Shaw Research

Company Report

19 January, 2010

Atlas Iron Ltd (AGO)

Accumulate

Fast Growing Iron Ore Business

Event

Atlas Iron has shipped over 1Mt of iron ore from its Pilbara project since 2008, and remains on track to ramp-up exports towards the 5Mtpa rate in 2010. The company also recently announced strong interest in both the Wodgina iron ore project, currently in development, and the Ridley magnetite deposit. We anticipate a joint venture partner will be sought for the magnetite deposit, with further announcements in coming months, which may provide further catalysts for stock price momentum.

Valuation and Recommendation

We presently value AGO at A$2.80ps, adopting a risk-weighted approach to the company's expansion plans as it seeks to ultimately export in excess of 20Mtpa of iron ore. This valuation has recently been upgraded following increases to our iron ore price expectations (+28% next two years vs +15% previously).

We assume achievement of an export rate of 7Mtpa by mid-2012, and expansion to 15Mtpa by late 2015, at a long-term average cash cost of A$45/t FOB (real). We have allowed for a mine life of 19 years for the Pilbara project, requiring reserves of 181Mt of iron ore. This is above the current resource inventory (excluding magnetite) of 136Mt though the company has a stated exploration target of >200Mt for the Pilbara projects.

One of the key risks with AGO in the near-term is port access. We believe port constraints may limit AGO's export ambitions until the new South West Creek facility is available in 2014 (20Mt for AGO, 40% of capacity), hence we have adopted a risk-weighted capacity assumption for the FY12-FY14 period.

AGO also has ambition to export from the Pilbara Far East area (near Hancock's Roy Hill project) and the Mid West province of WA, and both projects require yet to be negotiated rail access, hence are high risk and make up only 10% of our valuation at this stage.

We recommend AGO for those seeking leveraged iron ore exposure, and have a twelve month price target of A$2.80ps on AGO, equivalent to our current blended valuation.

YE 30 June	2009 (A)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Iron Ore Sales Mt	0.6	1.5	5.3	7.0	7.0
Revenue A$M	26.4	99.9	414.2	588.5	565.7
EBITDA A$M	-69.1	-2.6	151.8	254.4	232.5
Profit After Tax A$M	-63.1	-13.1	83.0	146.9	127.8
Earnings cps	-14.1	-2.9	17.7	31.3	27.2
PE x	NA	NA	12.3	7.1	8.2
Op. Cashflow A$M	-61.1	-9.2	110.8	210.6	210.6
Cashflow (cps)	-17.5	-2.0	23.6	44.8	40.4
Dividend (cps)	NA	NA	2.0	6.0	12.0
Yield %	0.0	0.0	0.9	2.6	5.3

Investment Summary

Share Price $ps	**$2.25**
Target Price (12 month) $ps	**$2.80**
Materials	
www.atlasiron.com.au	
Issued Capital M (fully diluted)	**470M**
Market Cap $M (fully diluted)	**A$1067M**
Net Cash (est.)	**A$140M**
Analyst Name	**Geoff Muers**

Share Price Chart

Year Hi-Lo $ps			**$2.36 - $0.73**
Avg Monthly Vol (M)			**3.7**
Performance %	**1 m**	**3 m**	**12 m**
Absolute	-4.5%	1.1%	36.9%
Rel Top 200	-1.5%	2.6%	11.7%

Shareholders	%
IMC Resource Investment Pty Ltd	14.9%
BlackRock Group	6.7%

Company Activities

AGO is an iron ore production & development company located in Western Australia.

Level 15, 60 Castlereagh Street Sydney NSW 2000 Tel (02) 9238 1238
Level 20, 90 Collins Street Melbourne VIC 3000 Tel (03) 9268 1000
55 Phillip Street Parramatta NSW 2150 Tel (02) 9891 5644

Valuation

Blended valuation of A$2.80ps

We presently have a DCF valuation of A$2.98ps on AGO, and a PE-based valuation of A$2.66ps. Our blended valuation (50% NPV, 50% PE) which constitutes our price target is A$2.80ps. Our DCF valuation, shown below, includes June 30 estimated cash of A$128m (vs A$140m est. currently). In Summary:

- **Iron Ore Prices to rise 28% by 2011** before gradually retreating to our long term price assumption of US$0.95/dmtu (fines) vs spot prices up to US$2.00/dmtu currently;
- **Pilbara Iron Ore project valued at A$978m (A$2.08ps)** assuming maximum production rate of 12.5Mtpa by 2015 at a cash cost of A$45/t FOB. Allows for a 11.0% nominal discount rate and ultimate reserves of 181Mt;
- **Pilbara Far East project valued at A$100m (A$0.21ps)** assuming access to planned Hancock railway from late 2014, exports of 3.5Mtpa initially, growing to 7Mtpa by 2018 and 14Mtpa after 11-12 years as Pilbara reserves depleted. Assumes ultimate reserves >130Mt. FOB cost of A$48/t, 11.0% discount rate and a further 80% discount for project risk;
- **Pilbara Magnetite Project valued at A$150m (A$0.32ps)** based on an estimated project transaction value for 100% of the project. We believe AGO may sell a majority stake in this project in 2010;
- **Mid-west DSO Project valued at A$45m (A$0.10ps)** assuming exports from early 2015, maximum rate of 3.5Mtpa, FOB cost of A$45/t. Valuation uses a 11.0% discount rate and a further 70% discount for development risk in the absence of any JORC resources to date.

Valuation Summary Table

Appraised Valuation					
		Multiple	(A$M)	(A$/share) - fully diluted	
Pilbara Iron Ore (12Mtpa)		100%	978	2.08	
Mid-West DSO Project		30%	45	0.10	
Pilbara Far East Project		20%	100	0.21	
Magnetite Asset (Est.)			150	0.32	
Net Cash (Debt)-30 June 2010			128	0.27	
Total DCF Valuation				**$ 2.98**	11.0% Nominal DCF
			P/NPV	0.76	
5-yr forward EPS (FY11-FY15)		26.6			
Target PE		10.0			
PE Based Valuation	$	2.66			
Implied Price Target (50% NPV, 50% PE)				**$ 2.80**	

NPV sensitivity to Iron Ore Price/A$

AGO NPV (A$/ps) at long term pricing for WA Iron Fines*

	Long Term Iron Ore Price (USc/dmtu) 2013+			
A$/US$	**75**	**85**	**95**	**105**
0.75	1.66	2.56	3.46	4.36
0.80	1.3	2.13	2.98	3.82
0.85	0.94	1.74	2.55	3.35
0.90	0.64	1.40	2.17	2.93
0.95	0.37	1.10	1.83	2.56

*Assumes average 5% lump premium long term, contract pricing up 28% from JFY09 to JFY12 prior to adopting long term price for sensitivity calculations. Based on production assumptions contained in this report. We note recent spot trades above 200c/dmtu (US$).

Recommendation

Whilst there are a number of uncertainties relating to the volume of exports AGO is likely to achieve in the medium term, the company has a relatively large ground position in the Pilbara region and a good track record of growing resources and production.

Going forward the group will require high iron ore prices in accordance with our forecast in order to fund expansion plans which include mine development, port construction and potentially rail access costs. We envisage over A$650m of capital expenditure over the next five years.

Inexpensive on a relative and absolute basis

The company has attractive potential growth options in the Far East Pilbara region (near the proposed Hancock development) and the Mid-West region of WA. AGO appears inexpensive on both a relative and absolute basis, trading on an EV/t of A$122/t based on FY12 predicted exports, compared to MGX at A$222/t and a 20% discount to our DCF valuation.

Accumulate, A$2.80ps price target

We believe AGO is suitable for those investors seeking iron ore exposure, and we currently have an **ACCUMULATE recommendation on AGO, with a price target on a twelve month basis of A$2.80ps,** equivalent to our current valuation. Risk with AGO is considered to be higher than the market as a whole.

Anticipated Timeline

Anticipated Event Timeline

The following timeline is based on anticipated newsflow relating to AGO over the next twelve months or so, and has a high degree of risk. It is based on company announcements and our interpretation/expectation of progress.

- January- February 2010: Announcement of completion of Wodgina construction and anticipated date for first shipments. Finalisation of offtake agreement for the project;
- January- March 2010: Potential sale/joint venture for the Ridley Magnetite project;
- February-May 2010: New contract pricing and sales/marketing arrangement for JFY10 onwards;
- April- July 2010: Announcement of progression of Abydos DSO project with anticipated construction and export timeline;
- August-October 2010: Expected completion date for new Utah export port facility, enabling exports from Wodgina and later, Abydos;
- April-December 2010: Further resource upgrades for Pilbara & other projects.

Port Access

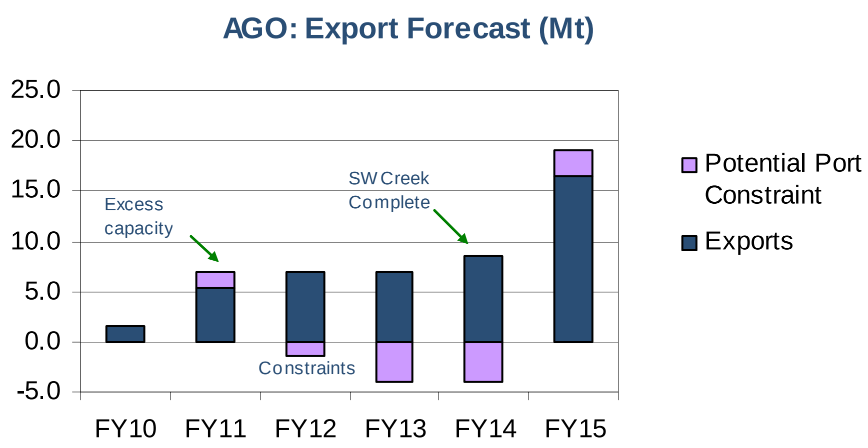
Port capacity to limit mid-term export plans

AGO currently exports a small amount of iron ore (~1Mtpa) through FMG's Port Hedland export facility under an existing short term arrangement. AGO has reserved port capacity at the new Utah port of 6Mtpa from mid-2010 until Feb'2012. Post Feb'2012, Aurox (AXO) has an option over 3Mtpa provided they require it, hence there is some risk here. AXO is currently seeking funding to develop an iron ore project (ferro-vanadium), though it is unlikely the company will be in a position to export ore by February 2012.

BHP reportedly has 5Mt of capacity reserved at Utah, however it is believed they are unlikely to utilise it, hence this capacity could become available to Atlas and other producers. Total initial planned capacity at Utah is 18Mt, with some of this reserved for other potential users (ie Moly Mines). AGO believes up to 10Mt capacity may be available to them.

Overall we believe port constraints could limit AGO's export ambitions until the new South West Creek facility is available in 2014 (20Mt for AGO, based on a 40% equity stake), hence we have adopted a risk-weighted capacity assumption for the FY12-FY14 period (see chart below).

We have allowed for 7Mtpa of available exports at Utah alone in FY12 and FY13, as we do not expect FMG will provide Atlas with any shipping allocation once Utah is in operation. This assumes AGO can gain an additional 3-4Mtpa above the allocation, from unused BHP, AXO or other capacity. Upside is 10-13Mtpa capacity in this period, with downside risk the 3Mtpa guaranteed allocated from Feb'2012 until early 2014 (unlikely in our view).



Pilbara Project

A second mine at Wodgina is due to commence in coming weeks

Atlas commenced mining at the Pardoo Project, located 75km north-east of Port Hedland in October, 2008. Pardoo consists of numerous small Direct Shipping Ore (DSO) haematite resources, totalling over 28Mt. Reserves are currently 8.4Mt @ 57.4% Fe, with moderate silica, phosphorous and low aluminium levels (refer to Table, p4). The company has been mining Pardoo at a rate of around 1Mtpa, trucking ore to Port Hedland. The company is currently completing construction of the Pardoo expansion to 2.5mtpa, with further growth to 3.0Mtpa predicted. The mine has a strip ratio of <2:1.

A second export project at Wodgina (2.0Mtpa initially) is being planned. Wodgina is located 90km south of Port Hedland. Resources are 42.1Mt @ 56.3% Fe, with lower silica than Pardoo (refer to Table, p4). Exports from this project (100% fines) are due to commence in coming weeks, following finalisation of site infrastructure and offtake agreements. We expect Wodgina production will increase to 3.5Mtpa eventually, once port capacity is available.

AGO have identified four separate mining areas

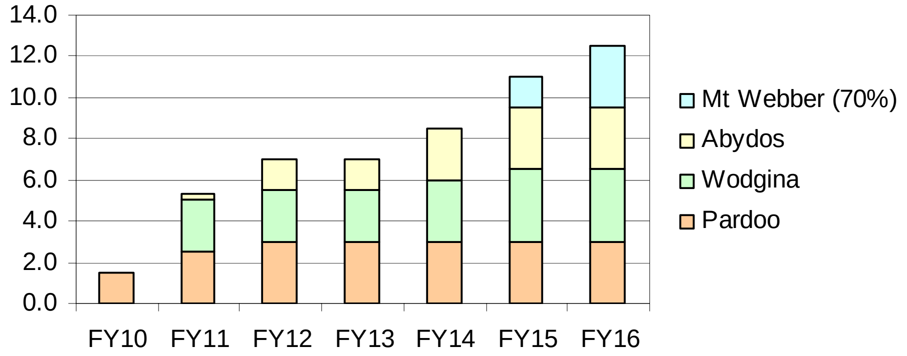
Two other resources have been delineated south of Port Hedland at Abydos (22.3Mt @ 57.1% Fe) and Mt Webber (42.1Mt @ 56.3% Fe). AGO currently has a 70% interest in Mt Webber, with the other 30% held by Altura (ASX: AJM). Abydos is located 130km south of Port Hedland, with Mt Webber a further 20km to the south (Map, p4). We anticipate development of Abydos will commence within the next twelve months, as feasibility work has already been completed. The project may be delayed however, depending on both port access and expansion of Pardoo and Wodgina exports.

In our view Mt Webber is likely to be the fourth project developed by Atlas, however this requires completion of the new South West Creek port facility in 2013. We anticipate exports from both projects will be up to 3Mtpa, with one scenario postulated by the company of a centralised processing facility to enable blending and transport of ores to market.

We have assumed a total of 181Mt will be mined from the Pilbara DSO projects by 2029 in our model, which compares to existing resources of 136Mt and the stated exploration 'target' of well over 200Mt, hence there is risk to this growth assumption.

Forecast exports from the Pilbara project

AGO - Pilbara Export Forecast

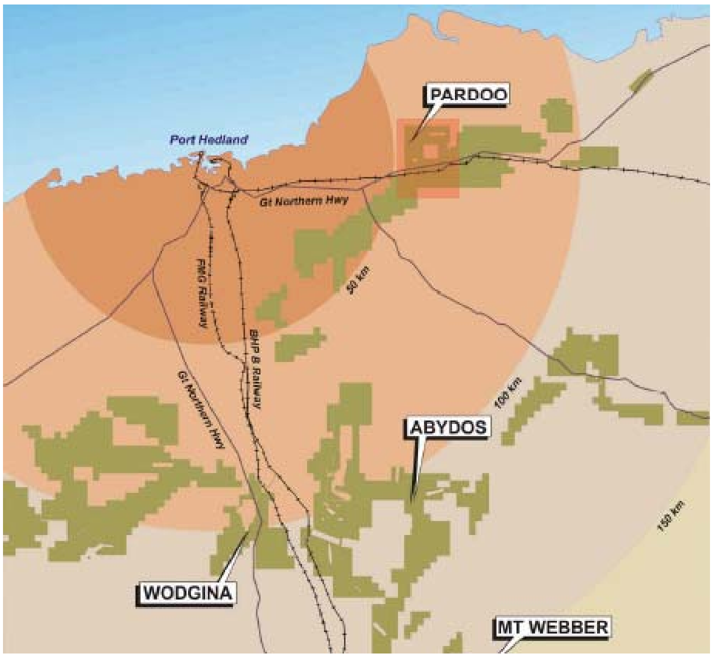


Resources/Reserves

Latest Resource/ Reserve Statement

Pilbara Reserves	JORC Category	Mt	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	S (%)	LOI (%)
Pardoo	Prov.&Prob.	8.42	57.4	7.1	1.7	0.11	0.03	7.7
Abydos	Probable	7.55	58.2	5.2	1.6	0.06	0.01	9.5
Wodgina	Probable	9.50	58.2	5.3	1.6	0.10	0.03	9
Total		**25.47**	**57.9**	**5.9**	**1.7**	**0.09**	**0.02**	**8.7**
Resources								
Pardoo	M, I & Inferred	28.1	56.1	8.3	2	0.10	0.03	8.2
Abydos	Ind. & Inferred	22.3	57.1	6.3	2.0	0.06	0.02	9.4
Wodgina	Ind. & Inferred	42.1	56.3	6.9	2.2	0.07	0.06	9.1
Mt Webber	Inferred	43.7	57.4	6.3	2.0	0.09	0.03	8.7
Turner River	Inferred	2.5	58.5	6.1	1.8	0.11	0.03	7.9
Jimblebar Range	Inferred	12.6	57.5	7.0	2.0	0.06	0.04	7.9
Caramulla South	Inferred	13.8	53.9	8.6	5.4	0.04	0.03	8.1
Western Creek	Inferred	19.1	55.1	6.6	4.1	0.06	-	9.3
Total		**184.1**	**56.4**	**7**	**2.5**	**0.07**	**0.03**	**8.8**
Ridley Magnetite								
Reserves	Probable	970	36.0					
Resources	Indicated	1100	37.0	39.4	0.08	0.09	0.05	3.9
	Inferred	910	37.5	39.1	0.08	0.09	0.05	4.4
Total Resource		2010	36.5	39.3	0.08	0.09	0.05	4.1

Pilbara projects within potential trucking distance of Port Hedland



Pilbara Far-East

AGO successfully merged with Warwick Resources (WRK) in December, 2009, following a 1 for 3 scrip-based merger which effectively valued WRK at around A$80m at the time of the transaction.

The primary justification for the merger was to obtain exposure to the tenements held in the Pilbara Far-East (PFE) area, located approximately 450km south-west of Port Hedland near the town of Newman (refer to map, p6). With over 45Mt in resources delineated to date, AGO has announced a target resource of up to 240Mt for the project (480Mt including the Pilbara projects).

Warwick Resources had 5,000km^2 of tenements near Newman, and had defined resources of 45.5Mt of potential DSO quality iron ore. A resource of 19.1Mt @ 55% Fe at Western Creek, located 33km west of Newman; A resource of 12.7Mt @ 57.5% Fe defined at Jimblebar and 13.8Mt @ 53.9% at Caramulla South (refer to Resource table, p4).

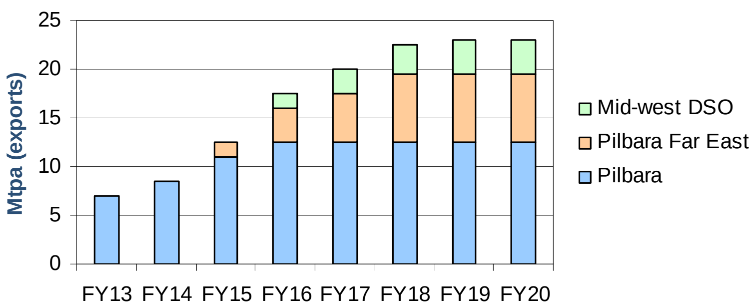
We envisage development in 2013/14 coinciding with Hancock's Roy Hill mine

We envisage development of this project is likely in 2013/4, once the planned Hancock railway is constructed to Roy Hill. Hancock Prospecting is planning to develop both the Hope Downs series of deposits (with Rio Tinto in a 50/50 JV) and the 55Mtpa Roy Hill mine, situated around 120km north of Newman. The project is in the advanced planning stage, with senior executive recruitment underway. The resource is believed to be over 2Bt of iron ore, with estimated capital costs up to A$3b.

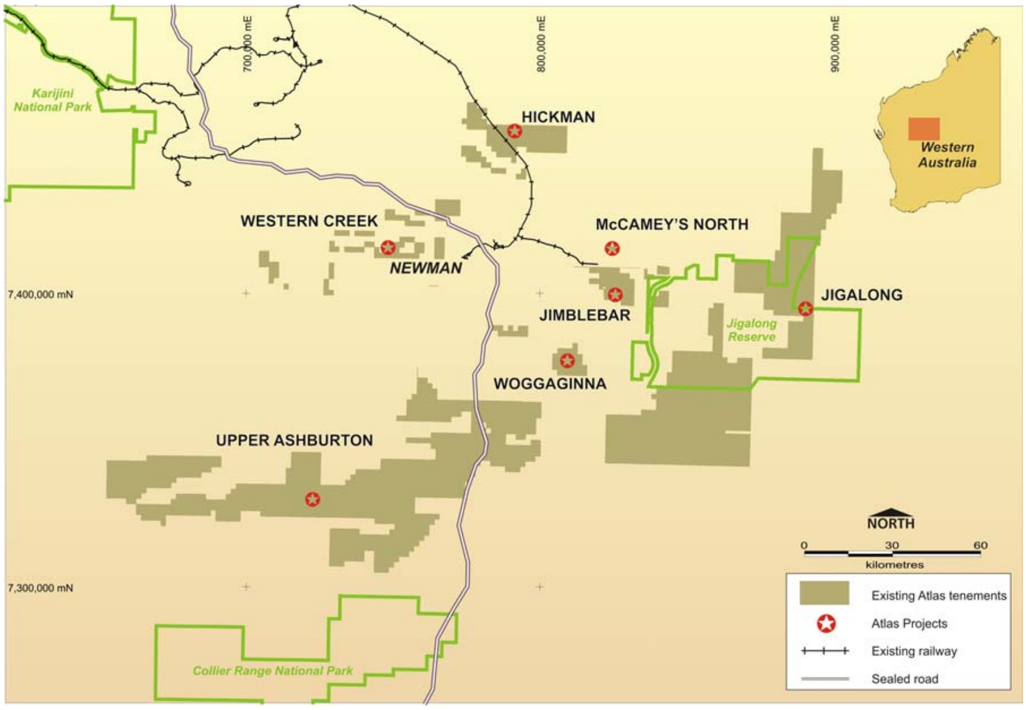
We have allowed for an export rate of 7Mtpa by 2018, increasing towards 14Mtpa within 10 years following depletion of the Pilbara resources. We assume access via the Hancock rail line will be available (or alternatively BHP/RIO rail lines, closer). We have allowed for a valuation of A$100m for this project (A$0.21ps) in our DCF valuation, which assumes A$100m capex, opex of A$48/t FOB and 80% discount to NPV valuation for risk. We have assumed trucking of the ore to the rail-loading point at Roy Hill, though a spur line may be a possibility, depending on the ultimate size/quality of the resources in the area.

AGO: Long Term Export Forecast

Long Term Export Forecast (High Risk)



Distribution of Pilbara Far East tenements



Magnetite

The Ridley Magnetite deposit is wholly located within the Pardoo tenement area, 75km north-east of Port Hedland and 25km from the coast. The resource of 2Bt converts into a 970Mt reserve grading 36.5% Fe. There is potential for production of 10Mtpa of magnetite concentrate at 68% Fe for around 30 years.

Company presently seeking a JV partner for Ridley Magnetite

The company is presently seeking a joint venture partner, and we believe AGO may look to sell a majority stake in the project in order to progress development, with any cash to be applied to development of the Pilbara DSO projects.

We currently adopt a valuation of A$150m for the magnetite asset (A$0.32ps), which is an estimate of potential transaction value based on 100% of the asset.

Mid-West DSO Project

Target of 30-40Mt of high grade DSO in the Mid West

Atlas has identified potential DSO resources in the Mid-West province of Western Australia, at the Weld Range and Mt Gould projects. The Mt Gould project is located in the Jack Hills region northwest of Meekatharra in Western Australia. Mt Gould contains the interpreted strike extension to iron ore currently being mined and exported from Jack Hills by Crosslands Resources (MMX).

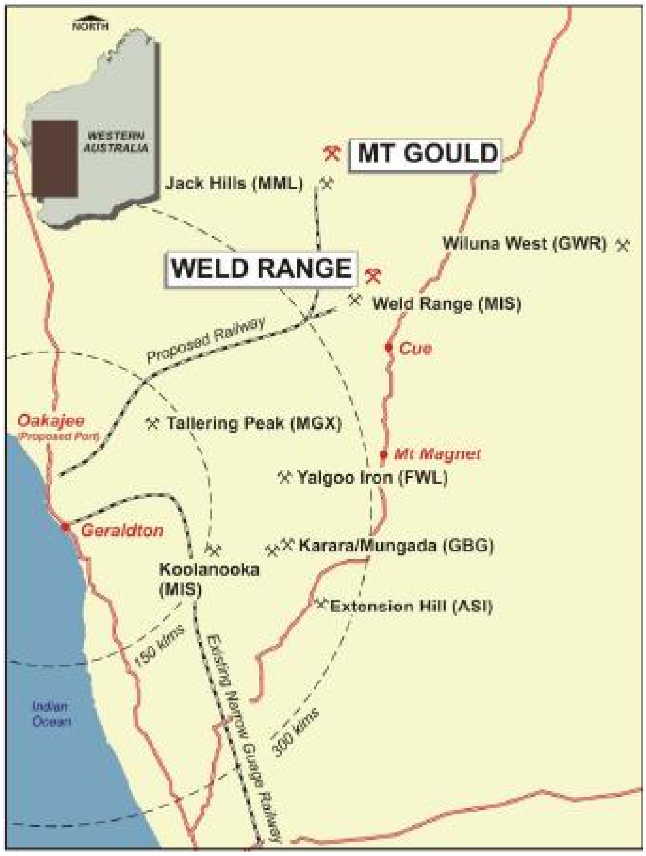
Weld Range is situated near Sino Steel's project, and early drilling work by AGO has confirmed the presence of high grade iron ore. Intercepts include 51m @ 66.3% Fe and 58m @ 65.1% Fe. Whilst no JORC resource has been defined to date, the company has an initial resource target of between 30-40Mt of DSO grading 60 to 66% Fe.

A State agreement for construction of a new port at Oakajee and railway to the deposits held by Sino & Murchison (MMX) was signed early in 2009, with the Mitsubishi consortium the winning bidders. The timeline for construction is development decision in late 2010/early 2011, followed by a 32-36 month construction phase which should deliver completion by late 2013. The project is currently in Bankable Feasibility stage, with the WA government planning to contribute A$700m towards the projected A$4b capital cost.

AGO's DSO projects are located close to the planned railways, and we expect appropriate access terms will be negotiated in time. We have assumed exports from these projects by late 2014, allowing for both some slippage to the Oakajee timetable, and prioritisation of the Pilbara Far East development. We have assumed an eventual export rate of 3.5Mtpa from this project, ramping up over several years, though this may be reviewed once further work establishes the potential size of DSO resources, hence assumptions are high risk.

We have assumed ultimate reserves of 46.5Mt for the Mid-West DSO project, hence in the absence of a JORC resource, this is a risk. Our current risk-adjusted valuation for the Mid-West project is A$45m, based on a 70% discount to our NPV and application of an 11% discount rate. We have allowed for A$60m in capital expenditure.

Location of AGO's Mid-West Assets



Board/Management

The Board of AGO has extensive experience in mining company investment & management

Geoff Clifford (Chairman): Appointed Chairman in 2008, on the Board since 2007. Mr Clifford was previously a director of Aztec Resources Ltd and prior to this was Company Secretary of Portman Ltd. Mr Clifford has business qualifications, over 30 years experience in a variety of industries and is also a director of ASX listed Fox Resources (FXR), Glengarry Resources (GGY) and RMT Energy Ltd (RMT).

David Flanagan (Managing Director): Mr Flanagan has been with Atlas since 2004, and was involved with listing of AGO. He has been MD since inception in 2004. Mr Flanagan is a geologist with a background in the resources industry, experience prior to AGO centres around the gold business, with stints with RSG Ltd, Normandy and Gindalbie Gold (GBG).

Dr David Smith (Non-Exec. Director): Dr David Smith was appointed on 6 November 2009. A metallurgist by qualification, Mr Smith had a career at Rio Tinto spanning 30 years and was until recently Managing Director and President of Rio Tinto's Simandou iron ore operations in Guinea. Prior to that role Dave was Managing Director of Rio Tinto's Pilbara Iron unit from 2004 to 2008, responsible for all Rio Tinto's operations in the Pilbara, and Managing Director of Hamersley Iron from 2001 to 2004.

David Hannon (Non-Exec. Director): Mr Hannon has a background in stockbroking and finance, working with several firms since 1985 and later becoming a partner of a private investment bank specialising in venture capital. In 2001 David became a director of PSG Afro Pacific Limited, a subsidiary of a listed South African Bank which further concentrated on the mining sector. Since leaving PSG David has operated a private investment bank, Chifley Investor Group P/L and over the last decade has been a director of many private companies specialising in venture capital, property and public company investments.

Jyn Sim Baker (Non-Exec. Director): Ms Baker was appointed in November 2006. She is Group Chief Executive Officer of IMC Group's wholly owned IMC Resources Group, which is the major shareholder of Atlas Iron Limited. Jyn has more than 20 years experience in the resources and energy sector including law, project finance banking, mergers and acquisitions and more recently as Managing Director of Midwest Corporation.

Jyn is currently a director of Horizon Oil Limited (HZN), Kairiki Energy Limited (KIK) and LinQ Capital Limited and a former director of Midwest Corporation Limited and View Resources Limited (VRE).

Shaw Stockbroking

Atlas Iron (AGO)

January 19, 2010

Share Price	(A$)	**2.25**
Listed Shares	(m)	447
Mkt Cap.	(A$M)	1,005

Year end 30 June

Profit & Loss (A$M)		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Revenue		26.4	99.9	414.2	588.5	565.7
+Other Income		-	-	-	-	-
+Profit from Associates		-	-	-	-	-
-Operating Costs		(41.8)	(70.5)	(234.4)	(308.0)	(308.1)
-Exploration/Other Costs		(53.7)	(32.0)	(28.0)	(26.0)	(25.0)
EBITDA (underlying)		**(69.1)**	**(2.6)**	**151.8**	**254.4**	**232.5**
-Depreciation & Amortisation		(0.8)	(12.1)	(38.1)	(51.3)	(51.9)
EBIT		**(69.8)**	**(14.8)**	**113.7**	**203.2**	**180.7**
-Net Interest		6.7	1.7	3.2	3.7	1.8
Pre-Tax Profit		**(63.1)**	**(13.1)**	**116.9**	**206.9**	**182.5**
-Tax		-	-	(33.9)	(60.0)	(54.8)
-Minorities		-	-	-	-	-
Net Profit (underlying)		**(63.1)**	**(13.1)**	**83.0**	**146.9**	**127.8**
Abnormals/adjust		-	-	-	-	-
Reported Profit		**(63.1)**	**(13.1)**	**83.0**	**146.9**	**127.8**
Cash Flow (A$M)		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Pretax Profit		(63.1)	(13.1)	116.9	206.9	182.5
+Depreciation & Amortisation		0.8	12.1	38.1	51.3	51.9
-Tax Paid		-	-	-	(23.5)	(48.1)
- Working capital/Other		1.2	(8.3)	(44.2)	(24.1)	3.4
Operating Cashflow		**(61.1)**	**(9.2)**	**110.8**	**210.6**	**189.7**
-Dividends Paid (capital adj)		-	-	(9.4)	(28.2)	(56.4)
-Other Items (SIB capex)		-	(2.0)	(5.0)	(9.0)	(11.0)
-Capex/Exploration		(26.1)	(56.3)	(59.0)	(68.5)	(149.9)
-Acquisitions/Sales		(4.8)	6.5	-	-	-
Surplus Cashflow		**(92.0)**	**(61.0)**	**37.4**	**104.9**	**(27.6)**
+ Equity Raising		72.8	65.0	4.0	4.0	4.0
+ Debt Drawdown		-	-	-	-	-
+ Other Cash Items		-	-	-	-	-
Increase in Cash		**(19.2)**	**3.9**	**41.4**	**108.9**	**(23.6)**
Balance Sheet (A$M)		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Cash		124.0	127.9	169.4	278.3	254.7
Receivables		26.0	25.0	64.2	88.3	84.9
Inventories		8.3	20.0	66.3	94.2	90.5
Other		7.3	7.3	7.3	7.3	7.3
PP&E, Expl & Dev		61.1	124.5	220.6	344.4	552.2
Total Assets		**226.7**	**304.7**	**527.7**	**812.4**	**989.5**
Payables		22.7	25.0	66.3	94.2	90.5
Provisions		4.2	6.1	10.6	16.2	19.8
Tax Liabilities		-	-	-	-	-
Debt		-	-	-	-	-
Other		-	-	-	-	-
Total Liabilities		**26.9**	**31.1**	**76.8**	**110.4**	**110.3**
Outside Equity Interest		-	-	-	-	-
Shareholder Equity		**199.9**	**273.6**	**450.9**	**702.0**	**879.2**
Ratio Analysis		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
No Shares (Yr Av. Est.)		291	418	451	458	464
No Shares (fully diluted)	M	349	470	470	470	470
EPS (Yr Av. Issued Capital)	¢	-21.7	-3.1	18.4	32.1	27.5
PER	x	na	na	12.3	7.1	8.2
EPS Growth	%	na	na	na	na	50
CFPS (fully diluted)	¢	-17.5	-2.0	23.6	44.8	40.4
PCFR	x	na	na	9.6	5.1	5.6
DPS	¢	0.0	0.0	2.0	6.0	12.0
Yield	%	0.0	0	0.9%	2.6%	5.3%
Franking	%	0	0	100%	100%	100%
Payout Ratio	%	0	0	11%	19%	44%
Interest Cover	x	inf.	inf.	inf.	inf.	inf.
Gearing: ND/E	%	na	na	na	na	na
Gearing: ND/(ND+E)	%	na	na	na	na	na
EV/EBITDA	x	na	-309.5	5.6	3.0	3.4
EBIT Margin	%	na	-14.8	27.4	34.5	31.9
Return On Assets	%	na	-4.8	21.5	25.0	18.3
Return On Equity	%	na	-4.8	18.4	20.9	14.5
Eff. Tax rate	%	0.0	0.0	29.0	29.0	30.0

Assumptions		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Average spot A$	US$	0.75	0.89	0.88	0.85	0.84
Iron Ore Fines_Benchmark	USc/dmtu	96.5	101.9	118.6	123.6	117.4
Iron Ore Lump_Benchmark	USc/dmtu	179.3	114.8	125.5	130.8	124.2
Realised Price Lump	Ac/dmtu	129.2	114.8	134.8	144.9	139.3
Realised Price Fines	Ac/dmtu	240.0	129.4	142.6	153.4	147.5
Equity Production		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Pilbara Iron Ore	Mt	0.6	1.5	5.3	7.0	7.0
Mid West Iron Ore	Mt	0.0	0.0	0.0	0.0	0.0
Segment Analysis		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Pilbara Iron Ore						
Revenue	A$m	26	100	414	588	566
Total cash costs	A$m	27	71	234	308	308
Cash costs	A$/t	45.5	47.0	44.2	44.0	44.0
EBITDA	A$m	23.9	29.4	179.8	280.4	257.5

Appraised Valuation					
	Multiple	(A$M)		(A$/share) - fully diluted	
Pilbara Iron Ore (12Mtpa)	100%	978		2.08	
Mid-West DSO Project	30%	45		0.10	
Pilbara Far East Project	20%	100		0.21	
Magnetite Asset (Est.)		150		0.32	
Net Cash (Debt)-30 June 2010		128		0.27	
Total DCF Valuation				**$ 2.98**	11.0% Nominal DCF
			P/NPV	0.75	
5-yr forward EPS (FY11-FY15)	26.6				
Target PE	10.0				
PE Based Valuation	$ 2.66				
Implied Price Target (50% NPV, 50% PE)				**$ 2.80**	

Last Updated: 18/01/2010

Appendix 1

Iron Ore Thematic

Spot iron ore prices continue to rise

The spot price of iron ore has been rising consistently in recent months, trading well above last year's contract price. Now at close to US$2.00/dmtu, it is double the previous contract price, placing pressure on Chinese consumers to agree to a new 'benchmark' or 'index' price in coming months at a higher level than last year. The Chinese buyers are yet to recognise the benchmark set by the Japanese and Koreans last year, however suppliers believe the current system of varied pricing mechanisms is unsustainable.

Combined with rising ore prices, freight rates have also risen recently, however are expected to moderate in 2010 as additional capacity emerges, short of a rapid resumption of global economic growth which could see continued strong demand for shipping. The debate about freight equality in pricing is likely to emerge again.

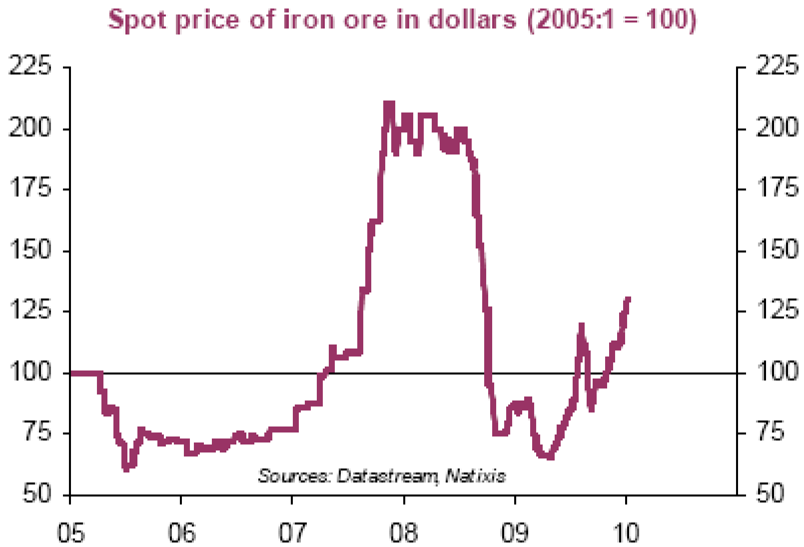
It is often argued the spot trade has little relationship to actual demand, and is not a factor in annually negotiated pricing. This is true to the extent that smaller traders looking to speculate on seasonal and other swinging demand factors seek to capitalise on marginal demand, thus causing volatility. What is clear is Chinese iron ore imports have increased at a massive rate in 2009, up 50% year-on-year, contributing to price pressure.

In terms of underlying Chinese steel production and demand, the re-stocking phase which drove higher prices around the middle of 2009 appears to have been replaced with actual demand from a construction boom in China, despite reports of high levels of finished inventory due to expectations of higher input prices (coal, iron ore). Some commentators believe the double-digit growth in steel production is unsustainable, as industry overcapacity is still an issue, with numerous blast furnaces and pellet plants still idle, despite re-starts in recent months.

The rate of growth appears unsustainable in the medium term

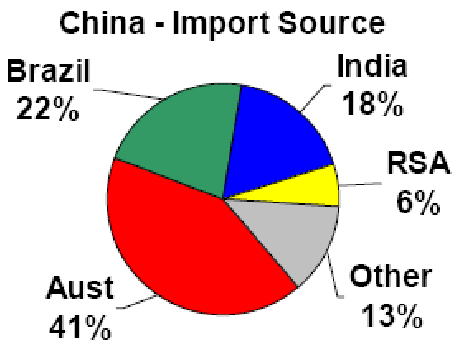
With infrastructure spending at record levels in China, is appears unlikely the large volume requirements are going to moderate in the short term, however recent buying levels are likely to be cyclical, and the rate of growth not sustainable on a medium term basis (1-3 years). Due to rising cost pressures, steel prices are anticipated to rise in 2010.

Rising spot iron ore prices recently



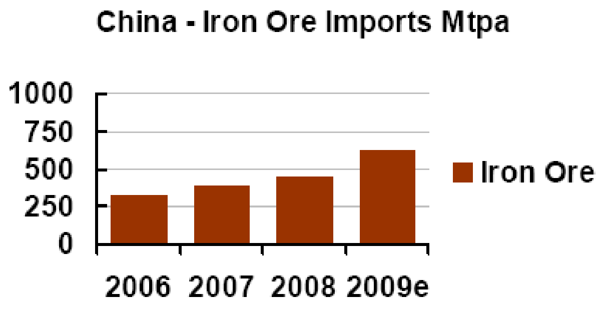
Nataxis, 11 January, 2010. Based on 62% Fe fines, CIF (Cost, Insurance, Freight)

Chinese imports remain at record levels



Source: Tex Report

OneSteel Presentation. 24/11/09



Source: Tex Report

OneSteel Presentation. 24/11/09

Global Demand & Australia

123Mt of additional exports required within five years…..however

It has been estimated seaborne iron ore demand will rise from 900Mtpa to 1800Mtpa over the next 15 years (BHP, Sep'09) and by up to 300Mtpa over the next five years. We have used these targets to forecast the growth rate of the last nine years of 8.5%pa moderates to 6.0% for the next five years, then 4.0%pa thereafter. Based on Australia's current estimated 41% market share of the seaborne trade being maintained, this equates to 123Mt of required additional exports (we note Valé has increased market share by 10% over the last ten years to 34% in 2008, vs BHP/RIO's steady market share of 41-42%).

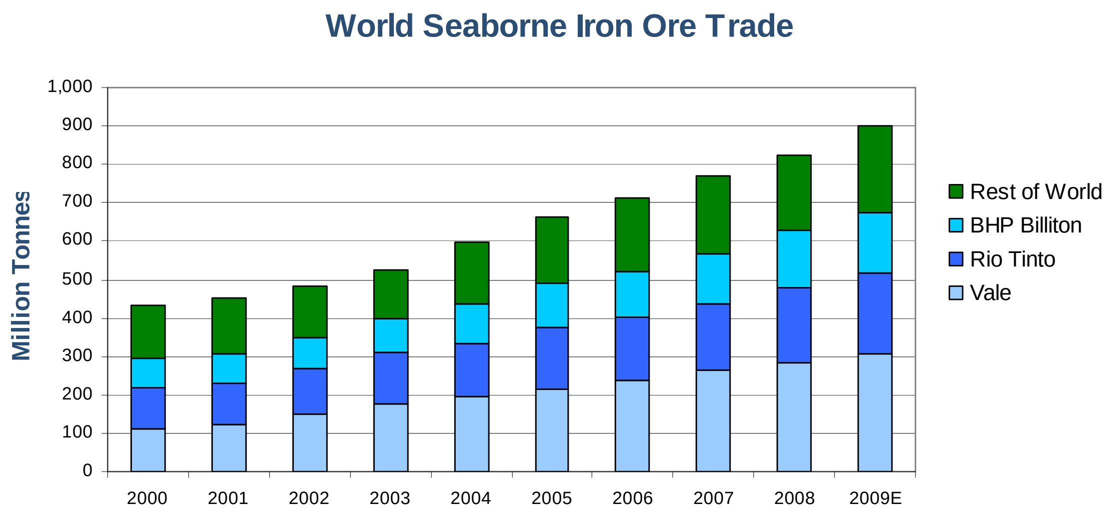
Five times the likely export needs are being proposed

Global producers are expanding iron ore production at a rapid rate. Numerous expansion plans are in the pipeline, and we are aware of proposals to bring on over 120Mt of DSO capacity from companies excluding FMG, BHP & RIO who collectively have proposed expansion of over 300Mt within the next three years and 500Mt within five years. This excludes magnetite projects under construction, such as those in Australia by Gindalbie/Ansteel (up to 20Mtpa inc. DSO), Citic/CMCC (27Mtpa) and others. In other words, almost five times the likely required export volumes needed from Australia within five years are currently being proposed.

Only 20% or so of this volume will ultimately be required under this scenario, leaving the lowest cost producers (ie BHP/RIO) in the best position to defend their market share, and those who are already producing iron ore or about to commence production in the short term (1-2 years). Valé is also planning to expand production by >50% in coming years.

The iron ore business of BHP & RIO has been estimated to represent over 50% of the combined NPV of these companies, assuming long term pricing around current contract levels, hence both companies remain significantly exposed to iron ore pricing.

The market is dominated by the top 3 suppliers



Iron Ore Quality

Large variation in ore quality in the Pilbara Region

There is a large variation in quality of iron ore, with high-silica, aluminium and phosphorous considered less desirable material requiring blending and often attracting price penalties. As shown below, certain ores (such as BCI and UMC's deposits) contain low-impurity characteristics making them particularly attractive to steelmakers. Other deposits may be upgradeable to specification, or require blending to achieve acceptable export grade.

Pilbara Iron Ore Quality (high grade shown where provided)

Company Name	ASX	Mt	%Fe	$Si0_2$	Al_20_3	P	LOI	Comments
Iron Ore Holdings	IOH	120	61	3.3	2.4	0.18	6.3	High grade component
United Minerals	UMC	101	60.3	3.7	2.6	0.07	7.3	High grade component
Fortescue Metals	FMG	1625	58.8	4.2	2.3	0.06	7.7	Chichester Reserves
Ferraus	FRS	102	58.6	4.4	2.5	0.09	8.7	Davidson Creek
Brockman	BRM	68	57.1	4.1	3.4	0.10	9.3	Marillana Project
Atlas Iron	AGO	184	56.4	7.0	2.5	0.07	9.8	DSO Resources
Sundance Res.	SDL	215	60.2	9.8	2.3	0.08	1.6	DSO only
BC Iron	BCI	36	56.9	3.2	2.0	0.02	12.1	Reserve only
Giralia	GIR	132	55.9	7.0	3.5	0.06	8.7	Total resource
NA	Indicative Spec.		62.0	3.6	2.1	0.08	5.1	Typical Japan Fines

*Published JORC resources. Note in-situ resource quality shown not indicative product quality.

Company Directors

Mr Geoffrey Clifford (Ch)
Mr David N Flanagan (MD)
Ms Jyn Sim Baker (Non-Exec. Dir.)
Mr David Hannon (Non-Exec. Dir.)
Dr David Smith (Non-Exec. Dir.)

Company Activities

Atlas Iron Limited (AGO) is a Western Australian iron ore producer and developer, currently exporting iron ore from the Pardoo project, near Port Hedland. The company controls tenements in the Mid West province of WA, near Newman inland and has a large magnetite resource. AGO plan to export over 20Mtpa of iron ore in coming years.

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Disclosures and Disclaimers