

Mining Analyst

+44 (0) 20 7786 4378

[sam.spring@oceanequities.co.uk](mailto:sam.spring@oceanequities.co.uk)

### **Natasha Liddell**

Mining Analyst

+44 (0) 20 7786 4386

[natasha.liddell@oceanequities.co.uk](mailto:natasha.liddell@oceanequities.co.uk)

### **Will Hodson**

Executive, Sales

+44 (0) 20 7786 4376

[will.hodson@oceanequities.co.uk](mailto:will.hodson@oceanequities.co.uk)

### **John van Eeghen**

Executive, Sales

+44 (0) 20 7786 4383

[john.vaneeghen@oceanequities.co.uk](mailto:john.vaneeghen@oceanequities.co.uk)

### **James McLucas**

Executive, Sales

+44 (0)207 786 4384

[james.mclucas@oceanequities.co.uk](mailto:james.mclucas@oceanequities.co.uk)

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