(73) ~~IN CONFIDENCE~~

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TREASURY EXECUTIVE MINUTE

Minute No.

9 June 2010

Treasurer

BRIEFING ON ATLAS IRON LIMITED (RELATES TO MINISTERIAL NO.)

Timing: Urgent.

Recommendation/Issue:

- That you note the attached briefing.

Noted Signature:.................................... ...../...../2010

KEY POINTS

- Your office requested a background briefing on Atlas Iron Limited.
- The Resource Tax Consultation Panel Secretariat spoke with David Flanagan, the managing director of Atlas Iron Limited, on 12 May 2010.
  - Background information on Atlas Iron Limited and key issues from this discussion are provided at Attachment A.
- The Resource Tax Consultation Panel met with Atlas Iron Limited on 25 May 2010.
  - The minutes from this meeting are provided at Attachment B.

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ATTACHMENT A

Panel Brief:
Atlas Iron Limited

KEY ISSUES

- The Secretariat's phone hook-up with Atlas Iron MD, David Flanagan, on 12 May 2010 identified the following key issues that are likely to raise with the Panel:
  - **RSPT rate**: Atlas has one operating project (Pardoo) and another expected to commence production at the end of the year (Wodigna). Atlas advised that they are a low cost miner and will not receive any shielding from the RSPT, as the book value of their asset base is very low. For small companies like Atlas, the RSPT is therefore effectively a tax on their income and not super profits.
  - **Capital restrictions**: Atlas advised that most of its capital requirement is met through the equity market and not through debt financing. Banks generally do not lend to the riskier mid sized mining companies. Atlas' ability to raise capital on the market has been reduced as the value of their business has been counted down as a result of the introduction of the RSPT. Atlas' working capital requirement is around $25 million and the RSPT effectively puts Atlas' current projects at risk.
  - **Differential rate across commodities**: Atlas raised concerns about a single tax rate on all commodities, as different resource commodities have different combinations of capital and operating costs and project risk. Atlas maintains the view that royalties better reflect the risk profile of the commodities, and that RSPT should have a similar taxing structure.
  - **Risk of increased regulatory burden**: Atlas advised that with government becoming a silent partner, a lot of marginal mines would become viable. There is a risk to the government from poor investment decision. To reduce this risk the government might, in the future, introduce eligibility criteria, which would further increase industry regulation, regulatory complexity and compliance costs.
  - **Safety risks/compliance costs**: Marginal mines do not have the same safety record as higher profit mines, so there may be increased safety risks to workers. This in turn will increase the cost of monitoring mine operations for state Governments and compliance costs for miners.

COMPANY ASSESSMENT

- Secretariat modelling indicates that under an RSPT, Atlas will pay an estimated $134 million in RSPT and $73 million in income tax in the first year; with subsequent increases in RSPT and reductions in income tax in future years. Compared to this, it would pay around $33.75 million in royalties and around $105 million in income tax on average under a royalty regime.
- Company projects would generate net annual cash flows of $250 million under a royalty regime and around $170-$180 million under an RSPT regime. Cash flows under the RSPT would still be around 1.7 times Atlas' investment in Australia.

- The internal rate of return (based on capex of around $106 million) would be 408% under a royalty regime and 403% under the RSPT regime.
- The pay back period would be identical under the RSPT and royalty regime (approximately five months), reflecting the delayed commencement of the RSPT.
  - The pay back period assuming first year RSPT (2013) cash flows is around 7 months.
- Secretariat modelling shows that if prices were to fall below A$50 per tonne, the RSPT regime delivers an improved result over the royalty regime for Atlas.

MARKET REACTION

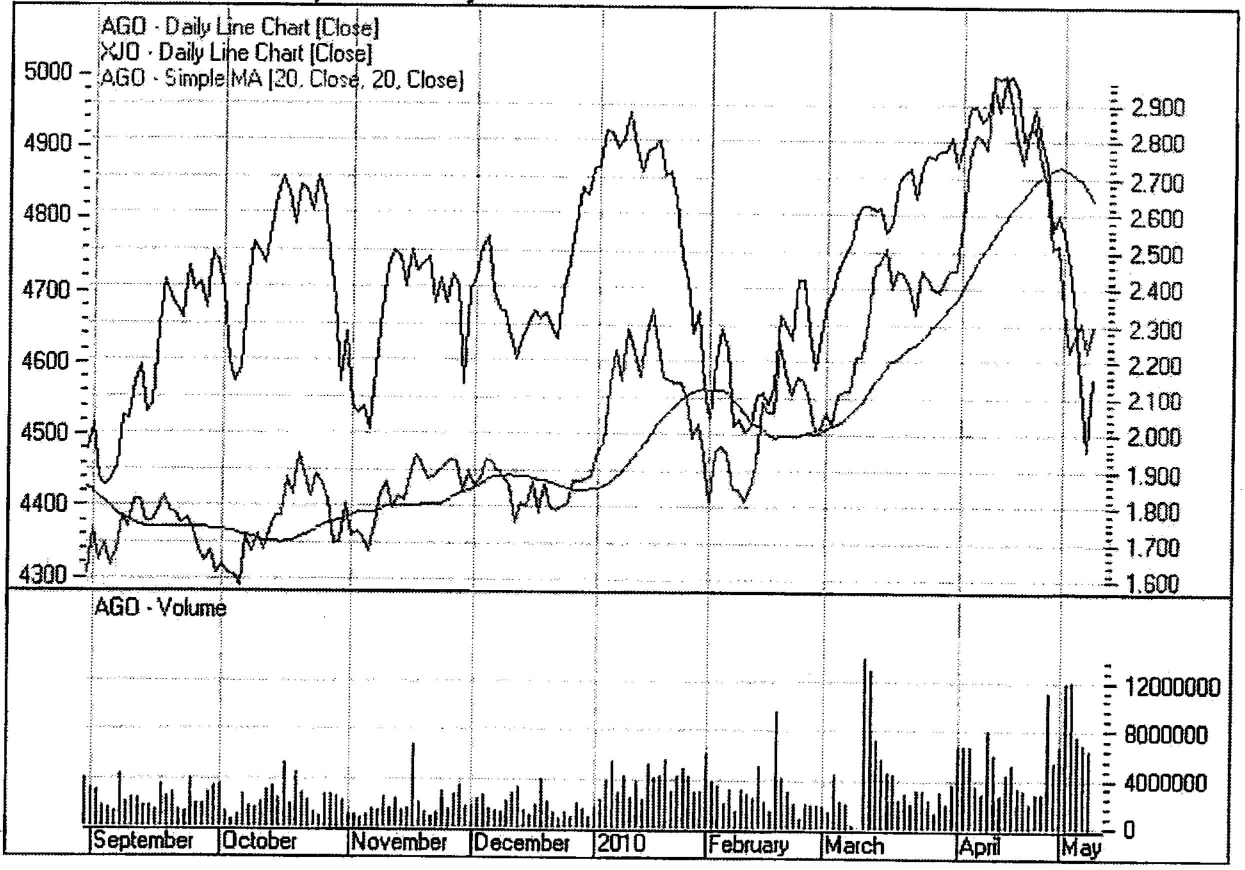
David Flanagan, managing director of Atlas Iron, has been critical in the media about the introduction of the RSPT. He indicated that companies with large capital projects would effectively get a lot of shelter from the RSPT, while Atlas, which doesn't have a lot of capital expenditure, does not get any shielding. He further added that 85 per cent of Atlas is owned by superannuation funds and the rest is spread across 21,000 shareholders who own a few thousand shares. The reduction in share prices would affect them the most.

Mr Flanagan also indicated that the RSPT would make it impossible for Atlas Iron to expand or finance its current projects running costs and make his company a target for a takeover by one of the major miners or an offshore company.

Atlas is listed on the Australian stock exchange and is based in Perth. Atlas has a market capitalisation of around $359 million as at 30 January 2009.

Its share price prior to the announced RSPT was A$2.52 (30 Apr 2010) and as at close on 10 May 2010 it had fallen to A$2.37, a fall of around 6.3 per cent. However, the share prices have recovered from an intra-week low of A$2.27 on 5 May 2010.

ATLAS IRON LIMITED price history chart



COMPANY OVERVIEW

Atlas Iron Ltd. is an iron ore explorer, developer and producer in the Pilbara, Western Australia. Atlas Iron has a portfolio of projects covering an area of over 15,000km² in the northeast Pilbara, the Newman area and the Midwest of Western Australia. These include the currently producing Pardoo Operation near Port Hedland (reserves 8.4 Mt), advanced projects at Wodgina (reserves of 20.9 Mt), Abydos and Mt Webber, greenfields projects in the Newman area and mining leases in the Midwest.

Atlas merged with Warwick Resources in 2009, with an acquisition cost of around $65 million. In March 2010, Atlas announced its decision to merge with Aurox Resources through a $143 million share deal. This would allow Atlas to gain access to Aurox's Utah Point port capacity. Aurox shareholders are expected to make a decision on the merger shortly.

Atlas' Pardoo DSO project commenced mining in October 2008, with shipments of 944,453 dry tonnes by March 2010, averaging around 1.25mtpa. The Wodgina DSO project is expected to commence shipping in June 2010 with all developments having been completed, increasing total production to 6mtpa by the end of the year. Two other projects, Abydos and Mt Webber are expected to come online by 2012 and the company forecasts output to increase to 12mtpa.

In addition to the DSO projects, the Company owns the Ridley Magnetite Project, with inferred resources of 2 Billion tonne magnetite and 970 million tonnes in reserves. Pre-feasibility studies have indicated that the project may produce up to 15 million tonnes of magnetite concentrate per annum for over 30 years.

The development of Atlas's future projects would depend on near-term port access. Port constraints and rail access may limit Atlas's export ambitions. Atlas currently exports around 1mtpa through FMG's Port Headland export facility under an existing short term arrangement. It has reserved port capacity at the new Utah port of 6mtpa from mid 2010 until Feb 2012. With projections to increase production to around 12mtpa by 2012-13, this would require completion of the new South West Creek port facility by 2013, at an estimated total cost of around $650 million also including mine development and rail access costs.

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ATTACHMENT B

Australian Government
The Treasury

Resource Tax Consultation Panel

Meeting Minutes

25 May 2010

Panel Members Present • David Parker, Executive Director, Treasury (Chair) • Jennie Granger, Second Commissioner, ATO • Greig Gailey, Vice President, BCA • Paul Binsted, Independent Corporate Financial Advisor **Panel Secretariat Present** Shelby Schofield Scott Bartley **RET Members Present** Sue Kruse	**Industry Representatives Present** **Entity/Association :** Atlas Iron Ore **Participants :** • David Flannigan, Managing Director • Mark Hancock, Manager, Finance
Date / Time Tuesday 25 May, 1100-1210	**Venue** The Sheraton Hotel, Perth

Key Issues Discussed

No	Issue Description and notes of discussion	Action required (if any)
1	Taxing Point • The Panel explained that the taxing point was intended to be as close to the point of extraction as possible. • Atlas noted that it would be extremely hard to define for its magnetite iron ore at the point of extraction.	
2	Profit Tax and Government Revenues • Atlas expressed a view that the cyclical nature of mining would mean that government revenues would become volatile and turn Australia into a boom/bust economy.	
3	Refundability and Transferability • Atlas expressed a view that due to the cyclical nature of the mining sector, the government would be paying out large cheques during	

	'bust' times. • Atlas does not believe that the refundability feature is valuable. They expressed their desire to see a higher uplift rate. They noted that their capital expenditure was low and they would not have much of a tax shield. • Atlas also questioned the sovereign risk aspects of the refund, noting that a future government could change the feature any time.	
4	Financing • Atlas are of the view that the RSPT will have severe implications for junior miners and their ability to attract financing for their projects. They noted that their investors were looking for an upside to be attracted to their business and that upside needed to be preserved. • Atlas noted that their NPV had fallen by 20 per cent and that the capital available to fund projects had shrunk.	
5	Safety • Atlas expressed a view that the RSPT would have implications for industry health and safety. They noted that with less revenues flowing back to the business, that firms would cut costs and this could effect health and safety on mine sites. • Atlas also noted that the decreased in profits would impact on Indigenous communities and community development activities that the company undertakes.	
6	Rate • Atlas raised concerns about a single tax rate on all commodities, as different resource commodities have different combinations of capital and operating costs and project risk. Atlas maintains the view that royalties better reflect the risk profile of the commodities, and that RSPT should have a similar taxing structure.	

Other Discussions/Comments

- Atlas Iron Ore exports iron ore out of Port Hedland to buyers in China. They employ 95 staff and over 100 contractors. They have a market capitalisation of $1BN, with cash of $180m in the bank.

- Atlas has one operating project (Pardoo) and another expected to commence production at the end of the year (Wodigna). Wodigna is a magnetite project.