ASX Announcement 4 April 2016

Update on Debt Restructure: Creditors' Scheme documentation and information for shareholders

The Financial Restructuring and proposed Creditors' Scheme

On 23 December 2015, Atlas Iron Limited (ASX:AGO) (Atlas or the Company) announced it had entered into a Restructuring Support Agreement (as subsequently amended) (RSA) with some of the lenders to its US dollar dominated Term Loan B Syndicated Facility Agreement (SFA), (Lenders) and agreed an interim amendment to the SFA (the Agreements). The Agreements are aimed at achieving a Financial Restructuring of Atlas.

As mentioned in Atlas' half year report for the period ended 31 December 2015 and as described in Atlas' notice of shareholders' meeting sent to shareholders on 24 March 2016 (Notice of Shareholders' Meeting), the Financial Restructuring will be implemented by way of a creditors' scheme of arrangement under the Corporations Act 2001 (Cth) (Creditors' Scheme). If the Financial Restructuring is implemented the following key outcomes will result:

- Atlas will have reduced its term loan debt from US$267 million to US$135 million and extended the maturity date from December 2017 to ~April 2021;
- Atlas will have reduced its annual cash interest expense by over 65% as result of the lower debt balance and reduced cash interest rate;
- Atlas will repay a further amount of US$2.5 million of the debt owing under the SFA (having already paid down an initial amount of US$7.5 million in the December 2015 quarter);
- Atlas will issue fully paid ordinary shares (New Shares) and options to acquire fully paid ordinary shares in Atlas (New Options) to the Lenders such that, once the New Shares and New Options have been issued, the ~71 Lenders will hold 70% of all Atlas shares and options then on issue; and
- The parties will enter into an amended SFA where the six monthly Asset Coverage Ratio covenant will be replaced with a minimum cash balance covenant requiring Atlas to have a minimum of A$35 million at the end of each month.

On 1 April 2016, the Federal Court of Australia made orders for the convening of a meeting of the Lenders to consider and, if thought fit, approve the Creditors' Scheme and approve distribution to the Lenders of an explanatory statement in connection with the Creditors' Scheme (the Explanatory Statement) (see further details below).

Shareholder approval

Atlas completed dispatch of the Notice of Shareholders' Meeting on Thursday, 24 March 2016. The Notice of Shareholders' Meeting convenes a meeting of Atlas' Shareholders to consider and, if thought fit, approve the issue of the New Shares and the New Options to the Lenders, for the purposes of ASX Listing Rule 7.1.

As set out in the Notice of Shareholders' Meeting, Shareholder approval is a condition precedent to the Creditors' Scheme being implemented; so the Creditors' Scheme (and the Financial Restructuring contemplated by it) cannot proceed without it. This meeting of Shareholders will be held at 9.00am (Perth time) on Wednesday, 27 April 2016 at the Mantra on Murray, 305 Murray Street, Perth, Western Australia. The Notice of Shareholders' Meeting sets out the current financial circumstances of Atlas, the options that your Directors considered in seeking to restructure the debt owing under the SFA, and the reasons why the Financial Restructuring is being pursued at this time.

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As described in the Notice of Shareholders' Meeting, your Directors recognise that there will be a considerable dilution of Shareholders' interests in the Company as a result of the Financial Restructuring. However, in the circumstances prevailing in the lead up to and as at the date of entry into the Agreements, your Directors believe that they were, and continue to be, required to take this decisive action and believe that the Financial Restructuring is in the best interests of the Company and shareholders.

Shareholders are encouraged to read the sections in the Explanatory Statement to the Creditors' Scheme and the Notice of Shareholders Meeting on information about the effect of the Creditors' Scheme on any Subordinate Claims. Further detail is provided in sections 1.5.1(f) and 2.5(c) of the Notice of Shareholders' Meeting.

Further information about the Creditors' Scheme

The Notice of Shareholders' Meeting contains considerably more information than required under the ASX Listing Rules, and your Directors believe it contains all material information which Atlas Shareholders require to vote on the ASX Listing Rule 7.1 resolution on a fully informed basis.

However, in the interests of ensuring that Shareholders are provided with all reasonable information in connection with the Creditors' Scheme and the Financial Restructuring contemplated by it, the following documents described below (see attached) are now available on the ASX company announcements platform and on Atlas' website. Shareholders may also request hard copies of these documents (and any other ASX announcements that relate to the Financial Restructuring and which are released before the date of the Shareholders' meeting), and will be provided with such hard copies by the Company free of charge;

- **Independent Expert's Report to Creditors**: As mentioned in the Notice of Shareholders' Meeting, an independent expert's report has been prepared by PPB Advisory for the purposes of the Creditors' Scheme. PPB Advisory has also prepared a supplementary independent expert's report to track updates in certain underlying information since its original report was prepared. (Together, the original and supplementary independent expert's reports are referred to as the PPB Report). The PPB Report has been prepared for the benefit of the Lenders in the regulated context of the Creditors' Scheme. Accordingly, it opines on a number of matters that may not be strictly relevant to Shareholders; including the likely outcome for Atlas if the Creditors' Scheme is not implemented and the expected amount (called a "dividend" in the PPB Report) that would be paid to the Lenders if the Creditors' Scheme is implemented as proposed.

- **Explanatory Statement:** The Explanatory Statement sets out the prescribed information about the Creditors' Scheme that the Corporations Act requires Atlas to address to the Lenders. The Explanatory Statement contains a number of annexures, some of which are not being made publicly available on the ASX company announcements platform and the Atlas website. However, the Scheme of Arrangement itself (which is an annexure to the Explanatory Statement) is being made publicly available (see attached) and sets out the formal, contractual terms on which it is proposed that Atlas and the Lenders agree to pursue and implement the Creditors' Scheme.

Both the Notice of Shareholders' Meeting, and the additional documentation outlined above, provide summaries of the terms and conditions of the Creditors' Scheme and the Financial Restructuring contemplated by it.

While the Directors believe that the Notice of Shareholders' Meeting contains all material information which Atlas Shareholders require to vote on the ASX Listing Rule 7.1 resolution on a fully informed basis, the additional information on the Creditors' Scheme detailed above (see attached) is being provided to Shareholders so as to minimise any potential for information asymmetry between Shareholders and the Lenders and to ensure that Shareholders are appropriately engaged in the Financial Restructuring process (given its importance to the Company and its stakeholders).

However, Shareholders should be aware that the PPB Report and Explanatory Statement were prepared for the benefit of the Lenders in the regulated context of the Creditors' Scheme, and so do not directly contemplate or address the interests of Shareholders. The Notice of Shareholders' Meeting, however, is addressed to Shareholders and has been prepared with their interests and information requirements directly in mind.

Updated indicative timetable

Set out below is an updated indicative timetable for the key outstanding conditions to the Creditors' Scheme.

Event	Date
Creditors' Scheme Meeting	22 April 2016
Shareholders' Meeting	27 April 2016
Hearing of application to Court for order approving the Creditors' Scheme	28 April 2016

The dates in the above timetable remain indicative only and subject to change.

The Directors again thank Shareholders for their continued support.

Atlas will continue to keep Shareholders and the market informed as the Creditors' Scheme progresses.

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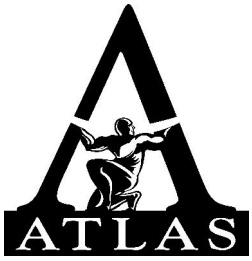
Important Notice

This announcement does not constitute an offer to acquire or sell or a solicitation of an offer to sell or purchase any securities in any jurisdiction. In particular, this announcement does not constitute an offer, solicitation or sale to any U.S. person or in the United States or any state or jurisdiction in which such an offer, tender offer, solicitation or sale would be unlawful. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and neither such securities nor any interest or participation therein may not be offered, or sold, pledged or otherwise transferred, directly or indirectly, in the United States or to any U.S. person absent registration or an available exemption from, or a transaction not subject to, registration under the United States Securities Act of 1933.

Explanatory Statement

pursuant to Section 412 of the *Corporations Act 2001* (Cth)

For the Creditors' Scheme of Arrangement between:



Atlas Iron Limited

ABN 63 110 396 168
(defined as the "Scheme Company")

and the

TLB Scheme Creditors

(as defined in the Scheme)

and the

Subordinate Claim Holders

(as defined in the Scheme)

In order for the Scheme to proceed, it must be approved by the Lenders. Approval will be sought at the Scheme Meeting that will commence at 10.30 am on 22 April 2016 at Ashurst, Level 11, 5 Martin Place, Sydney in New South Wales, Australia. Further details of the Scheme Meeting and on how to vote at the Scheme Meeting, as well as information about the proposed Scheme, are set out in this Explanatory Statement.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

You are encouraged to read it in its entirety, take professional advice, and consult with your professional advisers when making any decisions in connection with the Scheme, including deciding whether or not to vote in favour of it.

ashurst

Legal adviser to the Scheme Company

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN "TRANSACTION SECURITIES" (AS DEFINED HEREIN). NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT MAY BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

THE TRANSACTION SECURITIES PROPOSED TO BE ISSUED PURSUANT TO THE SCHEME WILL NOT BE REGISTERED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION ("SEC") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") OR THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION UNLESS EXPRESSLY SPECIFIED HEREIN, AND ARE BEING OFFERED AND SOLD IN RELIANCE ON CERTAIN EXEMPTIONS FROM REGISTRATION UNDER THE U.S. SECURITIES ACT. CONSEQUENTLY, NEITHER THESE SECURITIES NOR ANY INTEREST OR PARTICIPATION THEREIN MAY BE OFFERED, SOLD ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE U.S. OR TO U.S. PERSONS (AS DEFINED IN THE U.S. SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENT OF THE U.S. SECURITIES ACT IS AVAILABLE. THE SCHEME SHARES AND THE SCHEME OPTIONS WILL BE ISSUED IN RELIANCE UPON THE EXEMPTION FROM REGISTRATION PROVIDED BY SECTION 3(A)(10) OF THE U.S. SECURITIES ACT. THE APPROVAL OF THE FEDERAL COURT OF AUSTRALIA OR SUCH OTHER COURT OF COMPETENT JURISDICTION PROVIDES THE BASIS FOR THE SCHEME SHARES AND THE SCHEME OPTIONS TO BE ISSUED WITHOUT REGISTRATION UNDER THE U.S. SECURITIES ACT, IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY SECTION 3(A)(10). THE OPTIONS SHARES WILL BE ISSUED (i) IN THE UNITED STATES, TO INSTITUTIONAL "ACCREDITED INVESTORS" (AS DEFINED IN CLAUSES (1), (2), (3), (7) OR (8) OF CLAUSE (A) OF RULE 501 OF REGULATION D UNDER THE U.S. SECURITIES ACT) AND IN RELIANCE ON RULE 506(C) OF REGULATION D UNDER THE U.S. SECURITIES ACT AND (ii) OUTSIDE THE UNITED STATES TO PERSONS WHO ARE NOT "U.S. PERSONS" (WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT), IN RELIANCE ON REGULATION S UNDER THE U.S. SECURITIES ACT.

Further important information is set out under the heading "IMPORTANT INFORMATION" in the enclosed Explanatory Statement.

If you have assigned, sold, or otherwise transferred, or assign, sell or otherwise transfer, your interests as a Lender or do so before the date of the Scheme Meeting you are requested to forward a copy of this document to the person or persons to whom you have assigned, sold or otherwise transferred, or assign, sell or otherwise transfer, your interests as a Lender. If you are in any doubt as to the action you should take, you should consult your professional adviser without delay.

NOTICE OF MEETING

ATLAS IRON LIMITED ABN 63 110 396 168

NOTICE OF MEETING OF CREDITORS TO CONSIDER AND, IF THOUGHT FIT, AGREE TO A SCHEME OF ARRANGEMENT

Capitalised terms in this Notice of Meeting that are not otherwise defined have the same meaning as is given to those terms in the enclosed Explanatory Statement.

To: the Lenders of Atlas Iron Limited ABN 63 110 396 168

Pursuant to section 411(1) of the *Corporations Act 2001* (Cth), the Federal Court of Australia has ordered that a meeting of the Lenders (as defined in the Scheme) be convened to consider and, if thought fit, agree to (with or without modification) the proposed Scheme between the Lenders, the Subordinate Claim Holders and the Scheme Company.

1. **Notice**

NOTICE IS HEREBY GIVEN that a meeting of the Lenders will be held at Ashurst, Level 11, 5 Martin Place, Sydney in New South Wales, Australia on 22 April 2016 at 10.30 am (the **"Scheme Meeting"**).

The purpose of the Scheme Meeting is for the Lenders to consider and, if thought fit:

RESOLVE THAT pursuant to and in accordance with section 411 of the *Corporations Act 2001* (Cth), the scheme of arrangement proposed between the Scheme Company, the Lenders and the Subordinate Claim Holders, as contained and described in the Explanatory Statement, is agreed to (with or without alterations or conditions as approved by the Court, provided that such alterations or conditions do not change the substance of the Scheme, including the Steps, in any material respect) (the **"Resolution"**).

For further information the Lenders should refer to the Explanatory Statement accompanying this Notice of Meeting, which is required by section 412 of the *Corporations Act 2001* (Cth) in relation to the Scheme.

2. **Agenda**

The agenda for the Scheme Meeting will be as follows:

(a) the Chairperson will address those present at the Scheme Meeting, and provide an explanation of the background to and purpose of the Scheme Meeting;

(b) there will be a general presentation in relation to the proposed Scheme and attendees will be given a reasonable opportunity to ask questions in relation to the Scheme;

(c) the procedure for voting on the Scheme will be explained; and

(d) the Resolution to agree to the Scheme will be put to the Lenders present in person or by proxy, attorney or corporate representative at the Scheme Meeting for discussion and vote.

3. **Attendance and voting at the Scheme Meeting**

To be eligible to vote at the Scheme Meeting, you must be a Lender as at 5.00 pm on 31 March 2016 and must have lodged a completed Voting Proof of Debt Form with the Chairperson by on or before 4.00 pm on 18 April 2016. The Chairperson will then adjudicate upon your Claim as set out in the Voting Proof of Debt Form based on the

information contained in or provided with the Voting Proof of Debt Form, as well the information known to the Chairperson, for voting purposes only.

You may attend the meeting in person (or by corporate representative), send a completed Proxy Form appointing a proxy to attend in your place, or attend by attorney. Proxy Forms must be received by the Chairperson by 4.00 pm on 18 April 2016. The Proxy Form and Voting Proof of Debt Form are set out at Annexures F and G (respectively) to the enclosed Explanatory Statement. If you wish to vote by attorney or corporate representative, your attorney or corporate representative should bring to the meeting evidence of his or her appointment including evidence of the authority under which the appointment was made.

LENDERS ARE ENCOURAGED TO READ AND CAREFULLY CONSIDER THE EXPLANATORY STATEMENT ACCOMPANYING THIS NOTICE IN ITS ENTIRETY, TAKE PROFESSIONAL ADVICE AND CONSULT WITH THEIR PROFESSIONAL ADVISERS WHEN MAKING ANY DECISION IN CONNECTION WITH THE SCHEME, INCLUDING DECIDING WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME.

Dated 1 April 2016

CONTENTS

Annexure

1. IMPORTANT INFORMATION

LENDERS SHOULD READ THIS EXPLANATORY STATEMENT IN ITS ENTIRETY BEFORE MAKING A DECISION WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME

1.1 Orders to convene the Scheme Meeting

On 31 March 2016, the Court made orders under section 411(1) of the Corporations Act directing that a meeting of the Lenders be convened to vote upon the proposed Scheme. This Explanatory Statement has been provided to the Lenders in connection with the Scheme Meeting for the purpose of considering and, if thought fit, agreeing to the proposed Scheme between the Scheme Company, the Lenders and the Subordinate Claim Holders.

The Scheme Meeting will commence at:

10.30 am on, 22 April 2016

at

Ashurst, Level 11, 5 Martin Place, Sydney NSW 2000, Australia

Further information on the Scheme Meeting and the procedure for voting is set out in **Section 7** of this Explanatory Statement.

IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE *CORPORATIONS ACT 2001* (CTH)

The fact that under section 411(1) of the *Corporations Act 2001* (Cth) the Court has ordered that a meeting be convened and has approved the Explanatory Statement required to accompany the notice of the meeting does not mean that the Court:

(a) has formed any view as to the merits of the proposed Scheme or as to how Lenders should vote (on this matter Lenders must reach their own decision); or

(b) has prepared, or is responsible for the content of, the Explanatory Statement.

The Court's order under section 411(1) is not an endorsement of, or any other expression of opinion on, the Scheme.

1.2 Prescribed information

Under section 412(1) of the Corporations Act and regulation 5.1.01 of the *Corporations Regulations 2001* (Cth), this Explanatory Statement must contain certain information to assist the Lenders in deciding whether or not to vote in favour of the proposed Scheme. The below table indicates where in this Explanatory Statement that information can be found.

Prescribed information	Section of this Explanatory Statement
An explanation of the effect of the proposed Scheme	**Section 6**

Prescribed information	Section of this Explanatory Statement
The material interests of the Directors of the Scheme Company (including the effect of the Scheme on those interests)	**Section 11.1**
The expected dividend that would be paid to the Lenders if the Scheme Company were wound up within 6 months of the Court's order on the date of the First Court Hearing	**Section 8.4(a)**
The expected dividend that would be paid to TLB Scheme Creditors if the Scheme were put into effect as proposed	**Section 8.4(b)**
A list of the names of all known TLB Scheme Creditors and the debts owed to those TLB Scheme Creditors	**Annexure H**
A report on the affairs of the Scheme Company	**Annexure D**
A certified copy of all financial statements to be lodged by the Scheme Company with ASIC	**Annexure C**
The scale of charges that the Scheme Administrators propose to charge to implement the Scheme	**Annexure E**
The criteria and the date for determining the participants in the Scheme, the persons entitled to vote at the Scheme Meeting, and the persons who will be bound by the Scheme.	**Sections 6.12 and 7.5**

1.3 **Responsibility statement**

The Scheme Company has provided and is responsible for all information in this Explanatory Statement (other than the PPB Information). The Scheme Company and its Directors, officers, employees, and advisers expressly disclaim and do not assume any responsibility for the accuracy or completeness of the PPB Information.

This Explanatory Statement has been prepared solely for use by the Lenders for the purpose of evaluating whether or not to vote in favour of the Scheme. No other person apart from the Scheme Company and PPB (only in respect of the PPB Information) has been authorised to make any representation or warranty, express or implied, as to its accuracy or completeness. Nothing contained in this Explanatory Statement is, or should be relied on as, a representation, assurance or guarantee as to the benefits of the Scheme over any alternative for the Lenders.

PPB has prepared the PPB Report in relation to the Scheme Company and the proposed Scheme based, in part, on information provided by the Scheme Company. Except to the

extent that the Scheme Company is responsible for the information it has provided to PPB for the purpose of the PPB Report (and the Scheme Company takes responsibility for that information) PPB takes responsibility for the PPB Information.

The PPB Information consists of the information in **Section 8** of this Explanatory Statement, the PPB Report in **Annexure B** and certain other information or statements in this Explanatory Statement that have been identified as being sourced from, or attributed to, PPB.

No person has been authorised to give any information or to make any representation in connection with the Scheme other than the representations contained in this Explanatory Statement.

1.4 Not financial product or other advice

This Explanatory Statement is not financial product advice. It has been prepared without reference to your particular investment objectives, financial situation, tax situation, needs or specific circumstances. You should not construe any statements made in this Explanatory Statement as investment, tax or legal advice. Your decision whether to vote for or against the proposed Scheme will depend on an assessment of your own individual circumstances. As the financial, legal and taxation consequences of the Scheme may be different for each Lender, it is recommended that you seek your own professional financial, legal and taxation advice before making your decision.

1.5 Forward-looking statements

Certain statements in this Explanatory Statement relate to the future. The forward-looking statements in this Explanatory Statement are not based solely on historical facts, but rather reflect the current expectations of the Scheme Company as at the date of this Explanatory Statement. These statements generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipate", "intend", "foresee", "likely", "should", "plan", "may", "estimate", "potential", or other similar words and phrases. Similarly, statements that describe the Scheme Company's objectives, plans, goals or expectations are or may be forward looking statements.

Forward-looking statements are based on numerous assumptions regarding present and future circumstances. As such, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual result, performance or achievement to be materially different from the future result, performance or achievement expressed or implied by those statements.

Given this, Lenders are cautioned not to place undue reliance on any forward-looking statements made by the Scheme Company in this document or elsewhere.

Other than as required by law, none of the Scheme Company, its Directors, or any other person gives any representation, assurance or guarantee that the occurrence of any event, outcome, performance or achievement expressed or implied in any forward-looking statement in this Explanatory Statement will actually occur. The Scheme Company has no intention of updating or revising any forward-looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Explanatory Statement, except as required by law.

1.6 **ASIC**

A copy of this Explanatory Statement has been given to ASIC pursuant to section 412(7) of the Corporations Act. Neither ASIC nor any of its officers takes any responsibility for the contents of this Explanatory Statement.

1.7 **Date of this Explanatory Statement**

The date of this Explanatory Statement is **31 March 2016**.

1.8 **Defined terms and interpretation**

Capitalised words used in this Explanatory Statement have the meanings set out **Section 12.2**, unless the context otherwise requires or a term has been defined elsewhere in the text of the Explanatory Statement. Some of the attachments to this Explanatory Statement contain their own defined terms and should be read accordingly.

Section 12.1 contains general guidelines for interpreting this Explanatory Statement.

1.9 **Lenders outside Australia**

This Explanatory Statement has been prepared to reflect the applicable disclosure requirements of Australia, which may be different from the requirements applicable in other jurisdictions. The financial information included in this document is based on financial statements that have been prepared in accordance with accounting principles and practices generally accepted in Australia, which may differ from generally accepted accounting principles and practices in other jurisdictions.

The implications of the Scheme for Lenders who are resident in, have a registered address in or are citizens of and/or are taxable in jurisdictions other than Australia may be affected by the laws of the relevant jurisdiction. Such overseas Lenders should inform themselves about and observe any applicable legal requirements. Any person outside Australia who is resident in, or who has a registered address in, or is a citizen of and/or is taxable in, an overseas jurisdiction and who is to receive or subscribe for any Transaction Securities should consult its professional advisers and satisfy itself as to the full observance of the laws of the relevant jurisdiction in connection with the Scheme, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such jurisdiction.

1.10 **Foreign jurisdiction disclaimers**

THIS EXPLANATORY STATEMENT AND THE SCHEME DOES NOT CONSTITUTE AN OFFER OF SECURITIES IN ANY JURISDICTION IN WHICH IT WOULD BE UNLAWFUL. THIS EXPLANATORY STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY OTHER THAN THE TRANSACTION SECURITIES. NONE OF THE SECURITIES REFERRED TO IN THIS EXPLANATORY STATEMENT MAY BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

This Explanatory Statement may not be distributed to any person in any country outside Australia except in respect of those jurisdictions described below and in the manner contemplated below.

(a) **United States**

The Transaction Securities proposed to be issued pursuant to the Scheme will not be registered with the U.S. Securities and Exchange Commission (the **SEC**) under the U.S. Securities Act of 1933, as amended (the **U.S. Securities Act**) or the

securities laws of any state or other jurisdiction unless expressly specified herein, and are being issued in reliance on certain exemptions from registration under the U.S. Securities Act. Consequently, neither these securities nor any interest or participation therein may be offered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of in the U.S. or to U.S. Persons (as defined in the U.S. Securities Act) unless an exemption from the registration requirement of the U.S. Securities Act is available.

(i) Scheme Shares and Scheme Options

Each of the Scheme Shares and Scheme Options will be issued and delivered in reliance upon exemptions from the registration requirements of the U.S. Securities Act, including that provided by section 3(a)(10) of the U.S. Securities Act (**Section 3(a)(10)**). In order to qualify for the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10), there must be a hearing on the fairness of the Scheme's terms and conditions to the Lenders, which all the Lenders are entitled to attend in person or through representatives to oppose the sanctioning of the Scheme by the Court, and with respect to which notification will be given to all the Lenders. For the purpose of qualifying for the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10), the Scheme Company intends to rely on the Court's hearing to sanction the Scheme.

Pursuant to the Scheme, each of the TLB Scheme Creditors will undertake, in accordance with the terms of the Transfer Deed, that, in the first year following issuance of the Scheme Shares to it, it will only transfer the Scheme Shares: (i) in standard (regular way) brokered transactions on the ASX if neither it nor any person acting on its behalf knows, or has reason to know, that the sale has been prearranged with, or that the purchaser is, a person in the United States. (ii) to any of that TLB Scheme Creditor's Affiliates that undertakes to transfer the Scheme Shares or the Scheme Options, as applicable, solely in accordance with this paragraph or (iii) to any other TLB Scheme Creditor.

In addition, any TLB Scheme Creditor who is an Affiliate of the Scheme Company at the time of or within 90 days prior to any resale of the Scheme Shares or the Scheme Options will be subject to certain U.S. transfer restrictions relating to such securities. Such Scheme Shares or Scheme Options may not be sold without registration under the U.S. Securities Act, except pursuant to any available exemptions from the registration requirements or in a transaction not subject to such requirements (including a transaction that satisfies the applicable requirements for resale outside of the United States pursuant to Regulation S under the U.S. Securities Act (**Regulation S**)). Persons who may be deemed to be Affiliates of the Scheme Company include individuals who, or entities that, control directly or indirectly, or are controlled by or are under common control with the Scheme Company and may include certain officers and directors of the Scheme Company and the principal shareholders of the Scheme Company. Lenders will be required to make their own determination of their Affiliate status and should consult their own legal advisers prior to any sale of the Scheme Shares or the Scheme Options.

(ii) Option Shares

In connection with the issue of the Option Shares upon the exercise of the relevant Scheme Options, the relevant holder of the Scheme Options will be

required to confirm, by delivering a duly executed Representation Letter to the Scheme Company (with their Notice of Exercise), that the relevant holder is a person eligible to receive securities under the U.S. Securities Act and agree in writing to certain representations and covenants, amongst other things. If the confirmations required by the Representation Letter cannot be or are not given, the relevant holder will not be eligible to subscribe for the Option Shares. Accordingly:

(A) all TLB Scheme Creditors will be required to deliver a duly executed Representation Letter (with their Notice of Exercise) as a condition to exercise of their Scheme Options and the issue of resulting Option Shares; and

(B) subsequent holders of Scheme Options (that is, those who are not TLB Scheme Creditors) will also be required to deliver a duly executed Representation Letter (with their Notice of Exercise) on the exercise of Scheme Options,

(together, the TLB Scheme Creditors and subsequent holders of Scheme Options described above are the **Applicable Option Holders**).

The Option Shares will be issued and delivered in reliance upon exemptions from the registration requirements of the U.S. Securities Act. The Option Shares will be issued solely to persons within the United States and to U.S. persons, in each case where each such person is both (unless otherwise approved by the Scheme Company) a "qualified institutional buyer" (**Qualified Institutional Buyer**) as defined in Rule 144A under the U.S. Securities Act and an institutional "accredited investor" (**Accredited Investor**) within the meaning of clauses (1), (2), (3), (7) or (8) of clause (a) of Rule 501 of Regulation D under the U.S. Securities Act (**Regulation D**) in reliance on Rule 506(c) of Regulation D. Outside the United States, the Options Shares will be issued solely to non-U.S. persons in offshore transactions in reliance on Regulation S.

Upon issuance, the Option Shares will be "restricted securities" (as defined by Rule 144(a)(3) under the U.S. Securities Act) and may not be offered, sold, pledged or otherwise transferred except (i) in an offshore transaction complying with Regulation S under the U.S. Securities Act, (ii) in a transaction exempt from registration under the U.S. Securities Act pursuant to Rule 144 thereunder (if available), (iii) to a person whom it reasonably believes is a Qualified Institutional Buyer that is purchasing for its own account or for the account of one or more persons each of whom is a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A under the U.S. Securities Act or (iv) pursuant to an effective registration statement under the U.S. Securities Act, and in each of cases (i) through (iv) in accordance with any applicable securities laws of any state of the United States and any other jurisdiction.

Each of the TLB Scheme Creditors will agree, pursuant to the terms of the Transfer Deed (which will be executed by each TLB Scheme Creditor, and be required to be acceded to by each Applicable Option Holder who is not a TLB Scheme Creditor), in the first year following the issuance of the Option Shares to it, it will only transfer the Option Shares in standard (regular way) brokered transactions on ASX if neither it nor any person acting on its behalf knows, or has reason to know, that the sale has been prearranged with, or that the purchaser is, a person in the United States.

The Directors of the Scheme Company understand that none of the Transaction Securities will be listed on a U.S. securities exchange, with any securities regulatory authority of any State or other jurisdiction of the United States or with any inter dealer quotation system in the United States. The Scheme Company does not intend to take action to facilitate a market in any of the Transaction Securities in the United States. Consequently, the Scheme Company believes that it is unlikely that an active trading market in the United States will develop for any such securities.

Neither the SEC nor any U.S. federal, state or other securities commission or regulatory authority has registered, approved or disapproved any of the Transaction Securities or passed upon the accuracy or adequacy of this Explanatory Statement. Any representation to the contrary is a criminal offence in the United States.

TLB Scheme Creditors should consult their own legal, financial and tax advisers with respect to the legal, financial and tax consequences of the Scheme in their particular circumstances.

The issuance of the Transaction Securities to the TLB Scheme Creditors (as explained in detail in this Explanatory Statement) relates to the issuance of shares and options in an Australian company and is proposed to be made by and pursuant to a scheme of arrangement under Australian company law. Accordingly, the Scheme is subject to the disclosure requirements, rules and practices applicable to Australian schemes of arrangement and the information in this Explanatory Statement is not the same as that which would have been disclosed if the Explanatory Statement had been prepared for the purposes of complying with the registration requirement of the U.S. Securities Act or in accordance with the laws or regulations of any other jurisdiction. Financial information regarding the Scheme Company referred to in this Explanatory Statement has been or will have been prepared in accordance with Australian accounting standards that may not be comparable to the accounting standards applicable to financial statements of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

It may be difficult for TLB Scheme Creditors in the United States to enforce their rights and claims arising out of U.S. federal securities laws against officers and directors of the Scheme Company who are residents of countries other than the United States, and it may not be possible to sue the Scheme Company in a non-U.S. court for violations of U.S. securities laws.

(b) Bermuda

The Scheme Company is not making any invitation to persons resident in Bermuda for exchange control purposes to subscribe for Scheme Shares or Scheme Options.

(c) Cayman Islands

No offer or invitation to subscribe for the Scheme Shares or Scheme Options may be made to the public in the Cayman Islands.

(d) Ireland

The information in this Explanatory Statement does not constitute a prospectus under any Irish laws or regulations and this document has not been filed with or

approved by any Irish regulatory authority as the information has not been prepared in the context of a public offering of securities in Ireland within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the **Prospectus Regulations**).

The Scheme Shares and Scheme Options have not been offered or sold, and will not be offered, sold or delivered directly or indirectly in Ireland by way of a public offering, except to (i) "qualified investors" as defined in Regulation 2(l) of the Prospectus Regulations and (ii) fewer than 150 natural or legal persons who are not qualified investors.

(e) Luxembourg

The information in this Explanatory Statement has been prepared on the basis that all offers of Scheme Shares and Scheme Options will be made pursuant to an exemption under the Directive 2003/71/EC (**Prospectus Directive**), as amended and implemented in Luxembourg, from the requirement to produce a prospectus for offers of securities.

An offer to the public of Scheme Shares and Scheme Options has not been made, and may not be made, in Luxembourg except pursuant to one of the following exemptions under the Prospectus Directive as implemented in Luxembourg:

(i) to any legal entity that is authorised or regulated to operate in the financial markets or whose main business is to invest in financial instruments;

(ii) to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000 and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);

(iii) to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2004/39/EC, "**MiFID**");

(iv) to any person or entity who is recognised as an eligible counterparty in accordance with Article 24 of the MiFID;

(v) to fewer than 150 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive) subject to obtaining the prior consent of the Scheme Company; or

(vi) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Scheme Shares or Scheme Options shall result in a requirement for the publication by the Scheme Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

(f) United Kingdom

Neither the information in this Explanatory Statement nor any other document relating to the Creditors' Scheme has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the Scheme Shares and Scheme Options. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and the Scheme Shares and Scheme Options may not be offered or sold in the

United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the Scheme Shares and Scheme Options has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to the Scheme Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together, "**relevant persons**"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

1.11 Privacy

The Chairperson, the Scheme Administrators and Scheme Company may collect, use and disclose personal information in the process of implementing the Scheme. This information may include the names, contact details, bank account details or other details of Lenders and the names of persons appointed by Lenders to act as proxy, corporate representative or attorney at the Scheme Meeting. The primary purpose of collecting this information is to assist the Chairperson, the Scheme Administrators and the Scheme Company in the conduct of the Scheme Meeting and to enable the Scheme to be implemented by the Scheme Administrators.

If this personal information is not collected, the Chairperson, the Scheme Administrators and the Scheme Company may be hindered in, or prevented from, conducting the Scheme Meeting and implementing the Scheme.

Personal information may be disclosed to the Court, the Chairperson, the Scheme Administrators, the Scheme Company, third party service providers, professional advisers, ASIC, FIRB, ASX and other regulatory authorities and, in addition, where disclosure is required by law or where you have consented to the disclosure. Lenders have the right to access personal information that has been collected about them. Lenders should contact the Scheme Company in the first instance about exercising that right.

If you have any questions in relation to the collection of personal information, please contact Tony Walsh as follows:

Tony Walsh Company Secretary
Atlas Iron Limited
Level 18, 300 Murray Street
Perth WA 6000
AUSTRALIA

Email: tony.walsh@atlasiron.com.au

It is the responsibility of Lenders who appoint a named person to act as their proxy or attorney at the relevant Scheme Meeting to inform their proxy or attorney of the matters outlined above.

1.12 **Documents available for inspection**

Documents referred to in this Explanatory Statement that are not reproduced in the Annexures to this Explanatory Statement or have not otherwise been provided to Lenders will be made available for inspection by Lenders on a secured website to be established by the Scheme Company.

To request access to that website, contact the Scheme Company's secretary at the address below:

Tony Walsh
Company Secretary
Atlas Iron Limited
Level 18, 300 Murray Street
Perth WA 6000
AUSTRALIA

Email: tony.walsh@atlasiron.com.au

To the extent that documents referred to in this Explanatory Statement are confidential to the Scheme Company, other members of the Group or third parties, or if the Scheme Company cannot legally disclose such documents, the Scheme Company reserves the right:

(a) not to make such documents available for inspection; or

(b) to make only masked copies of, or extracts from, such documents available for inspection.

1.13 **Questions**

If you have any questions in relation to the Scheme, you may:

(a) direct your questions to the Scheme Company by email to Tony Walsh at tony.walsh@atlasiron.com.au;

(b) if you do not have access to email facilities, direct your questions in writing to the Scheme Company at:

Tony Walsh
Company Secretary
Atlas Iron Limited
Level 18, 300 Murray Street
PERTH WA 6000
AUSTRALIA; or

(c) telephone Tony Walsh on (08) 6228 8000 between 9:00am and 5:00pm (Perth time), Monday to Friday.

If you have any questions in relation to the lodgement of Proxy Forms or Voting Proof of Debt Forms, you are encouraged to contact the Scheme Administrators at:

David McGrath
PPB Advisory
Level 7, 8-12 Chifley Square
SYDNEY NSW 2000 Australia
Ph: +61 2 8116 3000
Email: dmcgrath@ppbadvisory.com

2. KEY DATES AND STEPS

Event	Date
Voting Entitlement Record Date	5.00 pm 31 March 2016
Deadline for receipt of Voting Proof of Debt Forms and Proxy Forms	4.00 pm 18 April 2016
Scheme Meeting of all Lenders	22 April 2016
Second Court Date	28 April 2016
Lodgement of Court Orders with ASIC (Effective Date)	No later than 10:00am on the Business Day after the day on which the Court makes the Court Orders
Calculation Date	The second Business Day after the Effective Date
Implementation Date (including implementation of Steps 4 to 12 under the Scheme)	Five Business Days after the Effective Date, unless otherwise advised by the Scheme Administrators

NOTE

All dates and times referred to in this Explanatory Statement and the documents attached to it are to times in Sydney, Australia except where otherwise stated. The dates set out in the above table are indicative only and may be subject to change. The Scheme Company reserves the right to vary the times and dates set out above, subject to the Corporations Act and the approval of any variations by the Court or ASIC where required.

Lenders are encouraged to take the following steps in advance of the Scheme Meeting:

(a) **Read this Explanatory Statement in full**

The Scheme Company encourages you to take professional advice, and to consult with your professional advisers, when making any decisions in connection with the Scheme.

(b) **Consider FIRB requirements**

If you are a foreign person, including a foreign corporate entity, for the purposes of the FATA, consider whether you need to provide a notification to the Treasurer of the Commonwealth of Australia in respect of the acquisition of Scheme Shares and Scheme Options on implementation of the Scheme. If you require such approval, and do not obtain it in advance of the Implementation Date, you may be exposed to penalties and an order requiring you to dispose of your Scheme Shares and Scheme Options and it is a condition of the Scheme that you obtain such approval to the extent that it is required.

Any such Lender may contact David Clee of Gilbert and Tobin for advice on the FIRB requirements. The cost of this advice will be met by the Scheme Company.

See **Section 6.2(a)** of the Explanatory Statement for further information about FATA requirements in connection with the Scheme.

(c) **Consider attending and voting at the Scheme Meeting**

See **Section 7** for detailed information in relation to the Scheme Meeting.

3. OVERVIEW OF EXPLANATORY STATEMENT AND SCHEME

3.1 Why you are receiving this Explanatory Statement

This Explanatory Statement contains information about the proposed Scheme and is required by section 412(1) of the Corporations Act to be issued together with each Notice of Meeting issued to a Lender.

You have been sent this Explanatory Statement because, according to the records of the Scheme Company as at the First Court Date, you are a Lender.

Receipt of this Explanatory Statement does not amount to confirmation that you have a valid claim against or are owed any amount by the Scheme Company.

If you are a Lender as at the Voting Entitlement Record Date (irrespective of whether or not you were a Lender as at the date of this Explanatory Statement), you will be eligible to vote at the Scheme Meeting provided that:

(a) the Chairperson receives a completed Voting Proof of Debt Form from you by no later than 4.00 pm, 18 April 2016; and

(b) if you wish to vote by proxy, the Chairperson receives a Proxy Form from you by 4.00 pm, 18 April 2016.

Additionally, if you wish to vote by attorney or corporate representative, such attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including authority under which the appointment was made.

The Voting Proof of Debt Form is set out in **Annexure G** and the Proxy Form is set out in **Annexure F** of this Explanatory Statement.

Further details of the Scheme Meeting, including the procedure for voting, can be found in **Section 7** of this Explanatory Statement.

3.2 Summary of the Scheme procedure

The proposed scheme is a creditors' scheme of arrangement. A creditors' scheme of arrangement is a compromise or arrangement between a company and its creditors (or any class of them) effected in accordance with Part 5.1 of the Corporations Act.

The resolution to agree to the Scheme at the Scheme Meeting must be passed by a majority in number (more than 50%) of the Lenders who are present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney) being a majority whose Admitted Claims together amount to at least 75% of the Secured Debt owing to the Lenders present and voting at the Scheme Meeting (either in person or by proxy, corporate representative or attorney) (**Requisite Majority**).

If the Scheme is agreed to by the Requisite Majority, in order to become effective, the Scheme must then be approved by the Court on the Second Court Date. The Court may grant its approval subject to such alterations or conditions as it thinks fit. However, the Scheme will not take any effect if any alterations the Court makes or the conditions the Court imposes change the substance of the Scheme in any material respect.

If the Scheme is approved by the Court, and the Court Orders are lodged with ASIC, then the Scheme will become effective. Once all the conditions precedent set out in the Scheme are satisfied, the Steps to effect the Scheme will be undertaken. The conditions precedent (detailed in **Section 6.2** below) include:

(a) as at the Second Court Date, in respect of any those Lenders who applied on or before the First Court Date to the Treasurer of the Commonwealth of Australia under the FATA for a statement of no objections to the proposed issue of the Scheme Shares and the Scheme Options, the Treasurer either:

(i) has issued a notice stating the Commonwealth Government does not object to the issue of the Scheme Shares and the Scheme Options to those Lenders, such notice being without conditions, or, if with conditions, those conditions are acceptable to the relevant Lenders and the Obligors (to the extent the conditions impose obligations on the Obligors), acting reasonably; or

(ii) ceases to be empowered to make any order in respect of the issue of the Scheme Shares and Scheme Options (including by effluxion of time, and including if the period for making a final order following an interim order prohibiting the issue of the Scheme Shares and the Scheme Options has elapsed) to those Lenders;

(b) the members of the Scheme Company pass a resolution at the Shareholders Meeting in accordance with the ASX Listing Rules approving the issue of Scheme Shares and Scheme Options to the TLB Scheme Creditors;

(c) the Scheme is agreed to by the Requisite Majority;

(d) the Scheme Administrators Deed Poll, the Obligors Deed Poll and the Undertakings (outlined in more detail in **Section 6.2** below) come into, and remain in, effect;

(e) the Scheme Company:

(i) obtains, at or before 8.00am on the Second Court Date, a modification granted by ASIC of sections 707(3) and 707(4) the Corporations Act to enable the Shares issued on exercise of any New Options to be freely tradeable without relevant on-sale restrictions, as contemplated by an application for such a modification lodged by the Company with ASIC on 8 February 2016; or

(ii) failing receipt of the modification contemplated above by 12:00pm on the Business Day before the Second Court Date, delivers to the Administrative Agent (and providing a copy to the TLB Scheme Creditors), at or before 8.00am on the Second Court Date, the New Options Deed Poll; and

(f) the Scheme is approved by the Court.

The steps to implement the Scheme are intended to be completed no more than 5 Business Days after all of the conditions precedent under the Scheme have been satisfied. However, the Scheme Administrators may extend the date on which the Scheme is implemented to a date that is no earlier than the Business Day after the Calculation Date and no later than the Sunset Date.

Once the Scheme becomes effective, it will be binding upon the Scheme Company, the Subordinate Claim Holders and all TLB Scheme Creditors, including those TLB Scheme Creditors that did not vote in favour of the Scheme, or those that did not attend, or vote at, the Scheme Meeting.

It will also be binding upon the Agents, the Released Individual Obligors and the Obligors, as a result of them each having signed a Deed Poll.

If, in the opinion of the Scheme Administrators, it is not possible to give effect to the Scheme, each the Scheme Company, the Obligors, Released Obligor Individuals, the Agents and the TLB Scheme Creditors are required to do all things reasonably necessary to put each other party in the position it would have been in if none of the Steps under the Scheme had occurred.

3.3 **Objects and purpose of the Scheme**

The principal objects and purposes of the Scheme are to reduce the Secured Debt owing by the Scheme Company to the TLB Scheme Creditors, which involves:

(a) a US$2,500,000 cash payment to the TLB Scheme Creditors by the Scheme Company in partial repayment of the Secured Debt;

(b) a further cash payment to the TLB Scheme Creditors by the Scheme Company equal to all accrued and unpaid interest owing to the TLB Scheme Creditors in respect of the Secured Debt (if any);

(c) a release by the TLB Scheme Creditors of the past and present directors, officers and employees of the Obligors, who sign a deed poll, in respect of any Claims relating to events that occurred between 10 December 2012 and the Implementation Date (although the Scheme Company is not aware of any potential Claims that may be available against any of those people);

(d) a release by the past and present directors, officers and employees of the Obligors, who sign a deed poll, of the TLB Scheme Creditors in respect of any Claims relating to events that occurred between 10 December 2012 and the Implementation Date (although the Scheme Company is not aware of any potential Claims that may be available against any of those people);

(e) a release given by the TLB Scheme Creditors in favour of the Scheme Company, and the Obligors, from their obligations to pay approximately US$121,100,530 of Secured Debt owed by the Scheme Company to the TLB Scheme Creditors in exchange for the issue of:

    (i) such number of Scheme Shares to the TLB Scheme Creditors equivalent to approximately 70% of the Scheme Company's outstanding Shares on issue immediately following the Implementation Date; together with

    (ii) Scheme Options equivalent to approximately 70% of the Scheme Company's outstanding options on issue immediately following the Implementation Date;

(f) amendments being made to the terms upon which the remaining Secured Debt (being in the amount of US$135,000,000) shall be owed to the TLB Scheme Creditors by the Scheme Company, including amendments to financial covenants and maturity date (as set out in **Section 6.5**);

(g) the appointment of the New Directors to the board of the Scheme Company and the resignation of certain existing directors of the Scheme Company; and

(h) the Subordinate Claims of Subordinate Claim Holders being compromised such that:

    (i) any right they have to bring a Subordinate Claim against the Scheme Company is limited to the amount actually recovered by the Scheme Company from any policy of insurance that responds to the Subordinate

Claim, less any expenses incurred by the Scheme Company or the insurer in connection with the Subordinate Claim; and

(ii) the Scheme Company is released from an obligation to pay any amount to the Subordinate Claim Holder in excess of the limit outlined in (i) above.

The Scheme will have no effect on unsecured trade creditors of the Scheme Company or on the secured or unsecured creditors of the Scheme Company other than the TLB Scheme Creditors and the Subordinate Claim Holders. Except to the extent set out above (and in more detail below) in relation to the Released Obligor Individuals, it will also have no effect on employees of the Scheme Company who, subject to ordinary course changes in employment arrangements, will continue their employment.

Section 6 of this Explanatory Statement contains detailed information on the terms of the Scheme. The Scheme itself is set out at **Annexure A**.

3.4 Why is the Scheme being proposed?

The Scheme is being proposed as it offers the best means for the Scheme Company to restructure its liabilities to the Lenders with transactional certainty. Implementation of the Scheme will:

(a) reduce total Secured Debt to a sustainable level by reference to the Scheme Company's current business performance;

(b) reduce its ongoing debt servicing obligations under the SFA;

(c) prevent a breach of the covenant in clause 7.13 of the SFA from occurring; and

(d) extend the maturity date for the remaining debt owing to Lenders under the SFA for a further five years from April 2016.

Currently, under the SFA, the debt owed by the Scheme Company to the Lenders is due to be repaid in full in December 2017. This debt will become a current liability in December 2016. Absent a very material improvement in iron ore markets (which is not consistent with long range price forecasts) the Board will have no reasonable basis to expect that it can refinance or repay the debt owed under the Syndicated Facility Agreement when it becomes due. Details of the alternatives to the Scheme considered by the Board are set out in **Section 5.2**.

Clause 7.13 of the SFA contains a promise by the Scheme Company that it will not:

> *Permit the Total Assets to Total Secured Debt Ratio* [as that term is defined in the SFA]*, as determined as of the last day of each semi-annual period, to be less than 2.00 to 1.00.*

The Total Assets to Total Secured Debt Ratio (referred to in this Explanatory Statement as the **Asset Coverage Ratio**) is tested on 30 June and 31 December each year.

The Scheme Company considers that there is a high risk that it will fail to satisfy the Asset Coverage Ratio covenant in the future if the Scheme is not approved and implemented or an alternative source of funding acceptable to the Lenders is not found promptly before the date on which the Asset Coverage Ratio is next tested. The Asset Coverage Ratio is not included as a covenant in the Amended SFA, although the Amended SFA does include additional covenants not currently in the Syndicated Facility Agreement. The Amended SFA is contained in Schedule 2, Part 1 of the Scheme. A detailed description of the potential risks of default under the SFA is set out in **Section 5.1(c)**.

Failure to satisfy the Asset Coverage Ratio covenant constitutes an Event of Default under clause 8.1(c) of the SFA, which in turn entitles the Administrative Agent (acting on instructions) to demand immediate repayment of the Secured Debt from the Scheme Company and entitles the Collateral Agent to, among other things, appoint a receiver and manager to the assets of any or all of the Obligors (other than the Acceding Obligors) (an **insolvency event**).

PPB (who were engaged by the Scheme Company to prepare a report as detailed in **Section 8** of this Explanatory Statement) have opined that, if the Scheme is not implemented, among other things:

(a) there is a high degree of risk that the Scheme Company will breach the Asset Coverage Ratio covenant at 30 June 2016 (even before taking into account any impairments that may be required to be recognised against the Scheme Company's assets), which would in turn lead to an insolvency event in respect of the Scheme Company and, possibly, other members of the Group;

(b) if an insolvency event were to occur, the realisable value of the Group's assets would be heavily discounted to take into account the current market conditions and the distressed nature of the sale; and

(e) TLB Scheme Creditors would receive between approximately AU$107 million (29.6c per AU$) and AU$270.2 million (74.8c per AU$) in an insolvency event.

Accordingly, the Scheme, if agreed to by the Requisite Majority of Lenders and approved by the Court, provides a mechanism to reduce the likelihood of an Event of Default under the terms of the SFA and any consequential insolvency event occurring and potential diminution in the value of the Scheme Company's assets arising out of an insolvency event.

3.5 Support for the Scheme

The Scheme Company currently expects that more than 50% of Lenders by number holding at least 75% of the Secured Debt will support the Scheme.

Pursuant to the Restructuring Support Agreement, certain Lenders have agreed to support the Scheme. Further details regarding the Restructuring Support Agreement are set out in **Section 5.3** of this Explanatory Statement.

3.6 Secured Debt

As at 23 March 2016 the Scheme Company owes a principal amount of US$259,269,280.21 and accrued interest in the amount of US$5,734,532.34 to the Lenders under the terms of the SFA. If the Scheme becomes effective, all accrued and unpaid interest on this amount will be paid by the Scheme Company on the Implementation Date.

Lenders should note that the supplementary component of the PPB Report was prepared on the basis of the amounts owing to Lenders as at 29 February 2016 (in respect of the valuation aspects of the PPB Report). The estimated dividend calculations in the PPB Report are based on projections of the Secured Debt as at certain future dates.

3.7 Transaction Costs

The Costs associated with the Scheme, including legal and adviser Costs of the Scheme Company and some of the Lenders, fees payable under the SFA, fees payable in respect of the proposed amendments to the SFA contemplated by the Scheme and the Scheme

Administrators' Costs are estimated to be between AU$10 million and AU$15 million (inclusive of GST). Some of these Costs have already been paid by the Scheme Company.

3.8 **Advantages and disadvantages of the Scheme**

The potential advantages and disadvantages of the Scheme are summarised below and are set out in more detail in **Section 9** and **Section 10** of this Explanatory Statement.

(a) **Advantages to Lenders**

Lenders may consider voting in favour of the Scheme because:

(i) it will effect a partial debt for equity swap which may result in the TLB Scheme Creditors recovering the debt released through an increase in the value of Scheme Shares and Scheme Options in the Scheme Company, and their eventual sale, transfer, or exercise (as the case may be);

(ii) the rights of Subordinate Claim Holders to bring Subordinate Claims against the Scheme Company will be limited to any amount actually recovered by the Scheme Company under any insurance policy applicable to that Subordinate Claim, less expenses incurred in connection with that Subordinate Claim;

(iii) Alan J Carr, Eugene I Davis and Daniel Harris, being the New Directors, will be appointed to the board of directors of the Scheme Company and the existing directors of the Scheme Company, with the exception of David Flanagan and Cheryl Edwardes, will resign;

(iv) it has the potential to avoid the costs, delays and uncertainty that could result from formal insolvency processes such as voluntary administration, liquidation or receivership of the Scheme Company or the Group;

(v) the most likely alternative to the Scheme, being a formal insolvency process, may reduce the realisable value of the Group's business and assets;

(vi) the PPB Report estimates that Lenders will most likely receive a dividend of between 29.6 cents per AU$ and 74.8 cents per AU$ (against a Secured Debt amount of AU$361 million) if the Scheme Company and the Group is subject to a formal insolvency procedure as at 30 June 2016, whereas it is possible that the Transaction Securities will increase in value and, in turn, it is possible that the TLB Scheme Creditors may eventually be able to sell the Transaction Securities for an amount which exceeds the amount that they would have received had the Scheme not been implemented;

(vii) Lenders will have greater transaction certainty under the Scheme than under a sale or restructuring of the Scheme Company without a scheme of arrangement; and

(viii) implementation of the Scheme, and the consequential reduction of Secured Debt, will improve the Scheme Company's financial position and may improve its ability to continue to trade, operate its businesses and raise funds in the future to expand its business operations.

Further details are set out in **Section 9** of this Explanatory Statement.

(b) **Disadvantages to TLB Scheme Creditors**

Lenders may consider voting against the Scheme because:

(i) the TLB Scheme Creditors will release the Scheme Company, and the Obligors, from their obligations to pay to the TLB Scheme Creditors a portion of the Secured Debt in exchange for the issue of the Scheme Shares and the Scheme Options;

(ii) the Scheme Shares received by each TLB Scheme Creditor as a result of the partial debt for equity swap implemented by the Scheme will rank behind the claims of all creditors (including unsecured creditors) of the Scheme Company in a winding up of the Scheme Company;

(iii) there are risks associated with holding Shares and Options, and being a minority shareholder, in the Scheme Company. Some of these risks are detailed in **Section 4.1** of this Explanatory Statement. No assurances can be given in respect of the future performance of the Scheme Company, the value of, or return on, Shares or Options in the Scheme Company or the ability of any TLB Scheme Creditor to sell its Shares or Options in the Scheme Company. The TLB Scheme Creditors, as part of implementation of the Scheme under the Transfer Deed, will be required to agree that:

(A) in the case of the Scheme Shares and the Scheme Options, in the first year following the completion of the Scheme; and

(B) in the case of the Option Shares, in the first year following the issuance of the Option Shares to them,

they will only transfer the Scheme Shares, Scheme Options or Option Shares, as applicable:

(C) in standard (regular way) brokered transactions on ASX if neither it nor any person acting on its behalf knows, or has reason to know, that the sale has been prearranged with, or that the purchaser is, a person in the United States;

(D) to any of that TLB Scheme Creditor's Affiliates that undertake to transfer the Scheme Shares, the Scheme Options or the Option Shares, as applicable, solely in accordance with this paragraph; or

(E) to any other TLB Scheme Creditor.

For the avoidance of doubt, any Applicable Option Holder (who is not a TLB Scheme Creditor) must also accede to the terms of the Transfer Deed, and so the above restrictions on transfer will be equally apply to those Applicable Option Holders;

(iv) each TLB Scheme Creditor will release the Released Obligor Individuals from all Claims and obligations relating to events that occurred between 10 December 2012 and the Implementation Date.

As a consequence, the TLB Scheme Creditors will no longer have the benefit of certain amounts that may have otherwise been recovered from the Released Obligor Individuals. As at 23 March 2016, the Scheme Company is not aware of any potential Claims which a Lender may have against any such person.

(v) there may be some counterparties to contracts with the Scheme Company or any of its subsidiaries who may have rights to terminate those contracts as a result of the implementation of the Scheme; and

(vi) while there is no certainty as to the outcome of a formal insolvency process, Lenders may consider that such a process will deliver a better outcome to them than implementation of the Scheme.

Further details are set out in **Section 10** of this Explanatory Statement.

3.9 Lenders and amounts owed to them

As at 22 March 2016 the Secured Debt is held by 71 Lenders.

A list which provides details of the name of, and amount owing to, each Lender as at 22 March 2016 is set out in **Annexure H** to this Explanatory Statement.

3.10 Lenders should obtain advice

The Scheme Company is not in a position to make an assessment of the prospects of success of any individual Lender's Claims, the quantum of recovery which may be available to individual Lenders if the Scheme does not proceed or the future value of any Scheme Shares and Scheme Options if the Scheme proceeds. These are matters for each Lender to consider.

As the legal, financial and taxation consequences of the Scheme may be different for each Lender, Lenders should seek professional legal, financial and taxation advice in relation to the Scheme.

4. RISKS ASSOCIATED WITH SCHEME COMPANY'S BUSINESS

4.1 Industry and risks

A summary of selected major industry risks and risks relating to the Scheme Company is set out in this section. It should be noted that these risks are in addition to the risks commonly faced by businesses, including financial, economic, counterparty, credit and regulatory risks, which may have adverse consequences on the Scheme Company. Secured lenders, including the Lenders, should be familiar with these risks.

The future performance of the Scheme Company, and the price of its Shares, will be influenced by a number of factors, which may be specific to the proposed Scheme, or to the Scheme Company, or of a general nature. Whilst some of these factors can be mitigated by the use of safeguards and appropriate systems and actions, some are outside the control of the Scheme Company and cannot be mitigated. The principal risks include, but are not limited to, those set out below.

Lenders should be aware that holding Shares in the Scheme Company involves many risks, which may be different to the risks associated with holding shares in other companies.

Lenders should consider consulting their professional advisers before deciding whether to vote in favour of the Scheme.

(a) **Iron ore price risk**

The Scheme Company's revenues and cash flows are derived from the sale of iron ore. The majority of the Scheme Company's sales contracts use a pricing formula linked to the spot market price for iron ore. Contract pricing is often based on the

spot market price in a future period. This has meant that the Scheme Company's final received price has only been known one to two months after iron ore is shipped. The Scheme Company's financial performance has historically therefore been exposed to fluctuations in the iron ore price, which has been particularly volatile in recent times. The Scheme Company has sought to reduce volatility by selectively using hedging products where they are available on a commercial basis, fixed price sales and shorter dated pricing periods. This may partially reduce exposure to iron ore price risk, but may also limit the Scheme Company's ability to leverage any potential iron ore price appreciation.

Iron ore prices may be influenced by numerous factors and events that are beyond the control of the Scheme Company, including increased global supply, actions of other producers, decreased demand, currency exchange rates, general economic conditions, regulatory changes and other global, regional, political and economic factors. The Scheme Company cannot provide any assurance as to the prices it will achieve for its iron ore. Changes in iron ore prices may have a positive or negative effect on various aspects of the Scheme Company's business including profit margins, project development and production plans and activities, together with its ability to fund those plans and activities.

A fall in iron ore prices, or a sustained period of current low and volatile pricing, may have a negative effect on the Scheme Company's ability to comply with its debt covenants, even following implementation of the Scheme.

The Scheme Company has historically sold its product with reference to the IODEX 62% Fe index, less an adjustment for value in use (or discount). Discounting of the Scheme Company's products may also occur which would result in a decrease in profit margins.

The Scheme Company would need to consider suspending its operations if there was a sustained decline in iron ore prices, or if iron ore prices continue to stay at current levels for a prolonged period. In these circumstances, the directors of the Scheme Company would need to consider whether the Scheme Company and its operations remain sustainable and viable, which could ultimately impact on the Scheme Company's ability to operate as a going concern.

Iron ore price risk also affects many of the other risks set out in this section.

(b) **Foreign currency and exchange rate fluctuations**

A significant portion of the Scheme Company's operating expenses are denominated in Australian dollars. A notable exception to Australian dollar denominated operating expenses is sea freight, which is incurred in US dollars. The international prices of various commodities, including iron ore, are denominated in other currencies (e.g. US dollars). The Scheme Company's revenue from its sales is received in US dollars, and the interest and principal repayments in respect of the Total Aggregate Amount owing under the SFA is denominated in US dollars. The Amended SFA will continue to be denominated in US dollars. Furthermore, the Scheme Company holds a portion of its cash balance in US dollars at any given time.

Accordingly, the Scheme Company's income from, and the value of its business, will be affected by fluctuations in the rates by which the US dollar is exchanged with Australian dollars. For example, a weakening in the value of the US dollar as compared to the Australian dollar, would have an effect of reducing the Australian dollar value of US dollar sales. Alternatively, a weakening of the Australian dollar

as compared to the US dollar would have an effect of increasing the Australian dollar value of US dollar sales.

Although steps may be undertaken to manage currency risk (for example via hedging strategies), adverse movements in the Australian dollar against the US dollar may have an adverse impact on the Scheme Company. Combined with other factors, this could lead to a deterioration in the Company's financial performance and position and, as a result, could lead to a breach of the covenants under the Amended SFA and the Scheme Company's ability to continue as a going concern.

(c) **Cash flow constraints and going concern**

The Scheme Company uses the forecasts published by independent forecasters to assist in making business judgements, including making estimates as to its cash requirements. The Scheme Company may need additional funds to, among other things, improve its ability to manage periods of iron ore price volatility. If the Scheme Company is unable to raise sufficient funds, and if market conditions materially deteriorate (compared to current forecasts issued by the independent economic forecasters that the Scheme Company has used to prepare current financial forecasts), and the Scheme Company is unable to lower its cost base further, it may have to suspend operations at some or all of its mines (which may include closing one or all of its mines or placing the mines on care and maintenance) or look to sell some of its assets to raise the required funds.

There is a risk that the directors may need to seek to raise additional funds through capital raisings or seek to further renegotiate the Scheme Company's debt arrangements. If the market conditions materially deteriorate, and the Scheme Company is unable to lower its cost base further or raise sufficient additional funds (by asset sales or additional capital raisings), or further renegotiate its debt obligations on terms acceptable to the Scheme Company, the directors would need to consider whether the Scheme Company's operations remain viable, which could ultimately impact on the Scheme Company's ability to operate as a going concern.

(d) **Indebtedness**

If the Scheme is implemented, the Scheme Company's gross debt position will be approximately US$135 million (approximately AU$187.5 million assuming an exchange rate of US$0.72 = AU$1.00) under the Amended SFA. While this is a reduction of the Scheme Company's total indebtedness from prior to implementation of the Scheme, this level of indebtedness still has important consequences for the Scheme Company and its Shareholders, including the following:

(i) requiring the Scheme Company to dedicate a material portion of its cash flow from operations to meet principal and interest payments thereby reducing the availability of cash flow to fund working capital, capital expenditures, development activity, acquisitions and other general corporate purposes;

(ii) increasing the Scheme Company's vulnerability to adverse general economic or industry conditions, including iron ore price and exchange rate fluctuations;

(iii) subjecting the Scheme Company to a number of covenants, which reduce its flexibility in planning for, or reacting to, changes in the Scheme Company's businesses or industry; and

(iv) placing the Scheme Company at a competitive disadvantage compared to its competitors that have less debt or are not subject to similar covenants.

While the Scheme Company believes that the above consequences will, in part, be alleviated by the proposed Scheme (for example, ongoing principal and interest repayments will be materially reduced under the Amended SFA), there can be no guarantee that this will be the case.

Factors such as an increase in interest rates (which might affect the LIBOR reference rate used in the Amended SFA), increased borrowings (which may be related to a negative movement in foreign exchange rates as principal and interest payments are not hedged), weak operational performance or a reduction in asset values could lead to the Scheme Company breaching the covenants under the Amended SFA proposed by the Scheme and could affect the Scheme Company's ability to continue as a going concern, which would expose the Scheme Company to the risks noted below.

(e) **Asset impairment and write-down risk**

The Scheme Company's non-current assets include exploration assets, development assets, property, plant, equipment and intangibles. In the event the recoverable amount is lower than the carrying value of these non-current assets (primarily due to a decline in the Scheme Company's realised price for iron ore or increase in operating and capital costs) the Scheme Company may be required to write these investments or assets down to recoverable amount, which may have an adverse impact on its financial position.

Key factors which influence asset valuation include the future expectations for iron ore price of the independent economic forecasters the Scheme Company utilises, variation in the appropriate valuation metric used for pre development assets, operating and capital costs and the forecast level of the Australian dollar.

(f) **Debt servicing and refinancing risk**

Under the Amended SFA, the Term Loan B needs to be fully repaid, renewed or refinanced on or before April 2021.

The ability of the Scheme Company to repay or reschedule the debt obligations under the Amended SFA will ultimately be contingent on the US$ iron ore pricing and AU$/US$ exchange rate outcomes, achievement of forecast cost outcomes and the ability of the Scheme Company to source additional funds through debt and equity markets.

If market conditions deteriorate significantly against current forecasts issued by the independent economic forecasters used by the Scheme Company (particularly in relation to iron ore price and foreign exchange rates), a shortfall is likely. Accordingly, in these circumstances there would be significant uncertainty as to the Scheme Company’s ability to fully repay, refinance or reschedule the outstanding debt under the Amended SFA at the maturity date and therefore the Scheme Company’s ability to continue as a going concern. As such, the Scheme Company would need to consider alternative financing arrangements prior to April 2021, which may include refinancing or restructuring existing facilities, securing new facilities on acceptable terms or securing alternative funding (including potentially through raising additional shareholder equity). There is no guarantee that alternative financing arrangements would in these particular circumstances be successful.

The Scheme Company's revenues are derived from the sale of iron ore and so the Scheme Company's financial performance is particularly exposed to changes in the iron ore price and foreign exchange rates. Should the Scheme Company's financial performance be adversely affected, the most logical source for servicing the debt, being its revenue, will not eventuate. The Scheme Company may have to consider the suspension or closure of some or all of its mining activities or the sale of certain assets. Where the Scheme Company fails to secure alternative funding in these circumstances the lenders under the Amended SFA may exercise rights that would be available to them, including, among other things, instructing the Administrative Agent to accelerate repayment of outstanding borrowings and appoint a receiver.

(g) **Potential for suspension of certain mining activities**

In light of the Scheme Company's need for funds to manage operations, future levels of cash flow, working capital requirements and indebtedness (as described above), there is a risk that the Directors of the Scheme Company may resolve to close or suspend operations at certain mines, or place some or all of the mines on care and maintenance where those assets are unable to generate positive operating cash flow in the future. Future closure of mines, or placing of operations on care and maintenance or other forms of suspension or termination of operations, could result in loss of expected revenues, and additional expenses including expenses for termination, redundancies, demobilisation, maintenance and storage of equipment used at those operations. It will also have implications for the Scheme Company's workforce, and further costs may be incurred for redundancy payments (among other things). Accordingly, this could have further adverse effects on the financial performance and financial position of the Scheme Company. If this were to occur, the Scheme Company may seek a voluntary suspension in trading of its Shares. If there is a sustained drop in iron ore prices or if iron ore prices continue to stay at current levels for a prolonged period or alternative funding is not available, it is possible that the Scheme Company may not have the financial capacity to meet any suspension or termination costs that may be payable to contractors, or meet its payment obligations or debt obligations under the Amended SFA and the Scheme.

In these circumstances, the directors would need to consider whether the Scheme Company remains sustainable and viable.

(h) **Counterparty risk**

The Scheme Company's revenues and cash flows are principally derived from the sale of iron ore. Therefore, the financial performance, revenue and profits of the Scheme Company are exposed to the iron ore price (see "Iron ore price risk" above), the prevailing applicable exchange rate (see "Foreign currency and exchange rate fluctuations" above) and any failure by counterparties to sales contracts or any other agreements that the Scheme Company has entered into to perform or pay. Many of the Scheme Company's counterparties are foreign domiciled and the Scheme Company may encounter difficulty enforcing legal remedies in foreign jurisdictions. For this reason, there can be no assurance that the Scheme Company would be successful in attempting to enforce any of its contractual rights through legal action. Results of operations could be materially and adversely affected as the Scheme Company may not be able to obtain sales contracts or agreements with alternative customers on similar terms and prices. Further, the Scheme Company's practical ability to recover any losses is limited to the assets of its counterparties, assuming any associated legal proceedings find in the Scheme Company's favour.

In addition, given the Scheme Company is a public company and its securities are listed, statements made publicly regarding the Scheme Company can have an impact on investors' perception of its performance. Accordingly, should a counterparty of the Scheme Company make an adverse statement regarding the Scheme Company publicly, such statement could have an impact on the value of the Scheme Company's securities, regardless of the validity of that statement.

(i) **Reliance on key contractors and Contractor Collaboration Model**

The Scheme Company relies on a number of key contractors for the provision of mining, crushing, haulage, port and handling services. Any delay in contractors completing work or encountering operational difficulties may lead to a loss of revenue and increased costs. There is also a risk that the loss of one or more contracts with key contractors (including due to insolvency of the contractor) may lead to an increase in the Scheme Company's costs of production. The Scheme Company has considered and continues to consider various ways to mitigate the loss of a key contractor, but cannot guarantee the loss of a key contractor will not lead to an increase in costs or decrease in revenue.

The Contractor Collaboration Model constitutes a significant component of the Scheme Company's recent cost reduction program. Under the Contractor Collaboration Model, the participating contractors agree to a lower rate structure (among other things and subject to certain conditions) in exchange for receiving an uplift in their rates that are linked to the iron ore price and a specified percentage share of profits and margins derived by the Scheme Company. The contractual arrangements underpinning the Contractor Collaboration Model will continue until the end of the remaining term of the relevant service contracts for each participating contractor, unless terminated earlier by giving 90 days' notice.

If these arrangements are terminated, or if they expire and the Scheme Company does not agree similar arrangements going forward, this may have a significant and negative impact on the Scheme Company's operating cost base. This would have an impact on the Scheme Company's relevant cash flow constraints and ability to operate as a going concern (see **Section4.1(c)**), its ability to service debt obligations (see **Section 4.1(f)**) and its ability to fund its ongoing capital requirements (see **Section 4.1(j)**) (among other things).

(j) **Ongoing capital requirements of the Scheme Company**

The Scheme Company uses the forecasts published by independent economic forecasters to assist in making business judgements, including estimating its cash requirements. The Scheme Company has a number of fixed costs, but the Scheme Company's cash flow is dependent on a number of factors, including factors outside of its control. Further, the Scheme Company's analysis of future cash requirements is based on assumptions and estimates of future events which are subject to change without notice and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of the Scheme Company. This may also involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct. Changes to these factors, assumptions or estimates (for example the iron ore price falls or the US dollar or Australian dollar falls), may require the Scheme Company to seek further funding to support its ongoing activities and operations which may take the form of additional debt, raising equity, or the sale of assets.

In circumstances in which market conditions deteriorate significantly against current forecasts issued by the Scheme Company's independent forecasters (particularly in relation to iron ore price and foreign exchange rates), there would

be significant uncertainty as to the Scheme Company's ability to fully repay, refinance or reschedule its financial obligations under the financial arrangements proposed by the Scheme and therefore the Scheme Company's ability to continue as a going concern.

The Scheme Company has a portfolio of existing mines either in production, or soon to be, that have varying mine lives. Minimal capital expenditure (other than sustaining capital at existing mines) is proposed in the short to medium term. Should iron ore markets improve, there may be additional capital development initiatives at existing or new mines to either expand production or replace depleted production where it is estimated to be profitable based on independent economic forecasts.

(k) **Amended SFA - compliance generally**

The Scheme Company will be subject to multiple ongoing obligations and negative covenants relating to a wide variety of factual matters concerning the Scheme Company's assets and business under the Amended SFA. If these obligations and covenants are breached, this may result in the occurrence of Events of Default. The obligations and covenants include:

(i) (**excess cash sweep**) the Scheme Company will repay the loans under the Amended SFA quarterly using all of the cash it holds in excess of AU$80 million less the amount of interest on the loans paid (or to be paid) on such date;

(ii) (**PIK interest**) the Scheme Company will also pay PIK interest at 0.25% per month, which will compound to the principal balance at the end of each month;

(iii) (**mandatory prepayment obligations**) the Scheme Company will be obliged to make prepayments of principal from the proceeds of sale of assets, other dispositions of property and casualty events, subject to certain exceptions;

(iv) (**optional prepayments**) the Scheme Company will be entitled to make voluntary prepayments in a multiple of US$500,000 (reduced from US$1,000,000) with the aggregate principal amount prepaid to be at least US$2,500,000 (reduced from US$10,000,000); and

(v) (**minimum cash covenant**) the Scheme Company will be required to maintain a minimum amount of cash, being AU$35 million plus 50% of the aggregate principal amount outstanding under any trade finance facility, at the end of each calendar month.

The terms of the Amended SFA are described in more detail in **Section 6.5** below.

The occurrence of an Event of Default arising by reason of a breach of certain obligations and covenants in the Amended SFA may result in amounts owing under the Amended SFA automatically becoming immediately due and payable or may permit the Lenders to take steps to accelerate repayment of the loans and enforce the security, including by appointing a receiver and manager to the assets of the Scheme Company.

There is a risk that the TLB Scheme Creditors under the Amended SFA and the Scheme Company may disagree on the interpretation of one or more provisions of the Amended SFA particularly in relation to non-financial covenants. In these

circumstances the TLB Scheme Creditors may seek to enforce the security or demand immediate repayment of the amounts owing. If the TLB Scheme Creditors sought to instruct the Administrative Agent to demand immediate repayment or appoint a receiver and manager, the Scheme Company may challenge this action. If the Scheme Company and the TLB Scheme Creditors were in dispute, the Scheme Company's securities may be suspended from trading on the ASX until the matter was resolved (which may not be in the Scheme Company's favour). If the Scheme Company's Shares continued to trade, there is a risk such action by the TLB Scheme Creditors would cause a decrease in the price at which the Scheme Company's Shares trade on ASX.

(l) **Lump product and pricing**

The Scheme Company sells iron ore products of differing nature and grade. The market for such products varies depending on similar factors to those mentioned in "Iron ore price risk" above. However, as the Lump market is smaller than that for Fines product, the impact on competitor activity or changes in demand have the potential to be amplified and therefore impact the price received.

The Scheme Company's deposits generally produce Lump product, in varying ratios (to Fines) and this estimated ratio is derived from drop tower testwork. The testwork is common practice among iron ore companies to ascertain estimated Lump and Fines ratios. There is a risk that the percentage (or quantity) of Lump produced will be less than modelled. This will result in a lower percentage of product attracting a Lump premium and more Fines product which attracts a lower price.

There is a risk that, from time to time, the Lump premium will decline due competitor activity or changes in demand for Lump product and therefore impact the price received.

(m) **Provisional pricing risk**

In recent years the pricing formulas contained in the Scheme Company's sales contracts have predominately been based on the final price being determined in the month after shipment (M+1) or the second month after shipment (M+2). Under these contracts customers are required to provide letters of credit in advance of shipment based on a provisional price, the Scheme Company draws funds under the letter of credit and then a reconciliation and settlement process occurs once the final price is known.

During the past eighteen months iron ore prices have been trending down and therefore adjustments between provisional and final invoices have been heavily weighted to the Scheme Company refunding overpayments to customers. This has been a further draw on cash, which has been partially mitigated via product hedging.

To reduce volatility arising from provisional price movement the Scheme Company has sold some of its product on the basis of either a fixed price, a month of sale (M) average or month after sale (M+ 1) average. The Scheme Company is also planning to continue to be more active in hedging markets via products such as puts and cap and collar arrangements that remove volatility from pricing (see (r) "Hedging" below for further information on hedging risk).

(n) **Mine life risk**

The Scheme Company currently has ore reserves capable of supporting planned production rates from three economic mining operations (Mt Webber, Abydos and Wodgina). At 30 June 2015, the remaining mine life for both Abydos and Wodgina was approximately two years with both operations expected to cease in 2017. At 30 June 2015, the remaining mine life for Mt Webber was in the range of 8 to 9 years and the Scheme Company expects to mine at a rate of approximately 6Mtpa. The Scheme Company has exploration assets in addition to the economic mining operations, however the Scheme Company cannot guarantee the ability to develop its current exploration assets to production.

Unless the Scheme Company can replace mined reserves from Abydos and Wodgina, it will be reliant on one producing mine (being Mt Webber) during 2017 and development of other projects such as Corunna Downs and McPhee Creek to service its outstanding obligations under the Amended SFA.

(o) **Economic risk and external market factors**

Factors such as (but not limited to) political movements, stock market trends, changing customer preferences, interest rates, inflation levels, commodity prices, foreign exchange rates, industrial disruption, environmental impacts, international competition, taxation changes and legislative or regulatory changes, may all have an adverse impact on the Scheme Company's operating costs, profit margins and Share price. These factors are beyond the control of the Scheme Company and it cannot, to any degree of certainty, predict how they will impact on the Scheme Company.

Prolonged deterioration in general economic conditions could potentially have an adverse impact on the Scheme Company and its operations.

(p) **Profitability**

Other than iron ore demand and price movements, future operating results depend in part on the Scheme Company's ability to successfully manage each mine, which necessarily requires integration of all aspects of the business operations, such as revenue forecasting, success of iron ore marketing strategy, addressing new markets, controlling Costs, implementing infrastructure and systems and managing its assets and contractors. Inability to control the costs and organisational impacts of business integration or an unpredicted decline in the growth rate of revenues without a corresponding and timely reduction in costs or a failure to manage other issues arising from growth could materially adversely affect the Scheme Company's operating results.

(q) **Hedging**

From time to time, the Scheme Company hedges some of its commodity price and exchange rate risks and may in the future hedge fuel price risk. While such activities may provide downside risk protection for the Scheme Company, it is also possible that such activities may limit its upside benefit potential or give rise to potential losses. No assurances can be given as to the effectiveness of the Scheme Company's hedging arrangements and policies. In particular, the Scheme Company has in place, from time to time, iron ore hedging arrangements to manage risks associated with the price of iron ore. In terms of foreign exchange risk (as described above), the Scheme Company may, from time to time, enter into spot and forward exchange contracts to hedge its exposure. These hedging arrangements may give rise to additional risk, including additional market risk and risk of default by counterparties to the derivative transactions.

(r) **Regulatory and title risks**

Changes in legislative and administrative regimes, taxation laws, interest rates, other legal and government policies in Australia may have an adverse effect on the assets, operations and ultimately the financial performance of the Scheme Company and the market price of the Scheme Company's Shares.

Exploration and production are dependent on the granting and maintenance of appropriate licences, permits and regulatory consents and authorisations (including those related to interests in tenements), which may not be granted or may be withdrawn or be made subject to limitations at the discretion of government or regulatory authorities. The Scheme Company also relies on authorisations pursuant to contractual regimes with various counterparties in relation to its ongoing operations and development activities. Although such authorisations may be renewed following expiry or granted (as the case may be), there can be no assurance that such authorisations will be continued, renewed or granted, or as to the terms of renewals or grants. If there is a failure to obtain or retain the appropriate authorisations or there is a material delay in obtaining or renewing them or they are granted subject to onerous conditions, then the Scheme Company's ability to conduct its exploration, development or operations may be adversely affected.

(s) **Infrastructure access risks**

The Scheme Company's haulage operations in the Pilbara, access to relevant infrastructure and its use of port facilities rely on the granting and maintenance of appropriate licences, permits and regulatory consents and authorisations, which may not be granted or may be withdrawn or be made subject to limitations at the discretion of government or regulatory authorities.

Although the authorisations may be renewed following expiry or granted (as the case may be), there can be no assurance that such authorisations will be continued, renewed or granted, or as to the terms of renewals or grants. If there is a failure to obtain or retain the authorisations or there is a material delay in obtaining or renewing them or they are granted subject to onerous conditions, then the Scheme Company's ability to conduct its haulage operations, access relevant infrastructure or use the port facilities may be adversely affected.

The Scheme Company has a number of iron ore deposits at significant distance to port that are currently only viable with the provision of a rail haulage solution. Though market conditions may improve in the future to support a trucking solution it is not currently contemplated. Whilst rail haulage negotiations with parties have identified options, a viable solution remains uncertain.

(t) **Operating and development risks**

The Scheme Company's operations and development activities could be affected by various unforeseeable events and circumstances, which may result in increased costs, lower production levels and, following on from that, lower revenue levels.

The Scheme Company could be adversely affected by disruptions to operations or future proposed mine development or operations caused by adverse climatic conditions (including weather/natural disasters and other force majeure events), hydrological, geological, geotechnical, seismic and mining conditions, breakdown of equipment, industrial accidents, labour disputes, transport accidents occupational safety and health issues, port delays and potential substantial costs associated with environmental remediation and rehabilitation (and associated damage control and

losses). The Scheme Company seeks to minimise the potential damage flowing from the occurrence of some of these risks by obtaining business interruption insurance for certain events and appropriate indemnities from suppliers and contractors. As to mitigating environmental risks, the Scheme Company aims to conduct its operations and activities to the highest standard of environmental obligation, including compliance with all environmental laws and regulations. However, the Scheme Company is unable to predict any future changes to environmental laws and regulations, which may materially increase the Scheme Company's cost of doing business or affect its operations. Any negative outcomes flowing from these operational risks could have an adverse effect on the Scheme Company's business, financial condition, profitability and performance.

The Scheme Company's projects are subject to operating risks that could result in increased costs and reduced revenues and, as a result, one or more mineral deposits becoming unprofitable or uneconomic. If any one or more of these operating risks eventuates, it could result in increased production costs for the Scheme Company and may materially impact on the Scheme Company's competitive position or ability to derive profits. In particular, mining costs may be materially impacted by adverse mining and geological conditions. Iron ore processing costs and yields may be negatively impacted by any unforeseen deterioration in the quality or quantity of iron ore mined and any unbudgeted increase in operating costs.

These potential risks in relation to both disruptions to operations and operating risks generally, should they eventuate, could adversely affect the Scheme Company's business, financial condition, profitability and performance. This may include loss of revenue due to lower production than expected, higher operation and maintenance costs or on-going unplanned capital expenditure in order to meet iron ore production targets.

In addition, the amount of iron ore to be extracted from the Scheme Company's mineral resources and ore reserves is estimated based on knowledge, experience and industry practice. No assurance can be given that the anticipated tonnage and grades will be achieved, that mineral resources and ore reserves could be mined or processed profitably or that the indicated level of recovery will be realised from these estimates. The estimates may require revision once production from these resources and reserves takes place and new information becomes available.

(u) **Claims, liability and litigation**

The Scheme Company may have disputes with counterparties in respect of major contracts, or may be exposed to customer or environmental, occupational health and safety, Shareholder or other Claims. The Scheme Company may incur Costs in defending or making payments to settle any such Claims, which may not be adequately covered by insurance or at all. Such payments may have an adverse impact on the Scheme Company's profitability or financial position.

(v) **Exploration and production**

The Scheme Company's exploration and production may be hampered by adverse developments in mining, heritage and environmental legislation, industrial accidents, industrial disputes, cost overruns, failure to achieve predicted grades in exploration and mining, operational and technical difficulties encountered in mining, difficulties in commissioning and operating plant and equipment, mechanical failure or plant breakdown, land Claims and compensation and other unforeseen contingencies.

The success of the Scheme Company is also impacted by the discovery of economically recoverable reserves, the availability and cost of required development capital, movement in the price of commodities, securing and maintaining title to its exploration and mining tenements as well as obtaining all necessary consents and approvals of the conduct of its exploration and production activities.

Exploration and production on the Scheme Company's existing exploration and mining tenements may prove unsuccessful. Mineable resources may become depleted resulting in a reduction of the value of those tenements and a diminution in the cash flow and cash reserves of the Scheme Company as well as possible relinquishment of the exploration and mining tenements.

Risks involved in mining operations include unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of any material, any of which could result in damage to life or property, environmental damage and possible legal liability. Further, weather conditions over a prolonged period can damage infrastructure, including haulage roads, and adversely affect exploration, production, mining and drilling operations and the timing of earning revenues.

Whether income will result from projects undergoing exploration and development programs depends on the successful establishment of mining operations. Factors including costs, actual mineralisation, consistency, quality and reliability of ore grades and commodity prices affect successful project development. The design and construction of efficient processing facilities, the existence of competent operational management and prudent financial administration, as well as the availability and reliability of appropriately skilled and experienced consultants also can affect successful project development.

(w) **Mine development, construction and commissioning**

There is a risk that, should any of the Scheme Company's proposed projects and any future mine upgrades progress to mine construction, the development and construction of those mines are not completed on schedule, or that the construction cost exceeds the budget, or that significant problems in constructing the mines may arise. The Scheme Company will depend on third party contractors to undertake construction, equipment supply, installation, commissioning and operation. There is a risk that one or more of these third party contractors will not perform its contractual obligations properly or at all.

(x) **Competition**

The Scheme Company competes with other companies, including major mining companies in Australia and internationally. Some of these companies have greater financial and technical resources than the Scheme Company and, as a result, may be in a better position to compete for future business opportunities. As such, the Scheme Company's relative competitiveness will be lower when compared to these companies.

The iron ore price has fallen considerably over the last eighteen months. However, prior to that, the iron ore price was conducive to profitable operations and led to increases in iron ore mining, exploration, development and construction activities, which resulted in increased demand for, and cost of, production, exploration, development and construction services and equipment. This increased demand for, and costs of, these services and equipment may exist in the future and could adversely impact production and the Scheme Company's financial performance.

(y) **Personnel: loss of, and reliance on, key personnel and attracting personnel**

The Scheme Company's may also face risks from the loss of key personnel from time-to-time, as it may be difficult to secure replacements with appropriate experience and expertise. A number of key management and personnel are important to the attainment of the business goals of the Scheme Company.

Some of these key personnel have direct or indirect shareholdings in the Scheme Company. The Scheme Company has an employee incentive plan in order to provide incentive and to promote retention of key personnel. Despite this, one or more of the key employees could leave their employment with the Scheme Company, and this may adversely affect the ability of the Scheme Company to conducts its business and, accordingly, affect the financial performance of the Scheme Company and its Share price.

Further, the Scheme Company's success depends, in part, on its ability to identify, attract, accommodate, motivate and retain additional suitably qualified personnel. The inability to access and retain the services of a sufficient number of qualified staff could be disruptive to the Scheme Company's development efforts or business development and could materially adversely affect its operating results.

(z) **Insurance risks**

Although insurance is maintained for the construction and operation of its projects within ranges of coverage consistent with industry practice, no assurance can be given that such insurance will be available in the future on commercially reasonable terms or that any cover will be adequate and available to cover any or all Claims. If the Scheme Company incurs uninsured losses or liabilities, its assets, profits and prospects may be adversely affected.

(aa) **Equity capital market fluctuations**

The TLB Scheme Creditors should be aware that there are risks associated with holding shares or options in any company listed on ASX. The value of Shares may rise above or drop below the current Share price depending on the financial and operating performance of the Scheme Company and external factors over which the Scheme Company and its directors have no control. These external factors include:

(i) economic conditions in Australia and overseas which may have a negative impact on equity capital markets;

(ii) changing investor sentiment in the local and international stock markets specifically relating to the mining sector or iron ore sector stocks;

(iii) changes in domestic or international fiscal, monetary, regulatory and other government policies; and

(iv) developments and general conditions in the iron ore markets in which the Scheme Company operates and which may impact on the future value and pricing of shares in iron ore companies.

In addition, the TLB Scheme Creditors, as part of implementation of the Scheme under the Transfer Deed, will be required to agree that:

(i) in the case of the Scheme Shares and the Scheme Options, in the first year following the completion of the Scheme; and

(ii) in the case of the Option Shares, in the first year following the issuance of the Option Shares to it,

it will only transfer the Scheme Shares, Scheme Options or Option Shares, as applicable:

(i) in standard (regular way) brokered transactions on ASX if neither it nor any person acting on its behalf knows, or has reason to know, that the sale has been prearranged with, or that the purchaser is, a person in the United States;

(ii) to any of that TLB Scheme Creditor's Affiliates that undertakes to transfer the Scheme Shares, the Scheme Options or the Option Shares solely in accordance with this paragraph; or

(iii) to any other TLB Scheme Creditor.

For the avoidance of doubt, any Applicable Option Holder (who is not a TLB Scheme Creditor) must also accede to the terms of the Transfer Deed, and so the above restrictions on transfer will equally apply to those Applicable Option Holders.

(bb) **Dilution of existing Shareholders**

On completion of the Scheme, the number of Shares in the Scheme Company will increase from 2.67 billion to approximately 8.9 billion. This means the number of Shares on issue will increase by approximately 233% and the holdings of existing Shareholders will be significantly diluted. In particular, the current Shareholders will hold only approximately 30% of the expanded capital base of the Scheme Company after the Implementation Date, if the Scheme proceeds. It is possible that this dilution may expose the Scheme Company to Claims by the existing Shareholders with consequential impacts on the profits of the Scheme Company - see paragraph (v) above. This risk will be mitigated as a result of the Subordinate Claims of Subordinate Claim Holders being limited to any amount actually recovered by the Scheme Company under any insurance policy applicable to that Subordinate Claim, less expenses incurred in connection with that Subordinate Claim.

(cc) **Joint venture and contractor risk**

There is a risk of failure or default (financial or otherwise) by a participant to any joint venture to which the Scheme Company is or may become a party.

There is also a risk of insolvency or managerial failure by any of the contractors used by the Scheme Company in any of its activities or by any of the other service providers used by the Scheme Company for any activity. There is a risk of legal or other disputes with participants in any joint venture to which the Scheme Company is or may become a party.

(dd) **Native title and Aboriginal heritage**

It is also possible that, in relation to tenements in which the Scheme Company has an interest or will in the future acquire such an interest, there may be areas over which legitimate common law native title rights of Aboriginal Australians exist. If native title rights do exist, the ability of the Scheme Company to gain access to tenements (through obtaining consent of any relevant landowner), or to progress from the exploration phase to the development and mining phases of operations may be affected.

The effect of the present laws in respect of native title that apply in Australia is that mining tenement applications and existing tenements may be affected by native title Claims or procedures. This may preclude or delay the grant of exploration and mining tenements and considerable expenses may be incurred negotiating and resolving issues.

If any known (or currently unknown but later discovered) Aboriginal heritage sites cannot be avoided on tenements held by the Scheme Company or its subsidiaries, the consent of the responsible Minister would need to be obtained under section 18 of the *Aboriginal Heritage Act 1972* (WA) before any exploration or mining activity could lawfully proceed. The Minister has discretion whether to grant that consent and may do so on conditions. There is a risk that the presence of these Aboriginal heritage sites may limit or preclude exploration or mining activity within the sphere of influence of those sites and delays and expenses may be experienced in obtaining clearances.

The Scheme Company closely monitors the potential effect of native title Claims and the presence of Aboriginal heritage sites involving tenements in which the Scheme Company has or may have an interest.

(ee) **War and terrorist attacks**

War or terrorist attacks anywhere in the world could result in a decline in economic conditions worldwide or in a particular region. There could also be a resultant material adverse effect on the business, financial condition and financial performance of the Scheme Company.

(ff) **Speculative nature of shareholding in the Scheme Company**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Scheme Company or by Shareholders in the Scheme Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Scheme Company and the value of its Shares.

The Scheme Shares to be issued pursuant to the Scheme to the TLB Scheme Creditors carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

TLB Scheme Creditors should consider that holding Shares in the Scheme Company is speculative and should consult their professional advisers before deciding whether to vote in favour of the Scheme.

(gg) **Weather and climatic risks**

Further to those risks described in **Sections 4.1(u)** and **4.1(w)** of this Explanatory Statement, the Scheme Company's operations may be particularly susceptible to adverse weather and climatic conditions.

The Scheme Company's operations and mines are centred in the Pilbara region of Western Australia, primarily within a 230km radius from Port Hedland. This geographical location can be susceptible to periodic, adverse climatic conditions, including tropical cyclones – these may adversely impact the Scheme Company's operational, mining and exploration activities. These impacts include (but are not limited to) damage to relevant infrastructure on which the Scheme Company relies, adverse effects on the schedule of exploration, production, mining and drilling operations and the Scheme Company's ability to deliver its product to port by truck

and from the port to its ultimate destination being compromised. Any such adverse effects may negatively impact the Scheme Company's revenues and associated costs.

The extent to which the Scheme Company's operations may be affected by adverse climatic conditions is uncertain, and is dependent on the extent of the weather conditions and other prevailing conditions at the time.

(hh) **Financial Assistance Agreement**

The Scheme Company entered into a Financial Assistance Agreement with the State of Western Australia through the Minister for Mines and Petroleum (**Minister**) on 22 May 2015, under which the Scheme Company received a 50% rebate on the payment of royalties made to the Minister between 1 October 2014 and 30 September 2015. The Scheme Company is required to repay the rebates to the State in seven quarterly payments. As at 23 March 2016, the Scheme Company owes rebates to the State in the amount of AU$21,511,538. The State is entitled to demand repayment of the rebates on reasonable notice if any of the following occur:

(i) the Scheme Company's working capital balance falls below AU$20 million for more than 30 business days;

(ii) the Scheme Company's auditors confirm that the ratio of the Scheme Company's assets to total secured debt falls below 2:1;

(iii) any person or group becomes the beneficial owner of more than 50% of the Scheme Company's shares;

(iv) the Scheme Company suspends mining operations for more than two continuous months; or

(v) the Scheme Company is in breach of the representations and warranties that it made under the Financial Assistance Agreement, which representations include but are not limited to that there is no existing or threatened litigation or proceedings which could have a materially adverse effect on the Scheme Company's ability to perform its obligations under the Financial Assistance Agreement.

Further, if the Minister forms a view that the Scheme Company may not be able to maintain continuous operations or that there is an unacceptable risk of non-repayment of financial assistance, the rebates must be repaid within 5 business days.

The Minister has provided written assurance to the Scheme Company that the Minister does not intend to exercise its rights which may be triggered by the steps proposed to be taken to implement the Scheme to demand early repayment of the rebates.

(ii) Scheme Company's Contracts

Certain of the Scheme Company's material contracts contain provisions which allow a counterparty to terminate the contract as a result of the implementation of the Scheme.

The Scheme Company has sought the support of all counterparties to material contracts that contain provisions of this sort. To date, the Scheme Company has

received confirmation from each of these counterparties that they will not exercise certain rights otherwise available to them in connection with the proposed Scheme, with the exception of the McAleese Group and Global Advance Metals Wodgina Pty Ltd. Negotiations with these counterparties are ongoing.

(jj) BGC Claim

BGC has commenced proceedings against the Scheme Company in the Supreme Court of Western Australia seeking payment of AU$5.75 million. The Scheme Company does not accept that it is indebted to BGC for this amount and will vigorously defend the claim.

(kk) McAleese Group

The McAleese Group provides haulage services to the Scheme Company. The McAleese Group continues to negotiate with its lenders and is in the process of conducting a strategic process to seek to recapitalise the McAleese Group with the support of those lenders. The Scheme Company is not able to comment on the likely outcome of those negotiations or the strategic process. However, if voluntary administrators were to be appointed to the McAleese Group (on the basis that it could no longer continue as a going concern) and it were no longer capable of fulfilling its contracts with the Scheme Company, the Scheme Company has in place certain contingency plans which are expected to permit a reasonable level of ongoing production in the short term whilst ongoing arrangements are put in place by the Scheme Company.

5. BACKGROUND TO THE SCHEME

5.1 Financial arrangements with the Lenders

(a) **SFA**

The SFA is the primary source of the Scheme Company's indebtedness.

Under the SFA, the Lenders agreed to advance the following financial accommodation to the Scheme Company:

(i) a Term Loan B facility in the amount of US$275,000,000 which was fully drawn as at 31 December 2012 and has subsequently been paid down to US$259,269,280.21 as at 23 March 2016; and

(ii) a revolving facility of AU$50,000,000, which was never drawn (and has now expired).

The audited financial statements of the Scheme Company records the Secured Debt as US$259.3 million as at 31 December 2015.

The Scheme Company's obligations under the SFA are secured against all of the assets (subject to some exclusions) of the Scheme Company and the Obligors (including Atlas America Finance Inc and excluding the Acceding Obligors), who have guaranteed all of the Scheme Company's obligations under the SFA in favour of the Collateral Agent (who holds the Securities as agent for all TLB Scheme Creditors and each Agent).

(b) **Asset Coverage Ratio**

The SFA contains a covenant that the Scheme Company must not permit the Asset Coverage Ratio (which is outlined in **Section 3.4** above) to be less than 2:1. This

covenant is tested as at 30 June and 31 December of each year as reflected in the audited consolidated financial statements of the Scheme Company for the applicable period.

The actual Asset Coverage Ratio will vary according to the amount of the Scheme Company's total assets, the amount of the outstanding US dollar Secured Debt and the exchange rate used to convert the US dollar secured debt to Australian dollars.

(c) **Default risk**

Based on the information contained in the PPB Report at **Annexure B**, the Scheme Company considers that there is a high risk that it will not satisfy the Asset Coverage Ratio covenant at 30 June 2016 (even before taking into account any impairments that are required to be recognised against the Scheme Company's assets).

Further, based on the information disclosed in the reports to affairs at **Annexure D**, the Directors of the Scheme Company consider it is unlikely that the Scheme Company's net asset position has improved significantly since 31 December 2015. Accordingly, the Directors of the Scheme Company consider that there is a high risk that the Scheme Company will not be able to comply with the Asset Coverage Ratio covenant on 30 June 2016 unless the Scheme Company is no longer required to comply with the Asset Ratio Covenant as a result of the Amended SFA becoming operative by implementation of the Scheme.

If the Scheme is not approved and implemented, and an alternative source of funding acceptable to the Lenders is not found promptly and the Scheme Company fails to satisfy the Asset Coverage Ratio covenant as at 30 June 2016, then the Scheme Company would be in default of its obligations under the SFA and the Directors of the Scheme Company anticipate that an insolvency event may occur in respect of the Scheme Company or the Obligors (excluding the Acceding Obligors) (as outlined in **Section 3.4** above).

It is the Directors' belief that if the Scheme Company were to fail to comply with the Asset Coverage Ratio on 30 June 2016 the Lenders would instruct the agent to demand immediate payment by the Scheme Company of the amount owing to the Lenders under the Syndicated Facility Agreement, and appoint a receiver and manager to the secured assets of Atlas.

This belief is based on the following matters:

(i) First, the negotiation and execution of the RSA by a majority of Lenders holding more than 75% of the debt owed by Atlas to the TLB Lenders under the Syndicated Facility Agreement. The Scheme Company is of the view that the Lenders would not agree to swap a portion of the debt owed to them for equity in circumstances in which they did not intend to enforce their rights upon the occurrence of an event of default under the Syndicated Facility Agreement. Further, Lenders in excess of the majority required to instruct the agent to demand immediate payment of the debt owed by Scheme Company to the Lenders under the Syndicated Facility Agreement and to appoint a receiver and manager to the secured assets of the Scheme Company executed the RSA.

(ii) Second, the past conduct of the Lenders; which includes the Lenders seeking to assert their views as to the Scheme Company's solvency, what the duties of Scheme Company's directors require and what steps should be

taken by Scheme Company from time to time to facilitate the Lenders pursuing their rights under the Syndicated Facility Agreement.

In addition to the Secured Debt, the Scheme Company also has other debts (including trade creditors, employees and other unsecured creditors). As the proposed Scheme contemplates a compromise of the Secured Debt owed to the Lenders only, this Explanatory Statement does not address the Scheme Company's other debts. General information regarding those debts can be found in the Scheme Company's financial statements at **Annexure C**.

5.2 **Alternatives considered**

(a) **Consensual restructuring**

Under the SFA, the unanimous consent of the Lenders is required to effect the Steps proposed to be taken under the Scheme.

Between October 2015 and February 2016, the Scheme Company sought the Lenders consent to restructure the Scheme Company's obligations under the SFA on terms which were substantially the same as those in the Scheme.

The Scheme Company has not been able to obtain the unanimous consent of the Lenders to implement a consensual restructuring of the obligations of the Obligors (excluding the Acceding Obligors) under the SFA.

As a consequence, the Scheme Company considers that the only available option to restructure its obligations under the SFA is through the implementation of the Scheme.

(b) **Refinancing**

While the Scheme Company has considered a number of refinancing options during 2015, as at 23 March 2016, the Scheme Company has not received any concrete offers to refinance its current indebtedness.

If the Scheme is not implemented, the debt owed to the Lenders must be repaid in full by its (current) December 2017 maturity date unless it can be successfully refinanced or otherwise restructured before that time.

As at 31 December 2015, Atlas' gross debt position under the Syndicated Facility Agreement was US$259.3 million. As previously disclosed in Atlas' prospectus dated 11 June 2015 and which continues to be the case:

(i) this level of indebtedness is high for a company like Atlas in the current iron ore market; and

(ii) based on current iron ore price forecasts, without the implementation of the Scheme, Atlas estimates that there would likely be a shortfall between the amount owing at the maturing of the debt owed under the Syndicated Facility Agreement and Atlas' forecasted cash balance at that date.

Under the Amended SFA which is proposed to be implemented as part of the Scheme, the maturity date will be extended to 2021 and the principal amount owing to the Lenders will be reduced to US$135 million.

The Directors refer to Note 3(i) on pages 19 to 21 of the Half Year Report released by Atlas on 23 February 2016, which provides that the financial statements for the period ended 31 December 2015 have been prepared on a going concern basis on the grounds that the Directors believe that the Scheme will be implemented. Extracting the detail from that Half Year Report:

(i) The Company prepares rolling 12 month cash flow forecasts, which are subject to a number of assumptions (these are set out in Note 3(i) on page 19 of the Half Year Report). Notably, these assumptions include "*the successful restructure and reduction of the TLB debt, which leads to significantly reduced interest payments and debt covenants consistent with a maturity assumed to be in 2021*" (as is contemplated by the Scheme and the Amended SFA).

(ii) The Company's cash flow forecast to February 2017 indicates a positive working capital balance through that period, but this is highly dependent on a number of factors, including achievement of anticipated iron ore pricing, exchange rate forecasts, the achievement of forecast operating cost outcomes and the success of the Financial Restructuring.

Accordingly, separate to the high risk of breaching the Asset Coverage Ratio in the future, the Directors believe that there is a high risk that a satisfactory, alternative refinancing or restructuring proposal in respect of the debt owing under the Syndicated Facility Agreement will not be able to be sourced in the months after the date of the Second Court Hearing and that the consequences of this for the Scheme Company's ability to continue as a going concern are significant.

(c) **Capital raising**

On 11 June 2015 the Scheme Company issued a prospectus to raise additional capital from its existing Shareholders up to a maximum amount of AU$180 million. The Scheme Company received valid applications for approximately AU$87 million under that capital raising.

Given the proximity to the Scheme Company's most recent capital raising, current equity capital market fluctuations, the subsequent and continuing volatility of iron ore prices and other prevailing market conditions, the Directors of the Scheme Company do not consider that a further capital raising exercise at this stage will raise enough funds to address the Scheme Company's current requirements.

5.3 **Restructuring Support Agreement**

On 22 December 2015, the Scheme Company, the Obligors (except the Acceding Obligors) and certain of the Lenders (who comprise more than 50% of the Lenders by number holding, in aggregate, more than 75% of the Secured Debt) entered into the Restructuring Support Agreement, which requires each of those parties to support, facilitate, implement and consummate the restructuring contemplated by the Restructuring Support Agreement.

Since 22 December 2015, additional Lenders have become parties to the Restructuring Support Agreement such that, as at 23 March 2016, 93% by number of Lenders holding, in aggregate, 86.2% of the Secured Debt are now bound by the Restructuring Support Agreement.

The Restructuring Support Agreement is set out in full in **Annexure I** to this Explanatory Statement.

6. THE SCHEME EXPLAINED

6.1 Overview of the outcome of the Scheme

The table below illustrates the anticipated outcome for the Scheme Company and the TLB Scheme Creditors following implementation of the Scheme with respect to the debt owed to the TLB Scheme Creditors under the Amended SFA and the shareholders of the Scheme Company:

Affected outcome	Before implementation of Scheme	After implementation of Scheme
Total Aggregate Amount owed to TLB Scheme Creditors	US$259,269,280.21*	US$135,000,000
Shareholders of the Scheme Company	Existing shareholders – 100%	TLB Scheme Creditors – approximately 70% Existing Shareholders – approximately 30%

*Debt as at 23 March 2016.

6.2 Steps prior to the Scheme becoming effective

The implementation of the Scheme is subject to the prior satisfaction of various conditions precedent. The conditions precedent include those listed in clause 3 of the Scheme (see **Annexure A**).

The Conditions Precedent to the Scheme being implemented are:

(a) **Foreign Investment Approval**

At or before 8.00am on the Second Court Date, the Treasurer of the Commonwealth of Australia:

(i) issues a notice that it does not object to the proposed issue of Scheme Shares and Scheme Options to those Lenders who lodged an application with the Treasurer on or before the First Court Date, such notice not being subject to conditions or subject only to conditions which are acceptable to the applicable Lenders and the Obligors (to the extent that any such conditions impose undertakings or obligations on the Obligors), acting reasonably;

(ii) ceases, by effluxion of time or otherwise, to be empowered to make any order in respect of the proposed issue of Scheme Shares and Scheme Options to the Lenders who applied for a statement of no objections on or before the First Court Date; or

(iii) in circumstances where the Treasurer of the Commonwealth of Australia makes an interim order to prohibit the proposed issue of Shares and Options to the Lenders who applied for a statement of no objections on or before the First Court Date, the subsequent period for making a final order has elapsed without any final order being made.

(b) **Shareholder approval**

The due passing of a resolution at the Shareholder Meeting in accordance with ASX Listing Rule 7.1 approving the issue of the Scheme Shares and Scheme Options to the TLB Scheme Creditors.

(c) **Lender approval**

The Scheme is agreed by the Requisite Majority of Lenders.

(d) **Deeds Poll and Undertakings**

As at 8.00 am on the Second Court Date the Scheme Administrators Deed Poll, the Obligors Deed Poll and the Undertakings continue in full force and effect and each of those Deeds Poll and Undertakings still benefits the beneficiaries named in it.

(e) **ASIC modification**

The Scheme Company:

(i) obtains, at or before 8.00am on the Second Court Date, a modification granted by ASIC of subsections 707(3) and 707(4) the Corporations Act to enable the Shares issued on exercise of any Scheme Options to be freely tradeable without relevant on-sale restrictions, as contemplated by an application for such a modification lodged by the Scheme Company with ASIC on 8 February 2016; or

(ii) failing receipt of the modification contemplated by **section 6.2(e)(i)** by 12:00pm on the Business Day before the Second Court Date, delivering to the Administrative Agent (and providing a copy to the TLB Scheme Creditors), at or before 8.00am on the Second Court Date, the New Options Deed Poll.

In circumstances where the Scheme Company elects to issue a prospectus before the issue of Scheme Options in accordance with Step 6 outlined in **section 6.4(f)** (as contemplated by the New Options Deed Poll) there may be additional process requirements associated with this. The Administrative Agent and the Scheme Company (as applicable) will provide any additional information to the TLB Scheme Creditors about such requirements if the need arises.

(f) **Court approval**

The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act (which alterations do not change the substance of the Scheme, including the Steps, in any material respect).

(g) **Other conditions**

Any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme (which conditions are not intended to change the substance of the Scheme, including the Steps, in any material respect) have been satisfied.

Section 411(6) of the Corporations Act allows the Court to approve the Scheme with various alterations and variations.

(h) **Effective**

The Scheme becoming effective upon the lodgement of the Second Court Order with ASIC.

Section 411(10) provides that the Court order approving the Scheme does not have any effect until an official copy of the order is lodged with ASIC, and upon being so lodged, the order takes effect, or is taken to have taken effect, on and from the date of lodgement or such earlier date as the Court determines and specifies in order to approve the Scheme.

6.3 **Standstill**

During the period on and from the Effective Date up to the earlier of the completion of Step 10 (Amendment Documents) and the Sunset Date (each inclusive) (the **Standstill Period**), no TLB Scheme Creditor may, except for the purpose of enforcing the terms of this Scheme, or any Deed Poll or as otherwise expressly provided by this Scheme, dispose of, transfer or exercise certain of its rights under the Finance Documents. The terms of the standstill are in clause 8.1 of the Scheme. Its purpose is to ensure that the Scheme can be implemented in an orderly manner, in accordance with its terms.

If the Scheme is not implemented within 15 Business Days of the commencement of the Standstill Period, the Scheme will automatically terminate and the standstill shall cease to apply in relation to any TLB Scheme Creditor.

6.4 **Steps to implement the Scheme**

The Scheme provides for the restructuring of the Secured Debt owed by the Scheme Company to the Lenders to take place in twelve Steps. The Steps are to occur in the sequence set out below. These Steps are set out in full in clause 7.5 of the Scheme. This document only summarises key parts of the Steps and does not include every part of each Step. Lenders should review the complete Steps in the Scheme carefully.

If in the opinion of the Scheme Administrators, as a result of an event failing to occur, or take effect, it is not possible to put the Scheme into effect, the TLB Scheme Creditors, the Obligors, the Released Obligor Individuals and the Agents are to place each other in the positions they would have been in had any Steps already taken not been so taken.

(a) **Step 1** (**Deeds and Amendment Documents**): As soon as the Scheme becomes effective, and prior to any other Step taking place:

(i) first, the Scheme Administrators will execute the TLB Scheme Creditors Deed Poll (as attorney for the TLB Scheme Creditors);

(ii) second, all necessary instructions, consents and directions that are required under the Finance Documents to allow the Agents to execute and deliver the relevant Deed Poll are to be given by the relevant parties;

(iii) third, each Agent is to execute and deliver to the Scheme Administrators the Deed Poll to be made by that Agent;

(iv) fourth, the Amendment Documents will be executed and delivered to the Scheme Administrators to be held in escrow until immediately after completion of Step 6 (New Equity Issue);

(v) fifth, the Transfer Deed must be executed and delivered to the Scheme Administrators to be held in escrow until immediately before issuance of the Scheme Shares and Scheme Options (Step 6);

(vi) sixth, the Administrative Agent will give to the Scheme Administrators and the Scheme Company a table which shows, according to the Administrative Agent's records:

(A) the contact details of each TLB Scheme Creditor;

(B) the Residual Interest Amount (if any);

(C) the Aggregate Amount for each TLB Scheme Creditor; and

(D) the Total Aggregate Amount.

(b) **Step 2** (**Calculations**): On the Calculation Date:

(i) Based on the information in the table provided by the Administrative Agent, the Scheme Administrators will calculate:

(A) the Debt Contribution Amount in respect of each TLB Scheme Creditor;

(B) the Total Debt Contribution Amount; and

(C) the number of Scheme Shares and Scheme Options to be issued to each TLB Scheme Creditor in Step 6 (New Equity issue) of the Scheme; and

(ii) the Scheme Administrators shall provide the details of those calculations and the amounts set out in paragraph (i) above to the Scheme Company and the Agents.

(c) **Step 3** (**Satisfaction of Administrative Requirements**): As early as practicable on the Business Day prior to the Implementation Date, the Agent must notify the Scheme Administrators as to whether or not administrative requirements associated with the Amended SFA have been met.

(d) **Step 4** (**Preliminary payment**): As early as practicable on the Implementation Date, the Scheme Company will pay:

(i) the Residual Interest Amount (if any) and the Implementation Date Cash Payment Amount to the Administrative Agent for distribution to the TLB Scheme Creditors in accordance with the terms of the Finance Documents; and

(ii) to each Fee Recipient its Fee.

(e) **Step 5 (Appointment of New Directors)**: Immediately after the completion of Step 4 (Preliminary Payments) and immediately prior to the commencement of Step 6 (New Equity Issue), the Scheme Company must take all actions necessary to cause the appointment of each New Director to the board of directors of the Scheme Company. The Scheme Company's obligation to cause such appointments is subject to receiving a signed consent to act from that New Director and that New Director signing a letter of appointment that contemplates the Scheme Company's procedures and policies regarding management of actual or perceived conflicts of interest and confidentiality, among other things.

(f) **Step 6** (**New Equity issue**): Immediately after the completion of Step 5 (Appointment of New Directors):

(i) the Scheme Administrators will release the Transfer Deed from escrow; and

(ii) in consideration for the release in Step 8 (Partial release of debt), the Scheme Company will issue a total of approximately 6,229,503,121 Scheme Shares and 4,071,111,434 Scheme Options to be allocated between the TLB Scheme Creditors as determined by the formulas set out in the Scheme.

Following the issue of the Scheme Shares and Scheme Options, the TLB Scheme Creditors (or their nominees) will hold:

(iii) approximately 70% of the Shares; and

(iv) approximately 70% of the Options,

on issue after implementation of the Scheme.

Where a TLB Scheme Creditor would receive a fraction of a Scheme Share, then the Scheme Shares issued to that TLB Scheme Creditor will be rounded down to the nearest whole number, and where a TLB Scheme Creditor would receive a fraction of a Scheme Option, the Scheme Options issued to that TLB Scheme Creditor will be rounded down to the nearest whole number. For this reason, it is possible that the TLB Scheme Creditors will hold slightly less than 70% of the Shares and the Options in the Scheme Company following implementation of the Scheme.

(g) **Step 7** (**Release**): Immediately after the completion of Step 6 (New Equity issue), and simultaneously with Step 8 (Partial release of debt) and Step 9 (Agents' Releases) and Step 10 (Amendment Documents):

(i) each TLB Scheme Creditor will release each Released Obligor Individual from all Claims and obligations relating to events that occurred between 10 December 2012 and the Implementation Date; and

(iii) each Released Obligor Individual will release each TLB Scheme Creditor from all Claims and obligations relating to events that occurred between 10 December 2012 and the Implementation Date,

subject to certain exceptions set out in clause 7.5(g) of the Scheme.

(h) **Step 8** (**Partial release of debt**): Simultaneously with Step 7 (Release), Step 9 (Agents' Releases) and Step 10 (Amendment Documents):

(i) each TLB Scheme Creditor will release each of the Obligors from its obligation to pay:

(A) the Total Debt Contribution Amount to any of the parties to the Finance Documents; and

(B) any amount of interest accrued but unpaid in respect of the Facility (and, for the avoidance of doubt, the "Term Loans" as defined in the Amended SFA) as at the commencement of Step 8;

(ii) each of the parties to the Finance Documents will consent to the release in this Step 8 and waive all rights that it may have to require that any person comply with clause 10.1 (Amendments and Waivers) of the SFA or any of the waiver mechanics set out in any Finance Document or any other provisions set out in any of the Finance Documents to the extent necessary to effect the release under this Step 8.

(i) **Step 9** (**Agents' Releases**): Simultaneously with Step 7 (Release), Step 8 (Partial Release of Debt) and Step 10 (Amendment Documents) the TLB Creditors, Obligors and Released Obligor Individuals release each Agent from all claims relating to matters arising prior to the Implementation Date, including entering into the Undertakings, Deeds Poll and the Amendment Documents, subject to certain exceptions set out in clause 7.5(i).

(j) **Step 10** (**Amendment Documents**): Simultaneously with Step 7 (Release), Step 8 (Partial release of debt) and Step 9 (Agents' Releases) the Scheme

Administrators shall release the Amendment Documents from escrow, at which point the Amendment Documents shall operate in accordance with their own terms.

(k) **Step 11** (**Resignation of directors**): The Scheme Company must immediately after the completion of Step 1 (Deeds and Amendment Documents) through to and including Step 10 (Amendment Documents), take all actions necessary to ensure that no more than two of the original directors, (being the directors of the Scheme Company immediately prior to the commencement of Step 5 (Appointment of New Directors)), remain on the board of directors of the Scheme Company with effect from that time, being David Flanagan and one non-executive director. The board intends that Cheryl Edwardes will be the continuing non-executive director.

(l) **Step 12 (Compromise of Subordinate Claims)**:

(i) Immediately after the completion of Step 11 (Resignation of directors):

(A) the right and entitlement of each Subordinate Claim Holder to enforce as against the Scheme Company any Subordinate Claim is limited to the amount (if any) actually recovered by the Scheme Company under any applicable insurance policy, net of any expenses (including defence costs) incurred by the Scheme Company and/or any relevant insurer in connection with the claim (**Net Proceeds**); and

(B) the Scheme Company is released from any obligation to pay any amount in respect of any Subordinate Claim (including interest and costs) in excess of the Net Proceeds referrable to that claim.

(ii) Where the Scheme Company is entitled to claim under any applicable insurance policy all or part of the amount claimed under a Subordinate Claim, the Scheme Company shall take all reasonable steps to make and pursue a claim for indemnity under the applicable insurance policy in respect of that Subordinate Claim.

6.5 Proposed terms of the Amended SFA

A copy of the Amended SFA to be executed by the Obligors and the Administrative Agent under the Scheme is at Schedule 2 to the Scheme.

In summary, if the Scheme is implemented and the Amended SFA becomes effective, it will vary the SFA in the following ways:

(a) (**principal debt**) the principal amount lent under the Term Loan B facility will be reduced from approximately US$259,300,000 to US$135,000,000;

(b) (**maturity**) the term of the Term Loan B facility will be extended from 10 December 2017 to five years from the Restructuring Effective Date (as defined in the Amended SFA which is at Schedule 2 of the Scheme of Arrangement, which is at **Annexure A** of this Explanatory Statement);

(c) (**interest rate**) the rate of interest payable in cash by the Scheme Company will be reduced from LIBOR plus 7.5% per annum to LIBOR plus 4.33% per annum and will continue to be paid in arrears at the end of each month;

(d) (**PIK interest**) the Scheme Company will also pay PIK interest at 0.25% per month, which will compound to the principal balance at the end of each month;

(e) (**excess cash sweep**) within 30 days of the end of each fiscal quarter, the Scheme Company will be obliged to make prepayments from all cash it holds in

excess of AU$80 million, less the amount of interest on the loans paid (or to be paid) on such date;

(f) (**minimum cash covenant**) the Scheme Company will be required to maintain a minimum amount of cash, being AU$35 million, plus 50% of the aggregate principal amount outstanding under any trade finance facility at the end of each calendar month; and

(g) (**optional prepayments**) the Scheme Company will be entitled to make voluntary prepayments in a multiple of US$500,000 (reduced from US$1,000,000) with the aggregate principal amount prepaid to be at least US$2,500,000 (reduced from US$10,000,000).

6.6 **Outcome for the TLB Scheme Creditors**

If the Scheme is implemented, the TLB Scheme Creditors will:

(a) receive payment in cash of their respective portion of the Residual Interest Amount (if any) and the Implementation Date Cash Payment Amount as part of the consideration for the release of a portion of the Secured Debt described in (c) below;

(b) receive Scheme Shares and Scheme Options in an amount calculated in accordance with the formula in the Scheme as part of the consideration for the release of a portion of the Secured Debt described in (c) below;

(c) to the extent of the Total Debt Contribution Amount (being approximately US$124,269,280.21 as at 23 March 2016 less the Implementation Date Cash Payment Amount and any principal repaid on 30 March 2016)_only, release and forever discharge each Obligor (including the Scheme Company) from their obligation to pay the Total Debt Contribution Amount under the Finance Documents;

(d) be owed in aggregate the principal amount of US$135,000,000 by the Scheme Company under an amended version of the SFA, (these amendments are set out in **Section 6.5**);

(e) pursuant to the Scheme and by the TLB Scheme Creditor Deeds Poll, provide the releases in favour of the Release Obligor Individuals and the Agents set out in Step 7 and Step 9 respectively and the indemnity in favour of the Agent in clause 9 of the Scheme.

6.7 **Outcome for Agents**

If the Scheme is implemented, the outcomes for the Agents are:

(a) each of the Agents, by their respective Deeds Poll, agrees to perform the actions attributed to it under this Scheme. Each of them will be instructed by the Scheme Administrators (on behalf of the TLB Scheme Creditors) to execute their respective Deeds Poll on the Effective Date;

(b) without limitation, each of the Agents will be required to:

(i) take all actions required of it under the Scheme; and

(ii) execute the Deeds Poll (as relevant),

(c) each of the Agents will receive the benefit of the release in Step 9 and the indemnity in clause 9 of the Scheme; and

Following implementation of the Scheme, each Agent will retain their functions under the Finance Documents and, except to the extent varied or released under the Scheme, will retain all of their rights, powers and obligations under the Finance Documents.

6.8 **Outcome for the Scheme Company**

If the Scheme is implemented, the outcomes of the Scheme for the Scheme Company are:

(a) it will make a cash payment of US$2,500,000 to the Administrative Agent, and accordingly reduce its available cash resources, in accordance with Step 4 of the Scheme;

(b) it will make a cash payment in respect of the Residual Interest Amount (if any) to the Administrative Agent, and accordingly reduce its available cash resources, in accordance with Step 4 of the Scheme;

(c) the principal debt owed by the Scheme Company to the TLB Scheme Creditors will be reduced from US$259,269,280.21 as at 23 March 2016 to US$135,000,000;

(d) the terms on which the remaining debt is owed to the TLB Scheme Creditors under the SFA will be amended (as set out in **Section 6.5**);

(e) it will provide the release set out in Step 9 of the Scheme in favour of the Agents and it will also indemnify the Agents in accordance with clause 9 of the Scheme;

(f) it will issue Scheme Shares and Scheme Options to the TLB Scheme Creditors on implementation of Step 6 of the Scheme;

(g) Alan J Carr, Eugene I Davis and Daniel Harris will be appointed to the board of directors of the Scheme Company and the directors of the Scheme Company immediately prior to this appointment, with the exception of David Flanagan and Cheryl Edwardes, will resign; and

(h) the rights of Subordinate Claim Holders to bring Subordinate Claims against the Scheme Company will be limited to any amount actually recovered by the Scheme Company under any insurance policy applicable to that Subordinate Claim, less expenses incurred in connection with that Subordinate Claim.

6.9 **Outcome for the Obligors**

If the Scheme is implemented, the outcome of the Scheme for the Obligors (other than the Scheme Company) are that;

(a) to the extent of the Total Debt Contribution Amount (being approximately US$124,269,280.21 as at 23 March 2016 less the Implementation Date Cash Payment Amount and any principal repaid on 30 March 2016) only, the Obligors will be released from their obligation to pay the Total Debt Contribution Amount under the Finance Documents; and

(b) each Obligor will provide the release set out in Step 9 of the Scheme in favour of the Agents and will indemnify the Agents in accordance with clause 9 of the Scheme.

Following implementation of the Scheme, the obligations of the Obligors under the Finance Documents will continue and, except to the extent varied or released under the Scheme, will retain all of their rights, powers and obligations under the Finance Documents.

6.10 **Summary of Australian shareholder rights and protections**

The Corporations Act affords a number of rights to members, and includes a number of minority shareholder protections. These rights and protections include, but are not limited to, the following:

(a) **Right to request a general meeting of members**: Section 249D of the Corporations Act provides that the Directors must call and arrange to hold a general meeting of members on the valid request of members with at least 5% of the votes that may be cast at the general meeting.

(b) **Right to requisition a general meeting of members**: Section 249F of the Corporations Act provides that members with at least 5% of the votes that may be cast at a general meeting of the company may call, and arrange to hold, a general meeting.

(c) **Right to propose resolutions at a general meeting of members**: Section 249N of the Corporations Act provides that the following may give a company notice of a resolution that they propose to move at a general meeting:

(i) members with at least 5% of the votes that may be cast at the general meeting; or

(ii) at least 100 members who are entitled to vote at the general meeting.

The notice must be in writing, set out the wording of the proposed resolution and be signed by the members proposing to move the resolution. The resolution must be considered at the next general meeting that occurs more than 2 months after the notice is given.

(d) **Information access rights**: The Corporations Act affords rights to Shareholders to access certain information about the Scheme Company. These include the right to inspect the Scheme Company's register of members and minute books for members' meetings.

(e) **Ability to seek relief for "oppressive conduct"**: Part 2F.1 of the Corporations Act provides for a "statutory oppression" remedy for members, which provides the court with broad powers to grant relief to a member if the conduct of the company is either:

(i) contrary to the interests of the members as a whole; or

(ii) oppressive to, unfairly prejudicial to, or unfairly discriminatory against, a member (or members) whether in that capacity or another capacity.

Examples of oppressive or unfair conduct can include:

(i) an issue of shares by the directors to the disadvantage of a minority;

(iii) improper diversion of business or business opportunities; and

(iii) denial of access to information.

The orders a court can make on the finding of oppressive or unfair conduct are broad, and may include:

(i) that the company be wound up;

(iv) that the Constitution be amended or repealed;

(v) regulating the conduct of the company's affairs in the future; and

(vi) authorising a member to institute, prosecute, defend or discontinue specified proceedings in the name and on behalf of the company (eg by way of statutory derivative action).

The acquisition of Shares and other interests in the Scheme Company is regulated by Chapter 6 of the Corporations Act. For a brief discussion about relevant restrictions imposed by Chapter 6, see **Section 10(f)** of this Explanatory Memorandum.

Further, rights attaching to the Shares and the terms and conditions of the Options (see **Sections 11.4** and **11.5**, respectively) provide certain other protections to holders of those securities.

6.11 Restrictions on transfer of Transaction Securities and exercise of Scheme Options

In order to comply with applicable securities law requirements and restrictions, including as those described in **Section 1** (*Important Information*) of this Explanatory Statement, there will be certain transfer restrictions on the Transaction Securities as well as restrictions on the exercise of the Scheme Options.

Each TLB Scheme Creditor and the Scheme Company will, in accordance with the Steps, become a party to the Transfer Deed. Pursuant to the terms of the Transfer Deed, each TLB Scheme Creditor will agree that, in the first year following implementation of the Scheme (or, as regards the Option Shares, in the first year following the issue of any Option Shares), it will only transfer the Scheme Shares or Scheme Options, as applicable:

(a) in standard (regular way) brokered transactions on ASX if neither it nor any person acting on its behalf knows, or has reason to know, that the sale has been prearranged with, or that the purchaser is, a person in the United States;

(b) to any of that TLB Scheme Creditor's Affiliates (who must be a "Qualifying Investor", as that term is defined below) who undertakes to transfer the Scheme Shares, the Scheme Options or the Option Shares, as applicable, solely in accordance with the restrictions on transfer otherwise contemplated by this paragraph;

(c) to any other TLB Scheme Creditor; or

(d) to a person who is a "Qualifying Investor" and, in circumstances where the transfer is not in accordance with paragraph (a) above, who also undertakes to transfer the Scheme Shares, the Scheme Options or the Option Shares, as applicable, solely in accordance with the restrictions on transfer otherwise contemplated by this paragraph.

The form of the Transfer Deed is set out in Schedule 8 to the Scheme.

Each Applicable Option Holder (which includes a TLB Scheme Creditor) will be required to, in connection with any exercise of the Scheme Options, agree in writing to certain representations and warranties by executing and delivering a Representation Letter to the

Scheme Company (with their Notice of Exercise). An executed Representation Letter must accompany each and every Notice of Exercise of Options, as contemplated in Section 11.5(g) of this Explanatory Statement. If the confirmations required by the Representation Letter cannot be or are not given, the relevant holder of the Scheme Options will not be eligible to receive the Option Shares. The holder of Scheme Options will be required to, among other things, represent and warrant:

(a) that it is either:

(i) both a Qualified Institutional Buyer and an Accredited Investor; or

(ii) is not in the United States , and is not acting for the benefit or account of, U.S. persons (as defined in Regulation S) (a "**Qualifying Investor**"),

(b) that it is acquiring the Option Shares for its own account, or the account or one or more persons each of whom is a Qualifying Investor with respect to which it exercises sole investment direction, and for investment purposes and not with any intention to distribute such Option Shares;

(c) that it understands that the Option Shares have not been and will not be registered under the U.S. Securities Act and constitute "restricted securities" for the purposes of the U.S. Securities Act and, therefore, can only be resold if such Option Shares are offered and sold by it in a transaction exempt from or not subject to the registration requirements of the U.S. Securities Act; and

(d) that it does not beneficially own 20% or more of the outstanding Shares.

Applicable Option Holders who are not TLB Scheme Creditors will also be required to deliver a duly executed Representation Letter on the exercise of Scheme Options.

A form of the Representation Letter is set out in **Annexure J** to this Explanatory Statement.

6.12 Who will be bound by the Scheme?

If the Scheme becomes effective, it will bind each TLB Scheme Creditor, each Subordinate Claim Holder and the Scheme Company. By operation of the Deeds Poll, provided that they are executed, it will bind the Scheme Administrators, the Obligors, the Agents and any person who is or was a director, officer, or employee of the Scheme Company between 10 December 2012 and the Implementation Date and who has signed a Released Obligor Individual Deed Poll.

If you are a Lender and you do not vote at the Scheme Meeting, or you vote against the Scheme, you will be bound by the Scheme, provided that the Scheme is agreed by the Requisite Majority and is approved by the Court, and you remain a Lender as at the Effective Date.

6.13 Execution risks

The execution risks that could prevent the Scheme being implemented include:

(a) the Requisite Majority do not agree to the Scheme;

(b) the Court does not approve the Scheme or it approves the Scheme with alterations or conditions that change the substance of the Scheme, including the Steps, in a material way;

(c) a person objecting to the Scheme appeals against the Court's orders approving the Scheme (and potentially seeks a stay of those orders pending resolution of that appeal) or applies for injunctive relief and the Court orders the stay or grants an injunction without requiring the person to give the usual undertaking as to damages; or

(d) the conditions precedent to the Scheme are not satisfied.

It is also fundamental to the operation of the Scheme that:

(a) the Agents perform their respective obligations in connection with the Scheme. Each of the Agents has undertaken to sign and provide a deed poll on the Effective Date under which they agree to be bound by the Scheme;

(b) the Scheme Administrators perform their obligations in connection with the Scheme; and

(c) the TLB Scheme Creditors perform their obligations in connection with the Scheme. Under the Scheme, each TLB Scheme Creditor will irrevocably direct the Scheme Administrators to execute and deliver, as its attorney and agent, a TLB Scheme Creditor deed poll under which it agrees to complete certain actions.

6.14 Modification of the Scheme

(a) Modifications by the Lenders

It is possible that a Lender may propose a modification to the terms of the Scheme at the Scheme Meeting (prior to passing of the Resolution to agree the Scheme) or apply to the Court for a modification of the terms of the Scheme.

Although it is permissible for a Lender to propose a modification and for a Scheme Meeting to consider a resolution to approve the modification proposed, Lenders should be aware that the consequences of modifying the terms of the Scheme include:

(i) if the modification is materially adverse to the Scheme Company or any particular TLB Scheme Creditor or class of them, it may give rise to a basis, which may not otherwise exist, for the Court to refuse to approve the modified Scheme. In such circumstances, the Scheme will not become effective (in either the modified or original form);

(ii) the Scheme Company may not consent to the modified Scheme and therefore the Scheme Company may not be prepared to seek the Court's approval of the modified Scheme; and

(iii) depending on the nature and extent of the modifications and their impact upon the overall Scheme, the modifications could effectively invalidate any previously obtained consents and, if so, then the consequences may be that further consents would need to be obtained.

(b) Modifications by the Court

Under section 411(6) of the Corporations Act, the Court may approve the proposed Scheme at the Second Court Hearing subject to alterations or conditions as it thinks just.

The conditions precedent to the Scheme (outlined in **Section 6.2** above) include that the Scheme will only come into effect if, among other things, the Court's

alterations or conditions (if any) to the Scheme do not change the substance of the Scheme, including the Steps, in any material way.

6.15 **The Scheme Administrators**

If the Scheme is agreed to by the Lenders and approved by the Court, the Scheme Administrators will be appointed in accordance with the terms of the Scheme Administrators Deed Poll. Philip Carter, Simon Theobald and Marcus Ayres of PPB have agreed to act as Scheme Administrators.

Under the terms of the Scheme Administrators Deed Poll, each Scheme Administrator:

(a) consents to the Scheme;

(b) agrees to be bound by the Scheme as if they were a party to the Scheme; and

(c) undertakes:

(i) to accept all appointments, authorisations and directions, to perform all obligations and undertake all actions attributed to him or her under the Scheme;

(ii) to do all things necessary and execute all further documents necessary to give full effect to the Scheme and all transactions contemplated by it; and

(iii) not to act inconsistently with any provision of the Scheme.

The Scheme Administrators' liability in the performance or exercise of their powers, obligations and duties under the Scheme is limited in accordance with the Scheme.

The remuneration of the Scheme Administrators, their partners and staff will be calculated on a time basis at the hourly rates set out in **Annexure E** to this Explanatory Statement. The Scheme Administrators' Costs of administering the Scheme are estimated to be up to AU$200,000.

6.16 **Challenging the Scheme Administrators generally**

A TLB Scheme Creditor who is aggrieved by any act, omission or decision of the Scheme Administrators may appeal to the Court under section 1321 of the Corporations Act. The Court may confirm, reverse or modify the act or decision, or remedy the omission, as the case may be, and make such orders and directions as the Court thinks fit.

7. THE SCHEME MEETING AND VOTING PROCEDURES

7.1 Time and place

The Scheme Meeting will be held to consider and, if thought fit, approve the Scheme at:

10.30 am on Friday, 22 April 2016

at

Ashurst, Level 11, 5 Martin Place, Sydney NSW 2000, Australia

7.2 Chairperson

It is intended that the Scheme Meeting will be chaired by Anthony Michael Walsh, the company secretary of the Scheme Company, or such other person as the Court may specify when making its orders under section 411(1) of the Corporations Act.

7.3 Agenda for the Scheme Meeting

The proposed agenda for the Scheme Meeting is as follows:

(a) the Chairperson will address those present at the Scheme Meeting, providing an explanation of the background to and purpose of the meeting;

(b) there will be a general presentation in relation to the proposed Scheme and attendees will be given a reasonable opportunity to ask questions in relation to the Scheme;

(c) the procedure for voting on the Scheme will be explained;

(d) the resolution to approve the Scheme will be put to the Lenders present in person or by proxy, attorney or corporate representative at the Scheme Meeting for a vote.

7.4 Classes of Lenders

In making its orders under section 411(1) of the Corporations Act to convene the Scheme Meeting, the Court did not order that the TLB Scheme Creditors be divided into separate classes. As such all TLB Scheme Creditors will all vote as one class.

7.5 Eligibility and entitlement to vote

Only Lenders as at the Voting Entitlement Record Date are eligible to vote at the Scheme Meeting.

Voting is not compulsory. However, Lenders who do not vote at the Scheme Meeting will be bound by the Scheme, provided that the Scheme is agreed to by the Requisite Majority and approved by the Court.

Voting at the Scheme Meeting will be conducted by poll.

7.6 How to vote at the Scheme Meeting

In each case set out below, Lenders must complete a Voting Proof of Debt Form (set out in **Annexure G** to this Explanatory Statement) in accordance with the instructions set out in the Voting Proof of Debt Form and ensure that it is received by the Chairperson by no

later than 4.00 pm on 18 April 2016 in order to establish the amount of the relevant Lender's ' Claim against the Scheme Company under the SFA for voting purposes.

Lenders should also consider **Section 7.7** below in relation to the adjudication of Voting Proof of Debt Forms by the Chairperson.

(a) **Voting in person**

A Lender who wishes to vote in person on the Scheme should attend the Scheme Meeting.

Where the Lender is a corporation, it may appoint a proxy, attorney or corporate representative to attend the meeting on its behalf. Any attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including authority under which the appointment was made.

(b) **Voting by proxy, attorney or corporate representative**

If you cannot attend the Scheme Meetings and wish to vote, you may vote by proxy, attorney or, in the case of a corporate Lender, by corporate representative in accordance with section 250D of the Corporations Act.

If you appoint a proxy, you will need to complete and lodge a Proxy Form as set out in **Annexure F**, in accordance with the instructions on the form, so that it is received by the Chairperson by 4.00 pm on 18 April 2016.

Any attorney or corporate representative should bring to the Scheme Meeting evidence of his or her appointment including authority under which the appointment was made.

7.7 Adjudication of Voting Proof of Debt Forms

The Chairperson of the Scheme Meeting has power to admit (wholly or in part) or reject a proof of debt or Claim, for the purposes of voting at the Scheme Meeting.

The Chairperson will adjudicate upon the Lender's Claim as set out in a Voting Proof of Debt Form based on the information contained in or provided with the Voting Proof of Debt Form, as well the information known to the Chairperson. This may result in the Lender's Claim being rejected, in whole or in part, or admitted for a higher or lower amount.

Although a Lender is required to provide details of any Security held by it, a Lender is entitled to vote for the full amount of their Admitted Claim and need not deduct the value of their security.

Any Lender who is aggrieved by the Chairperson's decision to admit or reject (in whole or in part) a Voting Proof of Debt Form or Claim for voting purposes may appeal the decision in Court by application to the Court filed within 48 hours of the decision, which application is to heard at the time and place scheduled for the Second Court Hearing.

The admission of a Lender's Claim is for voting purposes only and does not constitute an admission of the existence or amount of the Lender's Claim against the Scheme Company or any other person, and will not bind the Scheme Company or the Lender concerned for any other purpose.

In the event of voluntary administration or liquidation of the Scheme Company, the voluntary administrator or liquidator may adjudicate upon the Lender's Claim, if any, on a different basis than that which is used to adjudicate on the Lender's Claim for the purpose

of voting at the Scheme Meeting, and therefore may admit Claims for a higher or lower amount. Lenders are encouraged to obtain their own advice regarding the possible treatment of their Claims in a voluntary administration or liquidation scenario.

7.8 Modification of Scheme at Scheme Meeting

Lenders may propose modifications to the Scheme at the Scheme Meeting. However, Lenders should be aware that there are risks associated with modifying the terms of the Scheme at the Scheme Meeting. For more detail on these risks, refer to **Section 6.14** of this Explanatory Statement.

7.9 Lodgement of documents and further queries

Complete Voting Proof of Debt Forms and Proxy Forms should be lodged in accordance with the instructions on those forms.

If you have any questions in relation to the Scheme Meetings, including completing and lodging Voting Proof of Debt Forms or Proxy Forms, please contact:

David McGrath
PPB Advisory
Level 7, 8-12 Chifley Square
SYDNEY NSW 2000
AUSTRALIA
Ph: +61 2 8116 3000
Email: dmcgrath@ppbadvisory.com

8. THE PPB REPORT

8.1 Scope of the PPB Report

Ashurst, on behalf of the Scheme Company, has engaged PPB to prepare a report addressing the following matters:

(a) the solvency of the Group immediately following implementation of the Scheme;

(b) the value of the assets of the Group generally, and relative to the debts owing to the TLB Scheme Creditors under the SFA, as at 29 February 2016 with reference to iron ore price forward curves and independent iron ore forecasts available at or around that date;

(c) the expected dividend that would be available to the TLB Scheme Creditors if the Scheme Company were to be wound up within 6 months of the hearing of the application for an order under section 411(1) of the Corporations Act;

(d) the expected dividend that would be paid to the TLB Scheme Creditors if the Scheme were put into effect as proposed, immediately after implementation of the Scheme;

(e) the likely outcome for the Group should the Scheme not be implemented;

(f) a sensitivity analysis demonstrating the impact on the Scheme Company's compliance with the Asset Coverage Ratio covenant of potential movements in the AUD / USD exchange rate, the iron ore price and impairment adjustments as at 30 June 2016 and 31 December 2016;

(g) the potential impact of reclassification of the TLB debt from non-current to current in the Scheme Company's 31 December 2016 accounts;

(h) the expected dividend that would be available to Subordinate Claim Holders, in addition to the Net Proceeds, if the Scheme Company were to be wound up within 6 months of the hearing of the application for an order under section 411(1) of the Corporations Act;

(i) the expected dividend that would be paid to Subordinate Claim Holders if the Scheme were put into effect as proposed, immediately after implementation of the Scheme; and

(j) the extent, if any, to which the expected dividend that would be paid to Subordinate Claim Holders, in addition to the Net Proceeds, differs between either of the scenarios in (f) and (i) above.

TLB Scheme Creditors should consider the entire PPB Report, which is at **Annexure B**, before deciding how to vote.

8.2 PPB's conclusions on asset value and solvency

Subject to the assumptions made in the PPB Report, PPB is of the opinion that:

(a) the estimated value of the Group's assets of between AU$566 million and AU$674.1 million exceeds the total Secured Debt owed to TLB Scheme Creditors at 29 February 2016; and

(b) the Scheme Company (and the Group) will be solvent following implementation of the Scheme and able to pay its debts when they fall due for the 12 months following implementation of the Scheme.

However, as set out in the PPB Report, in arriving at its estimate of the value of the Group's assets PPB has used the generally accepted definition of fair market value, being *"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length"*. This definition is based on a hypothetical transaction between a hypothetical willing buyer and a hypothetical willing seller and assumes that a transaction will occur, even if, for market or other reasons, a transaction will not, or is unlikely to, occur. Therefore, the valuation should not be regarded as indicative of a transaction that is currently capable of being consummated by the Group.

PPB also concludes that if the Scheme is not implemented then the hypothetical valuation of the Group's assets as set out above would no longer be relevant and that the value realised for the Group's assets if Atlas were to be wound up within 6 months of the First Court Date, net of the costs of receivership, would be:

(a) if the business of the Group were to cease trading and the assets of the Group were to be sold on a piecemeal basis, between AU$107 million and AU$136.9; and

(b) if the business of the Group were to continue to operate and the assets of the Group were to be sold in this context, between AU$136.1 and AU$270.2.

8.3 **Conclusions as to most likely outcome if Scheme not implemented**

Subject to the assumptions made in the PPB Report, PPB is of the opinion that, if the Scheme is not implemented:

(a) there is a high degree of risk that the Scheme Company will breach the Asset Coverage Ratio covenant at 30 June 2016;

(b) if the Scheme Company breaches the Asset Coverage Ratio covenant, the TLB Scheme Creditors will be entitled to instruct the Administrative Agent to demand immediate repayment of the entire Secured Debt and, if that occurs, the Scheme Company and the other Obligors (excluding the Acceding Obligors, which were not considered in the PPB Report) will be insolvent;

(c) if an external administrator is appointed to the Scheme Company and / or the other members of the Group, then the external administrator will either:

    (i) attempt to continue the operation of the Scheme Company's assets for a short period in order to attempt sell the assets of the Group as a going concern; or

    (ii) place the Scheme Company's assets on care and maintenance while it seeks out a buyer for the Group's assets,

    failing which, the Group's assets will be sold on a piecemeal basis; and

(d) in the event of either sale strategy by an external administrator, the value of the Group's assets will be discounted heavily to reflect current market conditions and the distressed nature of the sale.

8.4 **Expected dividends**

Subject to the assumptions made in the PPB Report, PPB is of the opinion that:

(a) if the Scheme Company is wound up within six months of the First Court Date (and the Scheme is not implemented), then the TLB Scheme Creditors would be likely to receive a dividend in the following ranges:

Value	Closedown Sale		Operating Sale	
	Low	*High*	*Low*	*High*
AU$million	107.0	136.9	136.1	270.2
c/AU$	29.6	37.9	37.7	74.8

(b) the expected dividend that would be paid to the TLB Scheme Creditors immediately after implementation of the Scheme would be:

(i) the sum of US$2,500,000 pursuant to the Scheme; plus

(ii) all accrued and unpaid interest under the SFA; plus

Value	Closedown Sale		Operating Sale	
	Low	*High*	*Low*	*High*
AU$million	97.5	127.5	128.6	260.9
c/AU$	51.5	67.4	68.0	100.0

(c) the expected dividend that would be paid to Subordinate Claim Holders, in addition to the Net Proceeds, in either of the scenarios outlined in (a) or (b) above is nil.

9. REASONS LENDERS MAY CONSIDER VOTING FOR THE SCHEME

The reasons why the Lenders may consider voting in favour of the Scheme include:

(a) **Debt for equity swap and potential for uplift in value from ownership of Transaction Securities when compared to insolvency process**

If the Scheme is approved, the Lenders will release the Obligors from their obligations to pay a portion of the Secured Debt to the Lenders and, in return, receive Scheme Shares and Scheme Options and a cash payment from the Scheme Company.

As security holders, the Lenders may have the opportunity to realise the value of their converted debt through any increase in the value of the Scheme Shares, Scheme Options or Option Shares on sale, transfer or exercise. The Lenders may consider that the potential to recover value through sale, transfer or exercise of the Scheme Shares, Scheme Options or Option Shares is an advantage when compared to the likely crystallisation of loss that would occur for some or all Lenders on an insolvency event (as expressed in the PPB Report).

Further, Lenders may consider that a formal insolvency process is likely to be destructive to the realisable value of the Scheme Company's business and assets, which may further diminish the recoverable value of the Secured Debt owed to them.

(b) **Avoidance of uncertainties associated with insolvency**

The Scheme will provide a means by which the debt owed to the Lenders under the SFA will be restructured without the appointment of a voluntary administrator, liquidator or receiver and manager to the Scheme Company or the Obligors.

The Scheme will minimise disruption to the business and the diminution of value that could occur as a consequence of such appointments. Any appointment of an administrator, liquidator or receiver and manager may result in certain counterparties being entitled to terminate contracts with the Scheme Company. This would be detrimental to the ongoing business of the Scheme Company and would affect the value that could be realised out of a sale of the assets of the Scheme Company and the Group.

(c) **Avoidance of insolvency expenses**

The legal, administrative and funding costs associated with the administration, liquidation or receivership and management of the Scheme Company would be avoided if the Scheme is approved and implemented. PPB have estimated that the costs of an insolvency process involving the Scheme Company and other Obligors (with the exception of the Acceding Obligors) would be in the range of AU$3.5 million and AU$12.7 million (which reflects the variation between the cost of a going-concern sale and a close down sale).

(d) **Transaction certainty**

Effecting a restructuring by way of the Scheme will provide greater transaction certainty for the Lenders and the Scheme Company (which will continue to operate the business) than could be achieved without the Scheme in circumstances in which the Lenders do not unanimously consent to the proposed restructuring.

In the event that the Court makes orders approving the Scheme and those orders are lodged with ASIC (and subject to satisfaction of the conditions precedent), the steps that give effect to the restructure will have the force of law.

(e) **Ability for Scheme Company to continue to trade and raise additional funds**

If the Scheme is implemented, subject to the iron ore prices and US$/AU$ exchange rate, the potential for the Scheme Company to continue to trade and operate its businesses will be improved by a lower debt burden. Over time, and subject to the risks and qualifications outlined in **Section 4.1** above, including those relating to iron ore prices and US$/AU$ exchange rates, the Scheme Company could generate an uplift in value for all of its Shareholders and optionholders (including the Lenders in their capacity as Shareholders and optionholders).

The decrease in overall debt (and corresponding effect on the Scheme Company's balance sheet) may enable the Scheme Company to explore further fund raising opportunities in the future for the purpose of business growth and expansion (subject to the terms of the Amended SFA).

(f) **Statutory protections for Shareholders in the Scheme Company**

As the Scheme Company is a public company, its Shareholders will have certain statutory protections, details of which are set out in **Section 6.10**. Further, as the Shares and Options are listed on ASX, those securities may be more readily sold or transferred by the Lenders in the future when compared to both distressed debt and securities in an unlisted company.

(g) **Limit on Subordinate Claims**

If the Scheme is implemented, the rights of Subordinate Claim Holders to bring Subordinate Claims against the Scheme Company will be limited, reducing its potential exposure to the risks associated with such claims.

These potential advantages must be considered in light of the potential disadvantages of the Scheme, which are discussed in **Section 10** below.

Lenders are encouraged to obtain independent legal, financial and taxation advice in relation to their own individual circumstances. Lenders are not obliged to follow the recommendation of the directors of the Scheme Company and may decide to vote against the Scheme.

10. REASONS LENDERS MAY VOTE AGAINST THE SCHEME

The reasons why the TLB Scheme Creditors may consider voting against the Scheme include:

(a) Release of substantial portion of debt owed to Lenders

As a result of implementation of the Scheme, and subject to any limitations set out in the Scheme, the TLB Scheme Creditors will release the Scheme Company and the Obligors from all Claims and obligations under the Finance Documents to the extent of the Total Debt Contribution Amount and, following that release, will have no further right to recover the Total Debt Contribution Amount as a debt from the Scheme Company or any of the Obligors.

The Total Debt Contribution Amount is estimated to be US$121,101,061, representing approximately 46.7% of the total outstanding Secured Debt.

The release of the Total Debt Contribution Amount under the Scheme, and the loss of rights to recover that amount as a debt from the Scheme Company and the Obligors, should be considered in light of the conclusions set out in the PPB Report, which estimate that Lenders would only recover between AU$107 million and AU$270 million in the event the Scheme Company was subject to a formal insolvency process.

(b) Release of directors, officers and employees of the Scheme Company and Obligors

The Scheme provides for the TLB Scheme Creditors to release the Obligors and any person who is or was a director, officer and employee of any of the Obligors between 10 December 2012 and the Implementation Date and who signs a Released Obligor Individual Deed Poll from all Claims and obligations relating to events between 10 December 2012 and the Implementation Date.

Lenders may consider that they have a potential Claim against one or more of these individuals or Obligors, which would result in a recovery in favour of the TLB Scheme Creditors and may, accordingly, wish to vote against the Scheme and pursue that Claim, whether by placing the Scheme Company or the Obligors or any of them into external administration or otherwise (although the Scheme Company is not aware of any potential Claims that may be available against any of those people).

(c) Shares and Options in the Scheme Company

The Scheme, if implemented, will result in the TLB Scheme Creditors holding Shares and Options. The Claims of the TLB Scheme Creditors as Shareholders will rank behind the Claims of any secured or unsecured creditors of the Scheme Company. As a Shareholder, any returns (in the form of dividends or capital returns) are dependent on the financial performance of the Scheme Company and the amount which the board of the Scheme Company determines should be distributed to Shareholders. As debt holders, the return to the Lenders under the SFA is in the form of interest, which is a contractual right which takes priority over the rights of Shareholders.

In addition, some of the TLB Scheme Creditors may be subject to prudential requirements which impose obligations and requirements in connection with holding Shares which would not apply to the holding of debt. Some of these

obligations and requirements are set out in **Section 6.11** of this Explanatory Statement.

(d) Minority holding in the Scheme Company

Some TLB Scheme Creditors are likely to hold low percentages of the Shares immediately following implementation of the Scheme, compared to the estimated holdings of the largest Shareholders. There are risks and protections associated with being a minority Shareholder in a company, and the latter is discussed in **Section 6.10** of this Explanatory Statement.

(e) Scheme Company's business

There are risks associated with holding equity securities in the Scheme Company, as set out in **Section 4.1** of this Explanatory Statement. No assurances can be given in respect of the future performance or prospects of the Scheme Company, the value of, or return on, Shares in the Scheme Company or the ability of any Shareholder to sell their Shares in the future.

(f) Chapter 6 restrictions

The Scheme Company is an ASX listed public company with more than 50 members and, as such, is subject to Chapter 6 of the Corporations Act. Chapter 6 imposes certain restrictions on the acquisition of "relevant interests" in Shares. These include the following:

(i) a person cannot acquire a relevant interest in Shares if, because of that acquisition, that person's (or another person's) voting power in the Scheme Company increases:

(A) from 20% or below to more than 20%; or

(B) from a starting point that is above 20% and below 90%,

other than in ways permitted by the Corporations Act (the **Takeovers Prohibition**);

(ii) disposing of Shares, where the proposed acquirer would acquire those Shares in breach of the Takeovers Prohibition; and

(iii) becoming associated with other Shareholders, in relation to matters such as voting Shares and determining board appointments to the Scheme Company, where the aggregated shareholdings of the associated Shareholders would breach the Takeovers Prohibition.

A "relevant interest" under the Corporations Act is a broad concept. Generally speaking, a person will have a relevant interest in securities where they are the holder of the securities, where they can exercise or control the voting rights attached to those securities or dispose of, or control the disposal of, those securities.

Importantly, in the context of the Takeovers Prohibition, a person's "voting power" in the Scheme Company is calculated by aggregating the number of Shares in which that person has a relevant interest with the number of Shares in which each person who is an "associate" of that person has a relevant interest. Generally speaking, two or more persons will be taken to be associates in relation to the Scheme Company if:

(i) they are body corporates belonging to the same corporate group;

(ii) they have entered into an agreement, arrangement or understanding for the purpose of controlling or influencing the Scheme Company's board composition or the conduct of the Scheme Company's affairs; or

(iii) they are acting, or proposing to act, "in concert" in relation to the Scheme Company's affairs.

While the acquisition of the Scheme Shares by the TLB Scheme Creditors pursuant to the Scheme falls within an exception to the Takeovers Prohibition (see item 17 of section 611 of the Corporations Act), the restrictions and other legal considerations outlined above will apply in respect of any increases to the voting power of any such person following implementation of the Scheme – for example, pursuant to the exercise of a Scheme Option.

Furthermore, as a Shareholder, a TLB Scheme Creditor will be subject to certain ongoing notification requirements under the Corporations Act. For example, a TLB Scheme Creditor must make the notifications described below:

(i) in circumstances where they (together with their associates) have relevant interests in voting shares of the Scheme Company or interests representing **5% or more** of the total votes of the Scheme Company (or if the person has made a takeover bid for voting shares or interests in the Scheme Company) (this is called a **Substantial Holding**), by lodging an ASIC Form 603 "Notice of Initial Substantial Shareholder" with the Company and ASX;

(ii) for **each 1% (or more) change** in their Substantial Holding, by lodging a Form 604 "Notice of Change of Interests of Substantial Shareholder" with the Scheme Company and ASIC;

(iii) if they cease to have a Substantial Holding (that is, their relevant interest in voting shares of the Scheme Company or interests in the total votes of the Scheme Company, **falls below 5%**), by lodging a Form 605 "Notice of Ceasing to be a Substantial Shareholder" with the Scheme Company and ASX.

Generally speaking, these forms must be lodged within two Business Days after the TLB Scheme Creditor (or their associate, as the case may be) becomes aware of either the transaction effecting the change or the change in percentage holding itself.

TLB Scheme Creditors should seek their own independent legal advice on the effect of Chapter 6 of the Corporations Act on the Scheme Company.

(g) Insolvency

Lenders may consider voting against the Scheme if they consider there is potential for a better return to them under a formal solvency process.

If the Scheme is not implemented, it is likely that an insolvency event will occur in relation to the Scheme Company. In that circumstance, some Lenders may consider that there would be a better return to them than the return available under the Scheme.

Lenders should have regard to the opinions in the PPB Report in this regard (summarised in **Section 8**).

These potential disadvantages must be considered in light of the potential advantages of the Scheme, which are discussed in **Section 9** above.

Lenders are encouraged to obtain independent legal, financial and taxation advice in relation to their own individual circumstances. TLB Scheme Creditors are not obliged to follow the recommendation of the Scheme Company and may decide to vote against the Scheme.

11. ADDITIONAL INFORMATION

11.1 Material interests of Directors

The current Directors of the Scheme Company are:

(a) David Nathan Flanagan (Managing Director);

(b) Jeffrey Phillip Dowling

(c) Kenneth Edward Brinsden; and

(d) Cheryl Lynn Edwardes (Chairman).

Except as disclosed below or elsewhere in this Explanatory Statement, as at the date of this Explanatory Statement, no Director of the Scheme Company has any interest, whether as a director, member or creditor of the Scheme Company or otherwise, that is material in relation to the Scheme, and the Scheme has no effect on the interests of any Director of the Scheme Company that is different to the effect on the like interests of other persons.

The Scheme Company's Managing Director, Mr David Flanagan, was issued 20,911,333 unlisted options exercisable for nil consideration in November 2015 in his capacity as an employee following shareholder approval at the Scheme Company's 2015 Annual General Meeting in October 2015. These options will vest should the Scheme be approved and become effective. All other employees of the Scheme Company received unlisted options on the same terms at the same time as they were received by Mr Flanagan.

If the Scheme is implemented, each TLB Scheme Creditor will release certain people who were directors, officers or employees of any Obligor in the period between 10 December 2012 and the Implementation Date from any Claim or obligation relating to events occurring on or before the Implementation Date.

11.2 Material interests of Scheme Administrators

The Scheme Administrators will be entitled to remuneration for their services as explained in **Section 6.15**. The hourly rates which will apply for the Scheme Administrators' services are set out at **Annexure E**.

11.3 ASIC waivers

The Scheme Company applied to ASIC for a declaration in respect of subsections 707(3) and 707(4) of the Corporations Act to the effect that holders of Scheme Options, upon the exercise of those Scheme Options, will be able to on-sell their Option Shares within 12 months of their issue, without requiring disclosure under Chapter 6D of the Corporations Act. This application was made by the Scheme Company to ASIC on 8 February 2016.

As at the date of this Explanatory Statement, ASIC has not yet granted the modification sought by the Scheme Company's application to ASIC.

If the Scheme Company does not receive the declaration sought in its application to ASIC by 12:00pm on the Business Day before the Second Court Date, the Scheme Company will deliver to the Administrative Agent (and will provide a copy to the TLB Scheme Creditors) the New Options Deed Poll at or before 8.00am on the Second Court Date.

In circumstances where the Scheme Company elects to issue a prospectus before the issue of Scheme Options in accordance with Step 6 outlined in **section 6.4(f)** (as contemplated by the New Options Deed Poll) there may be additional process

requirements associated with this. The Administrative Agent and the Scheme Company (as applicable) will provide any additional information to the TLB Scheme Creditors about such requirements if the need arises.

11.4 **Rights and liabilities of Scheme Shares and Option Shares**

The Scheme Shares proposed to be issued to TLB Scheme Creditors, and any Option Shares issued on the exercise of the Scheme Options proposed to be issued to TLB Scheme Creditors, will be of the same class and will, once issued, rank equally in all respects with existing Shares (including equal voting rights and equal rights to dividends, profits and capital).

The rights and liabilities attaching to the Scheme Shares and Option Shares are identical in all material respects to the terms of the existing Shares.

The following is a summary of the principal rights of the holders of Shares. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders under the Constitution.

The Constitution may be inspected free of charge by appointment between 9:00 am and 5:00 pm (Perth time) on normal business days from the date of this Explanatory Statement up to the Implementation Date at the registered office of the Scheme Company (at Level 18, 300 Murray St, Perth, WA 6000).

(a) **Voting**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, every Shareholder present in person or by proxy at a general meeting of the Scheme Company has one vote on a show of hands and one vote per Share held on a poll.

A Shareholder who holds a Share which is not fully paid is entitled, on a poll, to a fraction of the number of votes equal to the proportion which the amount paid on those Shares bears to the total issue price of those Shares.

Where there are two or more joint holders of a Share and more than one of them is present at a general meeting and tenders a vote in respect of the Share, the Scheme Company will only count the vote cast by the Shareholder whose name appears first in the Scheme Company's register of members.

(b) **Meetings and notices**

Each Shareholder is entitled to receive notice of and to attend and vote at general meetings of the Scheme Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the ASX Listing Rules.

The quorum for a meeting of members is at least two (2) Shareholders who are entitled to attend and vote.

(c) **Dividends**

Subject to the Constitution, the terms of issue of Shares and the Corporations Act, the board may resolve to pay any dividends as it considers appropriate and fix the time for payment.

Subject to the Constitution, each Share carries the right to participate in the dividend in the same proportion that the amount for the time being paid on the

Share (excluding any amount paid in advance of calls) bears to the total issue price of the Share.

(d) **Transfers**

Subject to the Constitution, the Corporations Act and the ASX Listing Rules, the Shares are freely transferable.

The Shares may be transferred by a proper transfer effected in accordance with any computerised or electronic system established or recognised by the ASX Listing Rules, the Corporations Act or the ASX Settlement Rules for the purpose of facilitating dealings in Shares, by a written instrument of transfer which complies with the Constitution or by any other method permitted by the Corporations Act, the ASX Listing Rules or the ASX Settlement Rules.

The board may refuse to register a transfer of Shares only if that refusal would not contravene the ASX Listing Rules or the ASX Settlement Rules. If the board refuses to register a transfer, the Scheme Company must give written notice to the lodging party of the refusal, and the reasons for it, within five business days after the date on which the transfer was delivered to it. The board must decline to register any transfer of Shares if the Corporations Act, the ASX Listing Rules or the ASX Settlement Rules forbid registration.

The Transaction Securities, which include Shares, are also subject to further contractual restrictions on transfer for the purposes of the U.S. Securities Act, as contemplated by the Transfer Deed. A summary of the effect of the Transfer Deed is included in **Section 6.11** of this Explanatory Memorandum, and the form of the Transfer Deed is set out as Schedule 8 to the Scheme.

(e) **Directors to issue Shares**

Subject to the Corporations Act, the ASX Listing Rules, the Constitution and any special rights conferred on the holders of any Shares or class of Shares, the board may issue, grant options over or otherwise dispose of unissued Shares to any person on the terms, with the rights, and at the times that the board decides.

(f) **Unmarketable parcels**

Subject to the Constitution, the Corporations Act, the ASX Listing Rules and the ASX Settlement Rules, the board may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares

(g) **Directors – appointment and removal**

The Constitution states that the minimum number of Directors is three (3).

Directors are elected at an annual general meeting of the Scheme Company. A Director (other than the Managing Director) must retire from office at the third annual general meeting after the Director was elected or re-elected. An election of Directors must be held at each annual general meeting. If no election of Directors is scheduled to occur (by reason of rotation or otherwise), then the Director (other than the Managing Director) who has held office the longest must retire. A retiring Director is eligible for re-election, subject to certain restrictions.

Subject to the Corporations Act and to the maximum number of Directors for the time being fixed not being exceeded, the board may also appoint a Director at any time except during a general meeting, who will then automatically retire at the

next annual general meeting of the Scheme Company and is eligible for election at that meeting.

(h) **Powers of the board**

The board has the power to manage the business of the Scheme Company and may exercise all such powers of the Scheme Company which are not, by the Corporations Act, any other applicable law, the ASX Listing Rules or the Constitution, required to be exercised by the Scheme Company in general meeting.

(i) **Winding-up**

Subject to the Constitution and the rights of holders of Shares with special rights in a winding-up, if the Scheme Company is wound up, Shareholders will be entitled to participate in any surplus assets of the Scheme Company in proportion to the percentage of the capital paid up on their Shares when the winding up begins.

(j) **Variation of rights**

Unless otherwise provided by the Constitution or by the terms of issue of a class of Shares, the rights attached to the shares in any class may (subject to sections 246C and 246D of the Corporations Act) be varied or cancelled only with the written consent of the holders of 75% of the issued shares of the affected class, or by special resolution passed at a separate meeting of the holders of the issued shares of the affected class. At present, the Scheme Company has on issue one class of Shares only, namely ordinary shares.

(k) **Member liability**

As the Shares offered pursuant to the Scheme are fully paid shares in the Scheme Company, they are not subject to any calls for money by the board and will therefore not become liable to forfeiture.

(l) **Capitalisation of profits**

The Scheme Company may capitalise profits, reserves or other amounts available for distribution to Shareholders. Subject to the Constitution and the terms of issue of Shares, Shareholders are entitled to participate in a capital distribution in the same proportions in which they are entitled to participate in dividends.

(m) **Alteration of the Constitution**

The Constitution can only be amended by a special resolution passed by at least 75% of the total number of votes cast by Shareholders voting in person, by proxy, by attorney or in the case of corporate Shareholders, by corporate representative.

11.5 **Terms and conditions of the Scheme Options**

(a) **Exercise price**

Each Scheme Option is exercisable at 7.5 cents per Share (**Exercise Price**).

(b) Entitlement

Each Scheme Option entitles the holder (**Option Holder**), on payment of the Exercise Price and otherwise subject to the terms and conditions set out below, for one new Share (each being an **Option Share**).

(c) Option period

The Scheme Options will expire at 5.00 pm (Perth time) on 31 July 2017 (**Expiry Date**).

Subject to **Section 11.5(g)** (Method of Exercise of a Scheme Option), Scheme Options may be exercised at any time prior to the Expiry Date and any Scheme Options not exercised will automatically expire on the Expiry Date. There is no obligation to exercise the Scheme Options.

The Scheme Company will, at least 20 Business Days before the Expiry Date, send notices to all Option Holders stating the name of the Option Holder, the number of Scheme Options held and the number of Option Shares to be issued on exercise of the Scheme Options and reiterating the requirement that a duly executed Representation Letter must accompany any Notice of Exercise (as described more fully in **Section 11.5(g)** (Method of Exercise of a Scheme Option) below).

(d) **Ranking of Shares allotted on the exercise of a Scheme Option**

Each Option Share issued on exercise of a Scheme Option will, subject to the Constitution, rank equally in all respects with the existing Shares then on issue.

(e) **Voting**

The Option Holder will not be entitled to attend or vote at any meeting of the Shareholders of the Scheme Company.

(f) **Scheme Options are freely tradeable and expected to be tradeable on ASX**

Subject to the Corporations Act, the ASX Listing Rules, the Constitution and the Transfer Deed, the Scheme Options are freely transferable and, subject to ASX approving the Scheme Company's application for quotation of the Scheme Options as contemplated by Section 11.5(h), expected to be freely tradeable on ASX.

(g) **Method of exercise of a Scheme Option**

The Scheme Company will provide each Option Holder with a form of written notice that is to be completed and submitted to the Scheme Company's Company Secretary at each time the Option Holder wishes to exercise some or all of its Scheme Options in accordance with these terms and conditions (**Notice of Exercise**).

The Notice of Exercise must state the number of Scheme Options to be exercised, the amount of the aggregate Exercise Price to be paid by the Option Holder in respect of the applicable Scheme Options (**Applicable Subscription Monies**) and the number of Option Shares to be issued on exercise of the applicable Scheme Options. The Notice of Exercise must be accompanied by payment in full of the Applicable Subscription Monies.

The Notice of Exercise must also be accompanied by a duly executed Representation Letter. The Scheme Company's Company Secretary will provide the Option Holder with a Representation Letter that is to be signed and submitted to Atlas' Company Secretary at each time the Option Holder wishes to exercise the New Options in accordance with these terms and conditions.

The exercise of some Scheme Options does not affect the Option Holder's right to exercise other Scheme Options at a later time.

As soon as practicable after the date on which the Option Holder submits a valid Notice of Exercise and a duly executed Representation Letter. and pays the Applicable Subscription Monies, the Scheme Company must issue to the Option Holder the equivalent number of new Option Shares to which the Option Holder is entitled on exercise of the applicable Scheme Options (**Applicable New Option Shares**).

To avoid any doubt, if the confirmations required by the Representation Letter cannot be or are not given by the Option Holder to the Scheme Company, that Option Holder will not be eligible to subscribe for Applicable New Option Shares and the Scheme Company will not be required to issue to the Option Holder the Applicable New Option Shares to which the Option Holder would otherwise be entitled on exercise of the applicable New Options.

The Scheme Company must, within three (3) Business Days from the date of issue of the Applicable New Option Shares, apply to ASX for, and use its best endeavours to obtain, official quotation of all such Applicable New Option Shares, in accordance with the Corporations Act and the ASX Listing Rules.

(h) **ASX quotation**

The Scheme Company will apply to have the Scheme Options admitted to quotation on ASX with effect from, or as soon as reasonably practicable after they are issued to Option Holders and otherwise in accordance with the requirements of the ASX Listing Rules.

(i) **Reconstruction**

In the event of a reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Scheme Company, all rights of the Option Holder under the Scheme Options will be changed to the extent necessary to comply with the ASX Listing Rules applying to that reconstruction of capital, at the time of the reconstruction.

(j) **Participation in new issues**

The Scheme Options do not give the Option Holder the right to, or otherwise entitle the Option Holder to participate in, any new issues of capital which may be made or offered by the Scheme Company to its Shareholders from time to time.

The Scheme Company will ensure that, during the Exercise Period, the record date for the purposes of determining entitlements to any new such issue will be at least seven Business Days after such new issues are announced (or such other date if required under the ASX Listing Rules), so as to afford the Option Holder an opportunity to exercise the Scheme Options and participate in the applicable new issue in respect of the Option Shares issued on exercise.

(k) **No change of exercise price of number of underlying Option Shares**

The Exercise Price and the number of underlying Option Shares to which the Option Holder is entitled to subscribe on exercise of the Scheme Options do not change if there is a bonus issue to holders of ordinary shares in the Scheme Company.

If the Scheme Company makes a pro rata offer of securities (except a bonus issue) to the holders of ordinary shares (other than in lieu or in satisfaction of dividends or by way of dividend reinvestment) the Exercise Price will be reduced according to the formula specified in the ASX Listing Rules.

11.6 **New Directors**

As mentioned in **Sections 3.3**, **3.8(a)**, **6.4**, and **6.8** of this Explanatory Statement, on implementation of the Scheme:

(a) the New Directors will be appointed to the board of directors of the Scheme Company; and

(b) the existing directors of the Scheme Company (being those directors of the Scheme Company immediately prior to implementation of the Scheme) will resign, with the exception of David Flanagan and Cheryl Edwardes.

The New Directors will be appointed, in the first instance, as casual or additional directors of the Scheme Company until the next annual general meeting of the Scheme Company. At that next annual general meeting, each New Director will be subject to election by Shareholders in accordance with the ASX Listing Rules and the Corporations Act.

In addition, the Scheme Company's obligations to appoint any New Director is subject to the Scheme Company receiving a signed consent to act from that New Director and that New Director signing a letter of appointment that contemplates the Scheme Company's procedures and policies regarding management of any actual or perceived conflicts of interest and confidentiality issues, among other things.

11.7 **Certified copy of Financial Statements**

Certified copies of the financial statements in respect of the Scheme Company to be lodged with ASIC as required by paragraph 8203(b) of Schedule 8 of the Corporations Regulations are set out at **Annexure C** to this Explanatory Statement.

11.8 **Report as to affairs of Scheme Company – ASIC Form 507**

The report and information in respect of the Scheme Company required by ASIC Form 507 and paragraph 8203(a) of Schedule 8 of the Corporations Regulations is set out at **Annexure D** to this Explanatory Statement.

11.9 **The Lenders**

The relevant details of all Lenders as required by paragraphs 8201(c), (d), and (e) of Schedule 8 of the Corporations Regulations is set out at **Annexure H** to this Explanatory Statement.

12. INTERPRETATION AND GLOSSARY

12.1 Interpretation

The following general interpretation guidelines are included to assist Lenders in understanding this document.

(a) Unless otherwise stated, all data contained in charts, graphs and tables is based on information available as at the date of this Explanatory Statement. All numbers are rounded unless otherwise indicated.

(b) A reference to:

(i) AU$, AUD or cents, is to Australian currency, unless otherwise stated; and

(ii) USD or US$ is to the currency of the United States of America, unless otherwise stated.

(c) All references to time are references to the time in Sydney, Australia.

(d) A reference to:

(i) a "section" or "paragraph" is to a section or paragraph of this Explanatory Statement;

(ii) a legislative provision or legislation (including subordinate legislation) is to that provision or legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;

(iii) a document (including this document) or agreement, or a provision of a document (including this document) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;

(iv) a party to an agreement includes a successor in title, permitted substitute or a permitted assign of that party;

(v) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person; and

(vi) anything (including a right, obligation or concept) includes each part of it.

(e) A singular word includes the plural, and vice versa.

(f) If a word or phrase is defined, any other grammatical form of that word or phrase has a corresponding meaning.

(g) A word which suggests one gender includes the other genders.

(h) If an example is given of anything (including a right, obligation or concept), such as by saying that it includes something else, the example does not limit the scope of that thing.

(i) A reference to a matter being **"to the knowledge"** of the Scheme Company means that the matter is to the best of the knowledge and belief of the Directors as at the date of this Explanatory Statement, after making reasonable enquiries in the circumstances.

(j) A reference to **"information"** is to information of any kind in any form or medium, whether formal or informal, written or unwritten.

(k) The word **"agreement"** includes an undertaking or other binding arrangement or understanding, whether or not in writing.

(l) The expressions **"subsidiary"**, **"holding company"** and **"related body corporate"** have the same meanings as is given to those expressions in the Corporations Act.

12.2 **Glossary of terms**

Capitalised terms used in this Explanatory Statement have the meanings set out below.

Lenders should be aware that some of the documents in the Annexures to this Explanatory Statement have their own defined terms, which are sometimes different from those in this Glossary.

Acceding Obligors means each of:

(a) Atlas Pty Ltd ACN 161 762 116;

(b) Carlinga Mining Pty Ltd ACN 077 264 487;

(c) Ferraus Manganese Pty Ltd ACN 147 298 940;

(d) St George Magnetite Pty Ltd ACN 122 999 044;

(e) Tallering Resources Pty Ltd ACN 077 183 165; and

(f) Wheelbarrow Prospecting Pty Ltd ACN 118 926 613.

Admitted Claim means, in respect of a Lender, the amount for which the Lender's Claims against the Scheme Company are admitted by the Chairperson for the purpose of voting at the relevant Scheme Meeting.

Administrative Agent means the Credit Suisse, AG, Cayman Islands Branch in its capacity as "Administrative Agent" under the Finance Documents.

Administrative Agent Deed Poll means the deed poll in the form set out in Schedule 5 of the Scheme.

Affiliate has the meaning given to "affiliate" within the meaning of Rule 405 of the U.S. Securities Act.

Agent means the Collateral Agent or the Administrative Agent or both of them, as the context requires.

Aggregate Amount means, in respect of a TLB Scheme Creditor, the aggregate principal amount owing by the Scheme Company to that TLB Scheme Creditor under the SFA immediately prior to the commencement of Step 4 on the Implementation Date.

Amended SFA means the Amended and Restated Syndicated Facility Agreement in the form set out in Part 1 of Schedule 2 of the Scheme.

Amendment Deed (GSD) means the Amendment Deed to the General Security Deed in the form set out in Part 2 of Schedule 2 of this Scheme.

Amendment Document means the Amended SFA or the Amendment Deed (GSD).

Applicable Option Holder means:

(a) a TLB Scheme Creditor, to the extent that they hold Scheme Options issued in connection with the Scheme; and

(b) any subsequent holders of Scheme Options (that is, those who are not TLB Scheme Creditors but are transferred or sold Scheme Options in accordance with the applicable restrictions).

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the listing rules of ASX, as waived or modified by ASX in respect of the Company, the Scheme or otherwise.

ASX Settlement Rules means the operating rules of the settlement facility provided by ASX Settlement Pty Ltd ACN 008 504 532.

Australian Obligor means each of:

(a) Atlas Operations Pty Ltd ACN 122 835 947;

(b) Aurox Resources Pty Ltd ACN 106 793 560;

(c) Australian Manganese Pty Ltd ACN 100 061 854;

(d) Ferraus Pty Limited ACN 097 422 529;

(e) Ferro Metals Australia Pty Ltd ACN 113 996 106;

(f) Giralia Resources Pty Ltd ACN 009 218 204;

(g) Warwick Resources Pty Ltd ACN 063 506 963; and

(h) South East Pilbara Assets Pty Ltd ACN 152 057 022.

Business Day means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Sydney.

C1 Cash Costs means costs of mining, processing, haulage, port, ship loading and other direct costs incurred to the point of a wet metric tonne passing the ships rail. C1 cash costs are inclusive of both contractors and the Scheme Company's costs.

Calculation Date means the day that is the second Business Day after the Effective Date.

Chairperson means Anthony Michael Walsh of the Scheme Company (who is also known as Tony Walsh)(or, if he is unavailable, Bronwyn Rachel Kerr of the Scheme Company).

Claim means, in relation to a person, any claim, allegation, cause of action, proceeding, debt, liability, suit or demand made against the person concerned however it arises and whether it is present or future, fixed or unascertained, actual or contingent or otherwise whether at law, in equity, under statute or otherwise.

Collateral Agent means Credit Suisse AG, Sydney Branch in its capacity as "Collateral Agent" under the Finance Documents.

Collateral Agent Deed Poll means the deed poll in the form set out in Schedule 4 of the Scheme and executed by the Collateral Agent pursuant to the Scheme.

Collateral Agreement means the document entitled "Collateral Agreement" dated 10 December 2012 between the Company, the US Borrower, and the Collateral Agent.

Constitution means the Scheme Company's constitution.

Contractor Collaboration Deed means the document entitled "Contractor Collaboration Deed" dated 14 April 2015 between the Scheme Company, MACA Mining Pty Ltd, McAleese Resources Pty Ltd, and Qube Bulk Pty Limited.

Contractor Collaboration Model means the cost program prescribed by the Contractor Collaboration Deed, as amended by the associated deeds of variation, and described more fully in **Section 4.1(i)**.

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Costs means costs, charges, fees and expenses.

Court means the Federal Court of Australia or such other court of competent jurisdiction.

Court Orders means the orders of the Court:

(a) approving the Scheme under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act); or

(b) giving effect to the Scheme or any provision of it.

Debt Contribution Amount means, in relation to each TLB Scheme Creditor, its share of the Total Debt Contribution Amount to be calculated under the Scheme by the Scheme Administrators.

Deed Poll means the Scheme Administrators Deed Poll, Collateral Agent Deed Poll, the Administrative Agent Deed Poll, the TLB Scheme Creditors Deed Poll, the Released Obligor Individual Deed Poll and the Obligors Deed Poll, as the context requires, and Deeds Poll means all of them. To avoid doubt, Deed Poll for these purposes does not include the New Options Deed Poll.

Directors means the directors appointed to the Scheme Company as at the date of this Explanatory Statement.

Effective Date means the date on which each of the conditions precedent in the Scheme have been satisfied.

Event of Default has the meaning given to that term in the SFA.

Explanatory Statement means this document.

Facility means the "Term Loans" as that term is defined in the SFA.

FATA means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

Fe Unit is a measure of the iron grade in iron ore that is equivalent to 1% iron grade in one metric ton of iron ore.

Featherweight Floating Charge means the document entitled "Featherweight Floating Charge" dated 10 December 2012 between the Australian Obligors, the Scheme Company and the Collateral Agent.

Fee means, in respect of a Fee Recipient, the total amount claimed by the Fee Recipient in respect of its reasonable costs, fees and other expenses (including, for the avoidance of doubt, an estimate of such costs, fees and other expenses for the period from the date of the claim up to and including the Implementation Date) in connection with the debt restructuring of the Company, the Finance Documents and this Scheme for the period up to and including the Implementation Date, as notified by that Fee Recipient to the Scheme Company on or before the Calculation Date.

Fee Recipient means each of Houlihan Lokey, Jones Day, Sidley Austin LLP and Gilbert + Tobin.

Finance Documents means each of:

(a) the SFA; and

(b) the Securities.

Fines means Standard Fines and Value Fines.

FIRB means Foreign Investment Review Board.

First Court Date means the first date of the hearing of an application for the First Court Orders or, if the hearing of that application is adjourned, the first to which the hearing is adjourned.

First Court Orders means the orders of the Court convening the Scheme Meeting under section 411(1) of the Corporations Act.

First Court Hearing means the hearing of an application for the First Court Orders.

General Security Deed means the document entitled "General Security Deed" dated 10 December 2012 between the Scheme Company, the Australian Obligors and the Collateral Agent.

Group means the Scheme Company and its subsidiaries.

Implementation Date means:

(a) the date which is five Business Days after the Effective Date; or

(b) if the Scheme Administrators form the opinion that Steps 4 (Preliminary payment) to 12 (Compromise of Subordinate Claims) cannot occur on the date in (a) above, such later date on which, in the opinion of the Scheme Administrators, Steps 4 (Preliminary payments) to 12 (Compromise of Subordinate Claims) can occur on the same day, being a date that is not earlier than the Business Day after the Calculation Date and not later than the Sunset Date.

Implementation Date Cash Payment Amount means US$2,500,000.

Interim SFA Amendment Deed means the document entitled "First Amendment to Syndicated Facility Agreement" between, among others, the Obligors and the Administrative Agent dated 22 December 2015.

Lenders means the Lenders as defined in the SFA.

Lump means the iron ore product produced by the Scheme Company containing approximately 58% Fe with a physical size grading in the range between 6.3mm and 40mm.

New Directors means each of Alan J Carr, Eugene I Davis and Daniel Harris.

New Options Deed Poll means, for the purposes of clause 3.1(f) of the Scheme, a deed poll in form and substance satisfactory to a majority of Lenders (by value) executed by the Scheme Company in favour of each holder of New Options (from time to time) under which the Scheme Company unconditionally and irrevocably covenants that it will either:

(a) lodge a prospectus for the purposes of Part 6D.2 of the Corporations Act with ASIC before the Implementation Date that contemplates offers of Scheme Options and ensures that such offers are still open for acceptance on the Implementation Date; or

(b) in connection with the exercise of any New Options:

    (i) issue a cleansing notice for the purposes of section 708A(5) of the Corporations Act; or

    (ii) lodge with ASIC a prospectus for the purposes of Part 6D.2 of the Corporations Act that contemplates an offer of Shares,

to the extent necessary to ensure, and in a manner which ensures, that the Shares issued on exercise of those Scheme Options are freely tradeable without any on-sale restrictions.

Notice of Meeting means the notice of Scheme Meeting that is to be sent to Lenders with this Explanatory Statement.

Obligor means each of the Scheme Company, the US Borrower, the Australian Obligors and the Acceding Obligors.

Obligors Deed Poll means the deed poll executed by the Australian Obligors, the Acceding Obligors and the US Borrower on or prior to the First Court Date.

Options means options to acquire ordinary Shares in the Scheme Company exercisable on payment of the exercise price of AU$0.075 and otherwise identical in their terms to the "New Options" issued under the Scheme Company's prospectus dated 11 June 2015 (as supplemented by the supplementary prospectus dated 6 July 2015) save that:

(a) the expiry date of the New Options is 31 July 2017 (rather than 30 June 2017); and

(b) as a condition of exercise of the New Options, holders of New Options are required to provide the Representation Letter to the Scheme Company.

Option Shares means Shares issued by the Scheme Company on exercise of Options and otherwise in accordance with the terms and conditions of the Options.

PIK means payment-in-kind.

PPB means PPB Advisory of Level 7, 8–12 Chifley Square, Sydney NSW 2000.

PPB Report means the independent expert report dated 24 February 2016 and the supplementary expert report dated 30 March 2016 prepared by Philip Carter, Simon Theobald and Marcus Ayres of PPB, a copy of which is set out at Annexure B.

PPB Information means the information in Section 8 of this Explanatory Statement, the PPB Report and certain other information in this Explanatory Statement that is identified as having been provided by or attributed to PPB.

Proxy Form means the form used by Lenders to appoint a proxy to vote on their behalf at the Scheme Meeting, substantially in the form set out at Annexure F.

Released Obligor Individual means each person who was, at any time between 10 December 2012 and the Implementation Date inclusive, a director, officer or employee of any Obligor (in their capacity as such) and who has signed a Released Obligor Individual Deed Poll.

Released Obligor Individual Deed Poll means a deed poll in the form in Schedule 9 to the Scheme.

Releasee means a person who has the benefit of a release given under the Scheme.

Representation Letter means a letter in the form as set out in Annexure J or such other form as may be required by the Scheme Company from time to time, which must be duly executed and accompany each Notice of Exercise in respect of Options to be exercised by Applicable Option Holders.

Residual Interest Amount means the amount of accrued but unpaid interest due and payable by the Scheme Company in respect of the Facility as at the Implementation Date on the basis that no part of that amount is paid during the period between the Effective Date and the Implementation Date (inclusive).

Resolution means the resolution contained in the Notice of Meeting which will be put to Lenders at the Scheme Meeting.

Restructuring Support Agreement means the document entitled "Restructuring Support Agreement" dated 22 December 2015 between, among others, the Obligors (other than the Acceding Obligors), and certain of the Lenders.

Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act between the Scheme Company, the Subordinate Claim Holders and the TLB Scheme Creditors, a copy of which is set out at Annexure A to this document, subject to any alterations or conditions made or required by the Court.

Scheme Administrators means Philip Carter, Simon Theobald and Marcus Ayres of PPB Advisory, or any other persons who accept the appointment to the role of scheme administrators of the Scheme, subject to section 411(7) of the Corporations Act.

Scheme Administrators Deed Poll means a deed poll executed by the Scheme Administrators prior to or on the First Court Date.

Scheme Company means Atlas Iron Limited ACN 110 396 168.

Scheme Meeting means the meeting of the Lenders ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to the Scheme, and includes any adjournment of that meeting.

Scheme Options means the Options to be issued by the Scheme Company pursuant to the Scheme.

Scheme Shares means the Shares to be issued by the Scheme Company pursuant to the Scheme.

Second Court Date means the first day of the Second Court Hearing.

Second Court Hearing means the hearing of an application made to the Court for orders under section 411(4)(b), including any adjourned hearing.

Secured Debt means, at any time, the total amount owing by the Scheme Company to the Lenders under the SFA.

Securities means each of:

(a) the General Security Deed;

(b) the Collateral Agreement;

(c) the Featherweight Floating Charge,

and all other "Security Documents" (as that term is defined in the SFA).

SFA means the Syndicated Facility Agreement dated 10 December 2012 between, among others, the Scheme Company, Credit Suisse AG, Cayman Islands Branch and Credit Suisse AG, Sydney Branch.

Share means fully paid ordinary shares in the capital of the Scheme Company.

Shareholder means the registered holder of a Share.

Shareholder Meeting means the general meeting of the Shareholders of the Scheme Company to be held on or around 27 April 2016 to consider and vote on the issuing of Shares and Options under the Scheme.

Standard Fines means the iron ore product produced by the Scheme Company containing approximately 57% Fe with a physical size grading less than 10mm.

Steps means any of Steps 1 (Deeds and Amendment Documents) to 12 (Compromise of Subordinate Claims) set out in the Scheme.

Subordinate Claim means a subordinate claim within the meaning of subsection 563A(2) of the Corporations Act, against the Scheme Company in respect of any fact, matter, circumstance or event which has arisen or occurred at any time prior to the commencement of Step 12 (Compromise of Subordinate Claims).

Subordinate Claim Holder means any person who, as at immediately prior to the commencement of Step 12 (Compromise of Subordinate Claims), has or, but for this Scheme, would be entitled to make, a Subordinate Claim.

Sunset Date means the 15th Business Day after the Effective Date.

TLB Scheme Creditors means the Lenders as at the Effective Date, notwithstanding the disposal or transfer of any right under any Finance Document or any agreement to dispose of or transfer any such right entered into by that person before or after that time.

Total Aggregate Amount means the aggregate principal amount owing by the Scheme Company to the TLB Scheme Creditors in respect of the Facility immediately prior to the commencement of Step 4 on the Implementation Date.

Total Debt Contribution Amount means the Total Aggregate Amount *less* the Implementation Date Cash Payment Amount, *less* US$135,000,000.

Transaction Securities means the Scheme Shares, the Scheme Options and the Option Shares.

Transfer Deed means a deed substantially in the form set out in Schedule 8 to the Scheme.

US Borrower means Atlas America Finance, Inc.

U.S. Exchange Act means the U.S. Securities Exchange Act of 1934, as amended.

U.S. Securities Act means the U.S. Securities Act of 1933, as amended.

Undertakings means each of the following undertakings:

(a) the undertaking given by the Administrative Agent to execute the Administrative Agent Deed Poll in accordance with this Scheme; and

(b) the undertaking given by the Collateral Agent to execute the Collateral Agent Deed Poll in accordance with this Scheme.

Value Fines means the iron ore product produced by the Scheme Company containing approximately 54% Fe with a physical size grading less than 10mm.

Voting Entitlement Record Date means the First Court Date.

Voting Proof of Debt Form means a proof of debt form substantially in the form set out at Annexure G, which may be lodged with the Chairperson by a Lender for the purpose of voting at the relevant Scheme Meeting.

ANNEXURE A

Scheme of Arrangement

ANNEXURE F

Proxy Form

Form 532

(as modified and adopted for the Scheme)

Regulation 5.6.29

Corporations Act 2001 (Cth)

ACN or ARBN: _____

Capitalised terms in this Proxy Form that are not otherwise defined have the same meaning as is given to those terms in the enclosed Explanatory Statement.

1. Appointment of Proxy

I/We _____ of _____, a creditor of Atlas Iron Limited ABN 63 110 396 168, appoint _____ or in his or her absence _____ as my general/special proxy to vote [for the Resolution / against the Resolution] at the Scheme Meeting.

Note: If you are appointing a special proxy, you must indicate whether your proxy has been appointed to vote "for" or "against" the Resolution.

2. **The Resolution**

RESOLVE THAT pursuant to and in accordance with section 411 of the *Corporations Act* 2001 (Cth), the Scheme between the Scheme Company, the TLB Scheme Creditors and the Subordinate Claim Holders, as contained and described in the Explanatory Statement, is agreed to.

Dated:

If executing as an individual:

Signature

_____

OR if executing as a company:

EXECUTED by

Signature of director	Signature of director/secretary
Name	Name

3. **Certificate of Witness**

Note: This certificate is to be completed only if the person giving the proxy is blind or incapable of writing. The signature of the creditor must not be witnessed by the person nominated as proxy.

I _____, of _____, certify that the above instrument appointing a proxy was completed by me in the presence of and at the request of the person appointing the proxy and read to him or her before he or she signed or marked the instrument.

Dated:

Signature of witness

Description _____

Place of residence _____

_____

This form must be lodged with the Chairperson at the following address by 4.00 pm on 18 April 2016:

Attention: Tony Walsh
Company Secretary
Atlas Iron Limited
Level 18, 300 Murray Street
Perth WA 6000
AUSTRALIA

OR

Email: tony.walsh@atlasiron.com.au

ashurst

Scheme of Arrangement

Atlas Iron Limited
ACN 110 396 168

and

The TLB Scheme Creditors

and

The Subordinate Claim Holders

JKM\CLWO\02 3003 1912

CONTENTS

THIS SCHEME OF ARRANGEMENT is made on 2016

BETWEEN:

(1) **Atlas Iron Limited** ACN 110 396 168 of 'Raine Square' Level 18, 300 Murray Street Perth WA 6000 (the **Company**);

(2) the **TLB Scheme Creditors**; and

(3) the **Subordinate Claim Holders**.

RECITALS:

(A) This Scheme is proposed in connection with: (a) Claims against the Company by the Lenders under the Finance Documents; and (b) any Subordinate Claim of any Subordinate Claim Holder.

(B) Each Obligor, pursuant to the Obligors Deed Poll, has consented to this Scheme, agreed to be bound by this Scheme as if it were a party to this Scheme and undertaken to perform all obligations and actions attributed to it under this Scheme.

(C) The Scheme Administrators, pursuant to the Scheme Administrators Deed Poll, have consented to act as Scheme Administrators, consented to this Scheme, agreed to be bound by this Scheme as if they were a party to this Scheme and undertaken to perform all obligations and actions attributed to the Scheme Administrators under this Scheme.

(D) Each of the Agents have undertaken that, immediately after each of them has received the instructions referred to in, or contemplated by, Step 1 (Deeds and Amendment Documents), each of the Agents will, pursuant to the Collateral Agent Deed Poll and the Administrative Agent Deed Poll respectively, perform all actions attributed to it under this Scheme.

THE PARTIES AGREE AS FOLLOWS:

1. INTERPRETATION

1.1 Definitions

The following definitions apply in this document.

Acceding Obligors means each of:

(a) Atlas Pty Ltd ACN 161 762 116;

(b) Carlinga Mining Pty Ltd ACN 077 264 487;

(c) Ferraus Manganese Pty Ltd ACN 147 298 940;

(d) St George Magnetite Pty Ltd ACN 122 999 044;

(e) Tallering Resources Pty Ltd ACN 077 183 165; and

(f) Wheelbarrow Prospecting Pty Ltd ACN 118 926 613.

Administrative Agent means Credit Suisse AG, Cayman Islands Branch in its capacity as "Administrative Agent" under the Finance Documents.

Administrative Agent Deed Poll means the deed poll in the form set out in Schedule 5 of this Scheme and to be executed by the Administrative Agent pursuant to clause 7.5(a)(i)(C) of this Scheme.

Administrative Requirements means each of the following:

(a) The Administrative Agent shall have received the following from the Company in a well organised and logical order:

(A) a copy of the certificate of incorporation, including all amendments thereto, of the US Borrower, certified as of a date not earlier than five Business Days prior to the Implementation Date by the Secretary of State of the State of Delaware and a certificate as to the good standing of the US Borrower dated not earlier than that same date, from the Secretary of State of the State of Delaware;

(B) a certificate of the Secretary or Assistant Secretary of the US Borrower dated not earlier than five Business Days prior to the Implementation Date and certifying:

(1) that attached thereto is a true and complete copy of the by-laws of the US Borrower as in effect as at the date of the certificate and at all times since a date prior to the date of the resolutions described in clause (2) below;

(2) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the US Borrower authorising the execution, delivery and performance of its obligations under the Relevant Documents to which the US Borrower is, or is expressed to be, a party and the borrowings thereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect;

(3) that the certificate of incorporation of the US Borrower has not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (A) above; and

(4) as to the incumbency and specimen signature of each officer executing any Relevant Document or any other document delivered in connection with any Relevant Document on behalf of the US Borrower; and

(C) a certificate of another officer of the US Borrower as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to clause (B) above; and

(ii) in relation to each Obligor (other than the US Borrower), a certificate given by a director of such Obligor dated not earlier than five Business Days prior to the Implementation Date certifying:

(A) true specimen signatures of each authorised officer of such Obligor; and

(B) that such Obligor:

(1) complied with Chapter 2E and Part 2J.3 of the Corporations Act in relation to its entry into and performance of its obligations under each Relevant Document to which it is, or is expressed to be, a party; and

(2) obtained all necessary corporate approvals for its entry into and performance of its obligations under each Relevant Document to which it is, or is expressed to be, a party, and attaching certified true and correct copies of:

(i) the constitution of such Obligor;

(ii) an extract of minutes of meeting of the board of directors of such Obligor authorising its entry into, and performance of its obligations under the Relevant Documents to which it is, or is expressed to be, a party and that such resolutions have not been modified, rescinded or amended and are in full force and effect;

(iii) if applicable, any power of attorney granted by such Obligor in connection with its entry into the Relevant Documents to which it is, or is expressed to be, a party; and

(iv) confirming the accuracy of the representations in Section 4.26 of the Amended SFA as at the date of the certificate.

(b) The Administrative Agent shall have received a certificate, dated not earlier than two Business Days prior to the Implementation Date and signed by a Responsible Officer (as defined in the Amended SFA) of the Company certifying that, as at the date of the certificate, (i) each of the representations and warranties made by any Obligor in or pursuant to the Relevant Documents is true and correct in all material respects and (ii) no Event of Default (as defined in the Amended SFA) or, assuming the completion of all Steps, Default (as defined in the Amended SFA) shall have occurred and be continuing.

Agent means the Collateral Agent or the Administrative Agent or both of them, as the context requires.

Aggregate Amount means, in respect of a TLB Scheme Creditor, the aggregate principal amount of the Facility owing by the Company to that TLB Scheme Creditor immediately prior to the commencement of Step 4 on the Implementation Date.

Amended SFA means the Amended and Restated Syndicated Facility Agreement in the form set out in Part 1 of Schedule 2 of this Scheme which amendment and restatement takes effect pursuant to clause 7.5(j) of this Scheme.

Amendment Deed (GSD) means the Amendment Deed to the General Security Deed in the form set out in Part 2 of Schedule 2 of this Scheme which amendment takes effect pursuant to clause 7.5(j) of this Scheme.

Amendment Document means the Amended SFA or the Amendment Deed (GSD) or both of them as the context requires.

Applicable Insurance Policy means any available policy of insurance under which the Company is entitled to indemnity in respect of any Subordinate Claim.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the listing rules of ASX, as waived or modified by ASX in respect of the Company, the Scheme or otherwise.

Australian Obligor means each of:

(a) Atlas Operations Pty Ltd ACN 122 835 947;

(b) Aurox Resources Pty Ltd ACN 106 793 560;

(c) Australian Manganese Pty Ltd ACN 100 061 854;

(d) Ferraus Pty Limited ACN 097 422 529;

(e) Ferro Metals Australia Pty Ltd ACN 113 996 106;

(f) Giralia Resources Pty Ltd ACN 009 218 204;

(g) Warwick Resources Pty Ltd ACN 063 506 963; and

(h) South East Pilbara Assets Pty Ltd ACN 152 057 022.

Business Day means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Sydney, New South Wales.

Calculation Date means the day that is the second Business Day after the Effective Date.

Claim means, in relation to a person, any claim, allegation, cause of action, proceeding, debt, liability, suit or demand made against the person concerned however it arises and whether it is present or future, fixed or unascertained, actual or contingent or otherwise whether at law, in equity, under statute or otherwise.

Collateral Agent means Credit Suisse AG, Sydney Branch, in its capacity as "Collateral Agent" under the Finance Documents.

Collateral Agent Deed Poll means the deed poll in the form set out in Schedule 4 of this Scheme and to be executed by the Collateral Agent pursuant to clause 7.5(a)(i)(C) of this Scheme.

Collateral Agreement means the document entitled "Collateral Agreement" dated 10 December 2012 between the Company, the US Borrower and the Collateral Agent.

Collateral Security has the meaning given to that term in the General Security Deed.

Company means Atlas Iron Limited ACN 110 396 168 of 'Raine Square' Level 18, 300 Murray Street Perth WA 6000.

Constitution means the constitution of the Company, as amended from time to time.

Corporations Act means the *Corporations Act 2001* (Cth).

Costs means costs, charges, fees and expenses.

Court means the Federal Court of Australia (New South Wales Division).

Debt Contribution Amount means, in relation to each TLB Scheme Creditor, its share of the Total Debt Contribution Amount to be calculated by the Scheme Administrator as follows:

A = (B / C) x D, where:

A is the relevant TLB Scheme Creditor's Debt Contribution Amount

B is the relevant TLB Scheme Creditor's Aggregate Amount

C is the Total Aggregate Amount

D is the Total Debt Contribution Amount

Deed Poll means the Scheme Administrators Deed Poll, the Collateral Agent Deed Poll, the Administrative Agent Deed Poll, the TLB Scheme Creditors Deeds Poll or the Obligors Deed Poll, as the context requires, and Deeds Poll means all of them. To avoid any doubt, Deed Poll for these purposes does not include the New Options Deed Poll.

Effective means, when used in relation to this Scheme, the coming into effect of the Second Court Orders pursuant to section 411(10) of the Corporations Act.

Effective Date means the date on which each of the conditions precedent in clause 3.1 has been satisfied.

Facility means the "Term Loans" as that term is defined in the SFA.

FATA means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

Featherweight Floating Charge means the document entitled "Featherweight Floating Charge" dated 10 December 2012 between the Australian Obligors, the Company and the Collateral Agent.

Fee means, in respect of a Fee Recipient, the total amount claimed by that Fee Recipient in respect of its reasonable costs, fees and other expenses (including, for the avoidance of doubt, an estimate of such costs, fees and other expenses for the period from the date of the claim up to and including the Implementation Date) in connection with the debt restructuring of the Company, the Finance Documents and this Scheme for the period up to and including the Implementation Date, as notified by that Fee Recipient to the Company on or before the Calculation Date.

Fee Recipient means each of Houlihan Lokey, Jones Day, Gilbert + Tobin and Sidley Austin LLP.

Finance Documents means the “Loan Documents” as that term is defined in the SFA and includes each of:

(a) the SFA; and

(b) the Securities.

First Court Date means the date of the hearing of an application for the First Court Orders or, if the hearing of that application is adjourned, the date to which the hearing is adjourned.

First Court Orders means the orders of the Court convening the Scheme Meeting under section 411(1) of the Corporations Act.

General Security Deed means the document entitled "General Security Deed" dated 10 December 2012 between the Company, the Australian Obligors and the Collateral Agent.

Governmental Agency means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister (including, the Commonwealth Treasurer), ASIC, the Australian Competition and Consumer Commission, the Australian Taxation Office, ASX and any regulatory organisation established under statute or any stock exchange.

Implementation Date means:

(a) the date which is five Business Days after the Effective Date; or

(b) if the Scheme Administrator forms the opinion that Steps 4 (Preliminary payments) to 12 (Compromise of Subordinate Claims) cannot occur on the date in (a) above, such later date on which, in the opinion of the Scheme Administrator, Steps 4 (Preliminary payments) to 12 (Compromise of Subordinate Claims) can occur on the same day, being a date that is not earlier than the Business Day after the Calculation Date and not later than the Sunset Date.

Implementation Date Cash Payment Amount means US$2,500,000.

Lenders means the "Lenders" as that term is defined in the SFA.

Liabilities has the meaning given in clause 6.5(a).

Losses has the meaning given in clause 6.5(b).

New Directors means each of Alan J. Carr, Eugene I. Davis and Daniel Harris.

New Equity means the New Shares and the New Options.

New Options means the Options, exercisable on payment of the exercise price of AU$0.075 and otherwise identical in their terms to the existing Options issued under the Company's prospectus dated 11 June 2015 (as supplemented by the supplementary prospectus dated 6 July 2015) save that:

(a) the expiry date of the New Options is 31 July 2017 (rather than 30 June 2017); and

(b) as a condition of exercise of the New Options, holders of New Options are required to provide a representation letter to the Company confirming that they are a person eligible to receive securities under the U.S. Securities Act 1933,

to be issued in accordance with Step 6 (New Equity issue) of a number to be calculated in accordance with the following formula:

B = A/0.3 – A, where:

A is the number of Options on issue as at the Implementation Date, including, for the avoidance of doubt, Options on issue under any employee share option plan

B is the number of New Options to be issued

New Options Deed Poll means, for the purposes of clause 3.1(f) of this Scheme, a deed poll in form and substance satisfactory to a majority of Lenders (by value) executed by the Company in favour of each holder of New Options (from time to time) under which the Company unconditionally and irrevocably covenants that it will either:

(a) lodge a prospectus for the purposes of Part 6D.2 of the Corporations Act with ASIC before the Implementation Date that contemplates offers of New Options and ensures that such offers are still open for acceptance on the Implementation Date; or

(b) in connection with the exercise of any New Options:

(i) issue a cleansing notice for the purposes of section 708A(5) of the Corporations Act; or

(ii) lodge with ASIC a prospectus for the purposes of Part 6D.2 of the Corporations Act that contemplates an offer of Shares,

to the extent necessary to ensure, and in a manner which ensures, that the Shares issued on exercise of those New Options are freely tradeable without any on-sale restrictions.

New Shares means the Shares to be issued in accordance with Step 6 (New Equity issue) of a number to be calculated in accordance with the following formula:

D = C/0.3 – C, where:

C is the number of Shares on issue as at the Implementation Date

D is the number of New Shares to be issued

Obligors means each of:

(a) the Company;

(b) the US Borrower;

(c) the Australian Obligors; and

(d) the Acceding Obligors.

Obligors Deed Poll means the deed poll executed by the Australian Obligors, the Acceding Obligors and the US Borrower dated 24 March 2016.

Options means options to acquire ordinary shares in the Company.

Original Directors means the directors of the Company immediately prior to the commencement of Step 5 (Appointment of New Directors) on the Implementation Date.

PPSA means the *Personal Property Securities Act 2009* (Cth).

PPSR means the Personal Property Securities Register established under the PPSA.

Released Obligor Individual means each person who was, at any time between 10 December 2012 and the Implementation Date inclusive, a director, officer or employee of any Obligor (in their capacity as such) who has executed, or at any time executes (including by way of joinder), a Released Obligor Individual Deed Poll.

Released Obligor Individual Deed Poll means the deed poll in the form set out in Schedule 9 of this Scheme.

Relevant Documents means this Scheme, the Obligors Deed Poll and the Amendment Documents.

Residual Interest Amount means the amount of accrued but unpaid interest due and payable by the Company in respect of the Facility as at the Implementation Date on the basis that no part of that amount is paid during the period between the Effective Date and the Implementation Date (inclusive).

Scheme means the compromise or arrangement under Part 5.1 of the Corporations Act between the Company, the TLB Scheme Creditors and the Subordinate Claim Holders as set out in this document, subject to any alterations or conditions made or required by the Court.

Scheme Administrator means each of Philip Carter, Simon Theobald and Marcus Ayres of PPB Advisory, or any other person who accepts the appointment to the role of scheme administrator of this Scheme, subject to section 411(7) of the Corporations Act provided, in each case, they have each executed a deed poll in substantially the same form as the Scheme Administrators Deed Poll.

Scheme Administrators Deed Poll the deed poll in the form set out in Schedule 7 of this Scheme and executed by the Scheme Administrators.

Scheme Meeting means the meeting of Lenders ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to this Scheme, and includes any adjournment of that meeting.

Second Court Date means the first day of hearing of an application made to the Court for the Second Court Orders or, if the hearing of such application is adjourned for any reason, means the first day to which the hearing is adjourned.

Second Court Orders means the orders of the Court approving this Scheme under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act.

Securities means each of:

(a) the General Security Deed;

(b) the Collateral Agreement;

(c) the Featherweight Floating Charge,

and all other Security Documents (as that term is defined in the SFA).

SFA means the document entitled "Syndicated Facility Agreement" dated 10 December 2012 between the Company, the Agents, the Australian Obligors and the US Borrower, as amended on 22 December 2015.

Shareholder means each person entered in the register of members of the Company as the holder of a fully paid ordinary share in the Company as at the date for determining entitlements to vote at the Shareholder Meeting.

Shareholder Meeting means the general meeting of the Shareholders of the Company to be held on or around 27 April 2016 to consider and vote on the issuing of the New Equity under this Scheme.

Shares means fully paid ordinary shares in the capital of the Company.

Stamp Duty means any stamp, transaction or registration duty or similar charge imposed by any Governmental Agency and includes any interest, fine, penalty, charge or other amount in respect of the above.

Standstill Period has the meaning given in clause 8.1(a).

Step means any of Steps 1 (Deeds and Amendment Documents) to 12 (Compromise of Subordinate Claims) set out in clause 7.5 and Steps means all of them.

Subordinate Claim means a "subordinate claim" within the meaning of subsection 563A(2) of the Corporations Act, against the Company in respect of any fact, matter, circumstance or event which has arisen or occurred at any time prior to the commencement of Step 12 (Compromise of Subordinate Claims).

Subordinate Claim Holder means any person who, as at immediately prior to the commencement of Step 12 (Compromise of Subordinate Claims), has or, but for this Scheme, would be entitled to make, a Subordinate Claim.

Sunset Date means the 15th Business Day after the Effective Date.

TLB Scheme Creditors means the Lenders as at the Effective Date, notwithstanding the disposal or transfer of any right under any Finance Document or any agreement to dispose of or transfer any such right entered into by that person before or after that time.

TLB Scheme Creditor Deed Poll means the deed poll executed by the Scheme Administrator as attorney and agent for the TLB Scheme Creditors pursuant to clause 5.2 and 7.5(a)(i)(A) of this Scheme in substantially the form set out in Schedule 3.

Total Aggregate Amount means the aggregate principal amount owing by the Company to the TLB Scheme Creditors in respect of the Facility immediately prior to the commencement of Step 4 on the Implementation Date.

Total Debt Contribution Amount means the Total Aggregate Amount *less* the Implementation Date Cash Payment Amount, *less* US$135,000,000.

Transaction Party means the parties to the SFA.

Transfer Deed means a deed substantially in the form set out in Schedule 8.

Undertakings means each of the following undertakings:

(a) the undertaking given by the Administrative Agent to execute the Administrative Agent Deed Poll in accordance with this Scheme; and

(b) the undertaking given by the Collateral Agent to execute the Collateral Agent Deed Poll in accordance with this Scheme.

US Borrower means Atlas America Finance, Inc.

1.2 **Rules for interpreting this document**

Headings are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this document, except where the context makes it clear that a rule is not intended to apply.

(a) A reference to:

(i) a legislative provision or legislation (including subordinate legislation) is to that provision or legislation as amended, re–enacted or replaced, and includes any subordinate legislation issued under it;

(ii) a document (including this document) or agreement, or a provision of a document (including this document) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;

(iii) a party is a reference to a person who is bound by this Scheme, and any person who agrees to be bound whether by deed poll or otherwise;

(iv) a person includes a natural person, partnership, joint venture, Government Agency, association, corporation or other body corporate;

(v) a clause, term, schedule or attachment is a reference to a clause or term of, or, schedule or attachment to this Scheme;

(vi) this Scheme includes all schedules and attachments to it;

(vii) a law includes:

(A) any constitutional provision, treaty, decree, statute, regulation, by-law, ordinance or instrument;

(B) any order, direction, determination, approval requirement, licence or licence condition made, granted or imposed under any of them;

(C) any judgment; and

(D) any rule or principle of common law or equity,

and is a reference to that law as amended, supplemented, consolidated, replaced, overruled or applied to new or different facts;

(viii) an agreement other than this Scheme includes an undertaking, or legally enforceable arrangement or understanding, whether or not in writing;

(ix) **"dollars"** or **"US$"** or **"$"** is to an amount in the currency of the United States of America unless otherwise indicated;

(x) **"AU$"** is to an amount in the currency of the Commonwealth of Australia;

(xi) a thing (including, but not limited to, a chose in action or other right) includes a part of that thing; and

(xii) anything (including a right, obligation or concept) includes each part of it.

(b) A singular word includes the plural, and vice versa.

(c) A word which suggests one gender includes the other genders.

(d) If a word or phrase is defined, any other grammatical form of that word or phrase has a corresponding meaning.

(e) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.

(f) Unless expressly provided otherwise, an agreement on the part of two or more persons binds them severally.

(g) Unless expressly provided otherwise, a reference to a date or time is to that date or time in Sydney, New South Wales.

1.3 **Non Business Days**

If the day on or by which a person must do something under this document is not a Business Day the person must do it on or by the next Business Day.

1.4 **The rule about "contra proferentem"**

This document is not to be interpreted against the interests of a party merely because that party proposed this document or some provision of it or because that party relies on a provision of this document to protect itself.

2. THIRD PARTIES

2.1 Capacity of Collateral Agent

Any action taken (including the giving of any release) by the Collateral Agent, or on its behalf, is done in its capacity as agent under the relevant Finance Document and not in the Collateral Agent's personal capacity.

2.2 Capacity of Administrative Agent

Any action taken (including the giving of any release) by the Administrative Agent or on its behalf is done in its capacity as agent under the relevant Finance Document and not in the Administrative Agent's personal capacity.

2.3 Deeds Poll

(a) This Scheme attributes actions to persons other than the Company, the TLB Scheme Creditors and the Subordinate Claim Holders, being each Agent, each Obligor (other than the Company), each Released Obligor Individual and the Scheme Administrator.

(b) Each Agent has agreed or will agree, by executing the relevant Deed Poll, to perform the actions attributed to it under this Scheme subject to the instructions set out in clause 4 and clause 7.5(a)(i)(B)(aa) of this Scheme.

(c) Each Obligor (other than the Company), each Scheme Administrator and each Released Obligor Individual has agreed or will agree, by executing the relevant Deed Poll, to perform the actions attributed to it under this Scheme, and is taken to be a party to this Scheme on and subject to the provisions of the relevant Deed Poll.

(d) This Scheme also contemplates:

(i) the TLB Scheme Creditors entering into a deed poll as set out in clause 5.2; and

(ii) that any person who is entitled to become a Released Obligor Individual may enter into a Released Obligor Individual Deed Poll either on, before or after the Effective Date.

3. CONDITIONS PRECEDENT

3.1 Conditions

This Scheme is conditional upon, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) **(FATA)** at or before 8.00 am on the Second Court Date, the Treasurer of the Commonwealth of Australia:

(i) has issued a notice stating that the Commonwealth Government does not object to the proposed issue of New Equity in the Company as contemplated in Step 6 (New Equity issue) to the Lenders who applied for a statement of no objections on or before the First Court Date, and that advice or confirmation is not subject to conditions or that advice or confirmation is subject only to conditions which are acceptable to the applicable Lenders and the Obligors (but only to the extent that any such conditions impose undertakings or obligations on the Obligors), acting reasonably; or

(ii) ceases, by effluxion of time or otherwise, to be empowered to make any order in respect of the proposed issue of New Equity in the Company as contemplated in Step 6 (New Equity issue) to the Lenders who applied for a statement of no objections on or before the First Court Date; or

(iii) in circumstances where the Treasurer of the Commonwealth makes an interim order to prohibit the proposed issue of New Equity in the Company as contemplated by Step 6 (New Equity issue) to the Lenders who applied for a statement of no objections on or before the First Court Date, the subsequent period for making a final order has elapsed without any final order being made, under the FATA;

(b) **(Shareholder approval)** the due passing of a resolution at the Shareholder Meeting in accordance with ASX Listing Rule 7.1 approving the issue of the New Equity to the TLB Scheme Creditors.

(c) **(Lender approval)** the Scheme is agreed to by the Lenders present and voting in person or by proxy at the Scheme Meeting by the majorities required under section 411(4)(a)(i) of the Corporations Act;

(d) **(deeds poll)** as at 8.00 am on the Second Court Date:

(i) the Scheme Administrators Deed Poll and the Obligors Deed Poll have been executed by the Scheme Administrator and the Obligors and continue to benefit the beneficiaries named in those deeds poll in accordance with their terms; and

(ii) no such Deed Poll has been terminated;

(e) **(undertakings)** as at 8.00 am on the Second Court Date:

(i) the Undertakings have been executed by the Agents and continue to benefit the beneficiaries named in those Undertakings in accordance with their terms; and

(ii) no such Undertaking has been terminated;

(f) **(ASIC modification)** the Company:

(i) obtaining, at or before 8.00am on the Second Court Date, a modification granted by ASIC of sections 707(3) and 707(4) the Corporations Act to enable the Shares issued on exercise of any New Options to be freely tradeable without relevant on-sale restrictions, as contemplated by an application for such a modification lodged by the Company with ASIC on 8 February 2016; or

(ii) failing receipt of the modification contemplated by clause 3.1(f)(i) by 12:00pm on the Business Day before the Second Court Date, delivering to the Administrative Agent (and providing a copy to the TLB Scheme Creditors), at or before 8.00am on the Second Court Date, the New Options Deed Poll;

(g) **(Court approval)** the Court makes the Second Court Orders, including with such alterations or conditions required by the Court under section 411(6) of the Corporations Act and the alterations or conditions (if any) do not change the substance of this Scheme, including the Steps, in any material respect;

(h) **(other conditions)** any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme (which conditions

do not change the substance of this Scheme, including the Steps, in any material respect) have been satisfied; and

(i) **(Effective)** this Scheme becomes Effective.

3.2 **Certificate**

(a) On the Second Court Date, the Company will provide a certificate to the Court (or such other evidence as the Court may request) confirming, in respect of matters within its knowledge, whether or not the conditions precedent set out in clauses 3.1(a) to 3.1(f) have been satisfied.

(b) The certificate (or other evidence) given by the Company constitutes conclusive evidence, as between the parties, that the conditions precedent set out in clause 3.1(a) to 3.1(f) above have (or have not) been satisfied, as the case may be.

4. **THE AGENTS**

(a) On and from the Effective Date, notwithstanding any term of any relevant document, the TLB Scheme Creditors hereby:

(i) provide each Agent with all instructions and consents that it requires from those TLB Scheme Creditors under the Finance Documents to amend or amend and restate (as applicable) the Finance Documents in accordance with this Scheme;

(ii) direct each Agent to execute and do, and to instruct any other Transaction Party which it is entitled to instruct to execute and do, or otherwise procure to be executed and done, all such documents (including, without limitation, the applicable Deed Poll and applicable Amendment Document), acts or things as may be necessary or desirable to be executed or done by it for the purposes of giving effect to the terms of this Scheme;

(iii) provide each Agent with all other instructions and consents that are necessary to enable that Agent to do anything that this Scheme requires or otherwise provides for that Agent to do; and

(iv) hereby appoints each Scheme Administrator as its agent and attorney to enter into, execute and, along with the Company, on and from the Implementation Date and in the order contemplated by Step 6 (New Equity issue), to release from escrow and deliver as a deed, on behalf of each TLB Scheme Creditor and the Company, the Transfer Deed.

(b) Each TLB Scheme Creditor and each Obligor will, if required, do such acts as may be required of it by the Scheme Administrator to give the instructions, consents and notifications referred to above.

(c) Without limiting the provisions of clause 4(a) and Step 1 (Deeds and Amendment Documents), on the Effective Date, the TLB Scheme Creditors hereby irrevocably appoint:

(i) each Agent as their agent and attorney to execute the Amended SFA in accordance with clause 7.5(a)(i)(D) of this Scheme; and

(ii) the Collateral Agent as their agent and attorney to execute the Amendment Deed (GSD) in accordance with clause 7.5(a)(i)(D) of this Scheme.

in each case, in accordance with the terms contemplated by those respective Steps.

5. GRANT OF AUTHORITY IN FAVOUR OF THE SCHEME ADMINISTRATOR

5.1 General grant of authority

(a) Each Agent, each TLB Scheme Creditor and each Obligor irrevocably authorise each Scheme Administrator to take all steps and do all other things necessary or advisable to give effect to this Scheme, save that this provision shall not modify any of the Agents' duties, functions or obligations under the SFA and/or the Amendment Documents.

(b) Without limitation to the generality of clause 5.1(a) and subject to clause 7.1(c), on and from the Effective Date, each TLB Scheme Creditor and each Obligor irrevocably appoints each Scheme Administrator as its agent and attorney to enter into, execute and deliver as a deed (or otherwise) any document and to take any step necessary, desirable or advisable to give effect to this Scheme (except for each Amendment Document, which is to be executed by each Agent party thereto in accordance with clause 7.5(a)(i)(D)).

(c) The appointments and authorities granted under this clause 5 and clauses 4 and 6 shall be treated for all purposes as being fully effective and having been granted by deed poll. The authorities granted in favour of each Scheme Administrator under this Scheme will terminate immediately on the retirement or resignation of each Scheme Administrator in accordance with clause 6 of this Scheme.

5.2 TLB Scheme Creditor Deed Poll

Without limiting the generality of clause 5.1, on and from the Effective Date, each TLB Scheme Creditor irrevocably authorises the Scheme Administrator to execute and deliver, as its attorney and agent, a deed poll in the form of Schedule 3, as amended to include the list of TLB Scheme Creditors.

6. SCHEME ADMINISTRATOR

6.1 Appointment of Scheme Administrators to the Company

Each Scheme Administrator will, on and from the Effective Date, be appointed jointly and severally as scheme administrator of this Scheme.

6.2 Qualification, appointment and cessation

(a) A person shall only be appointed as a scheme administrator of this Scheme, or replace a Scheme Administrator who ceases to be a scheme administrator of this Scheme (except by reason of resignation as the Scheme Administrator under clause 6.8) if the person:

(i) is not disqualified pursuant to section 411(7) of the Corporations Act;

(ii) consents to act as a scheme administrator; and

(iii) signs and delivers a deed substantially in the form of the Scheme Administrators Deed Poll.

(b) A person ceases to be a Scheme Administrator if he or she:

(i) is disqualified pursuant to section 411(7) of the Corporations Act;

(ii) resigns from the position of Scheme Administrator by not less than one month's notice in writing to the Company;

(iii) is removed from the position of Scheme Administrator by an order of the Court;

(iv) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental health;

(v) becomes bankrupt; or

(vi) dies.

6.3 **Powers in relation to this Scheme**

Subject to clause 6.8, each Scheme Administrator:

(a) has the power to supervise, administer, implement and carry out its functions as set out in this Scheme;

(b) has the power to do anything else that is necessary or advisable for the purposes of administering this Scheme; and

(c) has the power to do anything that is incidental to the exercise of the powers conferred on him under clauses 6.3(a) and 6.3(b).

6.4 **Exercise of Powers**

(a) Each Scheme Administrator shall be entitled to:

(i) employ its partners and staff to assist it in the performance or exercise of its duties, obligations, responsibilities and powers under this Scheme;

(ii) appoint agents to attend to any matter that the Scheme Administrator might attend to under this Scheme and which the Scheme Administrator is unable to attend to or which it is unreasonable to expect the Scheme Administrator to attend to in person; and

(iii) appoint a solicitor, accountant, barrister or other professionally qualified person or persons to assist or advise the Scheme Administrator.

(b) Except as expressly provided in this Scheme, in exercising or performing any of its duties, obligations, responsibilities or powers under this Scheme, the Scheme Administrator is taken not to act as, nor to have any of the duties of, a trustee.

(c) Except where this Scheme expressly authorises the Scheme Administrator to act as agent and attorney for a person in the execution of documents, the Scheme Administrator does not act as agent or attorney for any party to, or person bound by, this Scheme and Claims or obligations of any kind whatsoever incurred in connection with its role as Scheme Administrator of the Company are incurred by it personally.

6.5 **Liability**

Subject to the Corporations Act, a Scheme Administrator is not, in the performance or exercise of its powers, obligations, functions and duties under this Scheme, personally liable for:

(a) any Claims or obligations of any kind whatsoever incurred by or on behalf of the Company including, without limitation, any monies borrowed and interest thereon and any contracts adopted or otherwise agreed and any Stamp Duty payable on this Scheme and any tax liable to be remitted or otherwise paid (**Liabilities**);

(b) any loss or damage of any kind whatsoever caused by or resulting from any act, default or omission (**Losses**); or

(c) any actions, suits, proceedings, accounts, Claims or demands arising out of this Scheme which may be commenced, incurred by or made by any person and all Costs incurred in respect thereof (**Demands**),

whether before, during or after the Effective Date, unless attributable to fraud, wilful misconduct, reckless or gross negligence or breach of fiduciary duty.

6.6 **Indemnity**

(a) The Company shall indemnify each Scheme Administrator for:

(i) all Liabilities, Losses and Demands (as defined in clause 6.5); and

(ii) all personal liability that the Scheme Administrator may incur in respect of his role as Scheme Administrator of the Company,

unless attributable to fraud, wilful misconduct, reckless or gross negligence or breach of fiduciary duty.

(b) The indemnity under clause 6.6(a) takes effect on and from the Effective Date and is without limitation as to time notwithstanding the removal of the Scheme Administrator and the appointment of a replacement Scheme Administrator or the termination of this Scheme for any reason whatsoever.

(c) The indemnity under clause 6.6(a) shall not:

(i) be affected, limited or prejudiced in any way by any irregularity, defect or invalidity in the appointment of the Scheme Administrator and shall extend to all actions, suits, proceedings, accounts, Liabilities, Claims and Demands arising in any way out of any defect in the appointment of the Scheme Administrator, the approval and implementation of this Scheme or otherwise; or

(ii) affect or prejudice all or any rights that the Scheme Administrator may have against any other person to be indemnified against the Costs, Losses and Liabilities incurred by the Scheme Administrator in, or incidental to the exercise or performance of any of the powers or authorities conferred on the Scheme Administrator by or in connection with this Scheme.

(d) This indemnity survives completion or termination of this Scheme.

6.7 **Remuneration**

Subject to the Corporations Act, each Scheme Administrator shall be entitled to remuneration for its services together with reimbursement for its Costs, from, and in accordance with the terms of its letter of engagement with, the Company.

6.8 **Resignation of Scheme Administrator**

Immediately following the delivery of the register pursuant to clause 7.3(b) evidencing completion of the Steps, each Scheme Administrator resigns as (and is taken to have resigned as) Scheme Administrator of the Company.

6.9 **Directors of Company remain in control**

Subject to the terms of this Scheme:

(a) the directors of the Company:

(i) remain in control of the Company with respect to the conduct of its business; and

(ii) remain in control of all of the assets of the Company; and

(b) the Scheme Administrators do not have, and cannot exercise, any power in connection with the matters reserved to the directors of the Company referred to in clause 6.9(a) above.

7. IMPLEMENTATION STEPS

7.1 Definitions, interpretation and undertaking not to make Claims

(a) The parties acknowledge and agree that:

(i) subject to clause 7.1(c), all releases and discharges in this clause 7 are irrevocable at and from the time they are expressed to take effect;

(ii) a reference to an amount owing in this clause 7 is a reference to that amount whether actually or contingently owing;

(iii) notwithstanding anything in clause 7.5, anything (including an issue, allotment, release or discharge) occurring under a Step is binding and effective even if there is no consideration for it; and

(iv) solely for the purposes of determining:

(A) the time at which the Steps under this Scheme have been completed or have occurred (including as set out in clauses 7.2 and 7.4(d)); or

(B) whether or not Steps 4 (Preliminary payment) to 12 (Compromise of Subordinate Claims) can occur on the same day (including for the purposes of paragraph (b) of the definition of Implementation Date),

the Steps shall be deemed to have been completed or to have occurred immediately following the completion of the matters contemplated by paragraph (i) of Step 12 (Compromise of Subordinate Claims).

(b) Subject to clause 7.1(c), each party releasing a Claim or releasing any other party from an obligation owed to it by that party under this clause 7 absolutely and irrevocably undertakes to that party, at and from the time each such release is expressed to take effect and subject to all conditions to that released Claim or released obligation (if any) having been satisfied in accordance with their terms, that it will not make any Claim in respect of the released Claim or obligation to the extent that the Claim or obligation has been released in accordance with this Scheme and this document may be pleaded as a bar to any such Claim in any jurisdiction whatsoever.

(c) Where, in the opinion of the Scheme Administrator, as a result of a release, discharge, allotment, issue or other event referred to or contemplated by a Step failing to occur or to take effect, it is not possible to give effect to the intent and purpose of this Scheme in all material respects:

(i) no other release, discharge, allotment, issue or other event referred to or contemplated by the Steps has effect (including as a result of non-satisfaction of a condition to a released Claim or released obligation, if any),

and each such release, discharge, allotment, issue or other event is deemed not to have effect; and

(ii) the Obligors, the Agents, the Released Obligor Individuals and the TLB Scheme Creditors shall do all things reasonably necessary to put each other party in the position it would have been in if none of the Steps had occurred.

7.2 **Sunset Date**

If all of the Steps in clause 7.5 have not been completed on or before 11.59pm on the Sunset Date, then with effect from that time, this Scheme will not be capable of implementation and this Scheme will lapse, terminate and be of no further force or effect (other than clause 7.1(c)(ii)).

7.3 **Scheme Administrator's register and certification**

(a) The Scheme Administrator must keep a register noting the time of completion of the Steps in the form of Schedule 1, and sign it where indicated on completion of each Step. Each of the register and a copy of the register certified by the Scheme Administrator will be conclusive evidence that the Step was completed at the time noted in the register.

(b) As soon as practicable after completion of the Steps, the Scheme Administrator will give a copy of the register, certified by the Scheme Administrator, to each of the Company and the Agents.

7.4 **Timing of Steps**

(a) As early as practicable on the Effective Date, the Scheme Administrator shall notify the Company and the Agents of the Effective Date and the Implementation Date. If the date notified by the Scheme Administrator as being the Implementation Date is a date other than the fifth Business Day after the Effective Date, the Scheme Administrator must give the Company and the Agents full details of why Steps 4 (Preliminary payments) to 12 (Compromise of Subordinate Claims) inclusive are unable to occur on the fifth Business Day after the Effective Date.

(b) As soon as the Company has received the notification referred to in clause 7.4(a), it will make a public announcement setting out the Effective Date and the Implementation Date.

(c) As soon as possible after execution of the Amendment Documents in accordance with clause 7.5(a)(i)(D), each Obligor must take all necessary steps to ensure that each Administrative Requirement for which it is responsible is satisfied at or by the time contemplated for the completion or satisfaction of that Administrative Requirement.

(d) Steps 4 (Preliminary payments) to 12 (Compromise of Subordinate Claims) (inclusive) are to occur on the Implementation Date as set out in clause 7.5, subject to the prior completion of Steps 1 (Deeds and Amendment Documents) to 3 (Satisfaction of Administrative Requirements) (inclusive) in accordance with their terms.

(e) If there is a change to the date notified by the Scheme Administrator pursuant to clause 7.4(a) as being the Implementation Date:

(i) the Scheme Administrator must, as soon as practicable after the change, notify the Company and the Agents of the details of that change (including the reasons for it);

(ii) the Company must make a further public announcement setting out the change to the Implementation Date; and

(iii) any steps taken to comply with Step 2 (Calculations) must be repeated, but taking into account the change to the Implementation Date.

7.5 **Steps**

(a) **Step 1 (Deeds and Amendment Documents)**:

(i) On the Effective Date, prior to any other Step commencing:

(A) first, the Scheme Administrator must execute and deliver the TLB Scheme Creditor Deed Poll;

(B) second:

(aa) each TLB Scheme Creditor and each Obligor gives each Agent all instructions, consents and directions to execute and deliver the Deed Poll that is to be made by that Agent and to perform its obligations under that Deed Poll and this Scheme; and

(bb) the Scheme Administrator must provide to each Agent written notice of the instructions and consents referred to in clause 7.5(a)(i)(B)(aa) on behalf of each TLB Scheme Creditor pursuant to the appointment in clause 5.1(b);

(C) third, in accordance with the instructions set out in clauses 4 and 7.5(a)(i)(B)(aa) of this Scheme, each Agent will execute and deliver to the Scheme Administrator the Deed Poll that is to be made by that Agent;

(D) fourth, the Administrative Agent, the Collateral Agent (in each case, for themselves and on behalf of the TLB Scheme Creditors in accordance with the powers granted by the TLB Scheme Creditors in clause 4 of this Scheme) and each Obligor shall execute and deliver the Amendment Documents to which they are expressed to be a party to the Scheme Administrator to be held in escrow until immediately after completion of Step 6 (New Equity issue) in accordance with Step 10 (Amendment Documents); and

(E) fifth, the Company and the Scheme Administrator (on behalf of each TLB Scheme Creditor and in accordance with clause 4(a)(iv) above) shall execute and deliver the Transfer Deed to the Scheme Administrator to be held in escrow until immediately before the issuance of the New Equity in Step 6 (New Equity issue) as contemplated in clause 7.5(f)(i) below.

(F) sixth, the Administrative Agent shall provide to the Scheme Administrator and the Company a table which shows, according to the Administrative Agent's records:

(aa) as at the Effective Date, the full name, postal address, email address and contact phone number of each TLB Scheme Creditor;

(bb) the Residual Interest Amount (if any);

(cc) the Aggregate Amount in respect of each TLB Scheme Creditor; and

(dd) the Total Aggregate Amount.

(b) **Step 2 (Calculations)**:

On the Calculation Date, the Scheme Administrator shall:

(i) based on the information referred to in clause 7.5(a)(i)(F), and in accordance with the calculation set out in Step 6 (New Equity issue), calculate:

(A) the Debt Contribution Amount in respect of each TLB Scheme Creditor;

(B) the Total Debt Contribution Amount;

(C) the number of New Shares and New Options; and

(D) in respect of each TLB Scheme Creditor, the number of the New Shares and New Options to be issued to that TLB Scheme Creditor in accordance with Step 6 (New Equity issue) of this Scheme; and

(ii) provide the details of the calculations referred to in clauses 7.5(b)(i) and 7.5(a)(i)(F) above to the Company and each Agent and, subject to clause 7.4(e)(iii), all of the calculations in clauses 7.5(b)(i) and 7.5(a)(i)(F) shall be final and binding on the parties.

(c) **Step 3 (Satisfaction of Administrative Requirements)**

(i) As early as practicable on the Business Day prior to the Implementation Date, the Administrative Agent shall notify the Scheme Administrators as to whether or not each Administrative Requirement has been satisfied in accordance with its terms.

(ii) If the Administrative Agent notifies the Scheme Administrator that:

(A) each Administrative Requirement has been satisfied in accordance with its terms, then such notification shall constitute conclusive evidence of the Completion of this Step 3 (Satisfaction of Administrative Requirements); or

(B) one or more Administrative Requirements has not been satisfied in accordance with its terms, then the Scheme Administrator shall notify the parties of a new date in accordance with paragraph (b) of the definition of Implementation Date and clause 7.4(e) shall apply.

(d) **Step 4 (Preliminary payments)**:

(i) As early as practicable on the Implementation Date, the Company shall pay:

(A) the Residual Interest Amount (if any) and the Implementation Date Cash Payment Amount in immediately available funds to the Administrative Agent for distribution to the TLB Scheme Creditors in accordance with the terms of the Finance Documents; and

(B) to each Fee Recipient its Fee in immediately available funds to the bank account nominated by that Fee Recipient on or before the Calculation Date.

(ii) Upon payment of the Implementation Date Cash Payment Amount and the Residual Interest Amount (if any) in accordance with clause 7.5(d)(i)(A) and each Fee in accordance with clause 7.5(d)(i)(B), the Company must notify the Scheme Administrators that the Implementation Date Cash Payment, Amount, the Residual Interest Amount (if any) and each Fee have been paid and must deliver to the Scheme Administrators a receipt from the Company's bank confirming that those payments have been made.

(iii) For the purpose of implementation of the remaining Steps of this Scheme, the receipt by the Scheme Administrators of a receipt in accordance with clause 7.5(d)(ii) constitutes conclusive evidence of the completion of clauses 7.5(d)(i)(A) and 7.5(d)(i)(B) of this Step 4 and the Scheme Administrator will not be required to make any further inquiries in respect of this Step 4.

(e) **Step 5 (Appointment of New Directors):**

(i) Immediately after the completion of Step 4 (Preliminary payments) and immediately prior to the commencement of Step 6 (New Equity Issue), the Company must take all actions necessary to cause the appointment of each New Director to the board of directors of the Company, in each case subject only to receiving a signed consent to act from that New Director and that New Director signing a letter of appointment that contemplates the Company's procedures and policies regarding management of conflicts of interest and confidentiality, among other things.

(ii) Each TLB Scheme Creditor acknowledges that the board of directors of the Company will appoint each New Director as a casual or additional director of the board of directors of the Company until the next annual general meeting of the Company, at which time each New Director will be subject to election by shareholders of the Company in accordance with the ASX Listing Rules and the Corporations Act.

(f) **Step 6 (New Equity issue)**:

Immediately after the completion of clause (d)(i)(A) of Step 4 (Preliminary Payments) and Step 5 (Appointment of New Directors):

(i) the Scheme Administrator shall release the Transfer Deed from escrow at which point the Transfer Deed shall operate in accordance with its own terms;

(ii) in consideration for the release of the Total Debt Contribution Amount in Step 8 (Partial release of debt), the Company allots and issues New Equity to each TLB Scheme Creditor (or their nominee, whose name and address is notified to the Company by any TLB Scheme Creditor by no later than the Calculation Date) of a number which is to be calculated as follows in respect of each TLB Scheme Creditor:

$$A = (B / C) \times D$$

Where:

A is the number of New Shares to be issued to that TLB Scheme Creditor

B is that TLB Scheme Creditor's Debt Contribution Amount

C is the Total Debt Contribution Amount

D is total number of New Shares

E = (F / G) x H

Where:

E is the number of New Options to be issued to that TLB Scheme Creditor

F is that TLB Scheme Creditor's Debt Contribution Amount

G is the Total Debt Contribution Amount

H is total number of New Options

(iii) The Company shall procure that the name and address of each TLB Scheme Creditor (or its nominee, whose name and address is notified to the Company in accordance with clause 7.5(f)(ii)) to whom New Shares and New Options are issued under this Step 6 (New Equity issues) is entered into the Company's register of members together with the number of New Shares and New Options issued to that TLB Scheme Creditor (or its nominee, as the case may be) pursuant to this clause 7.5(f).

(iv) Where a TLB Scheme Creditor (or its nominee) would receive a fractional number of Shares as a result of the operation of clause 7.5(f)(ii), then the number of Shares issued to that person under this Step 6 (New Equity issue) will be rounded down to the nearest whole number.

(v) Where a TLB Scheme Creditor (or its nominee) would receive a fractional number of Options as a result of the operation of clause 7.5(f)(ii), then the number of Options issued to that person under this Step 6 (New Equity issue) will be rounded down to the nearest whole number.

(vi) All Shares and Options issued under this Step 6 (New Equity issue) rank pari passu amongst themselves and all other Shares and Options and are free from any encumbrances.

(vii) Each TLB Scheme Creditor (or their nominee) to whom Shares and Options are issued under this Step 6 (New Equity issue) is taken to have applied for such Shares and Options and to have agreed to be bound by the Constitution.

(g) **Step 7 (Release)**:

(i) Immediately after the completion of Step 6 (New Equity Issue), and simultaneously with Step 8 (Partial release of debt), Step 9 (Agents' Releases) and Step 10 (Amendment Documents):

(A) each TLB Scheme Creditor releases each Released Obligor Individual from all Claims relating to any fact, matter, circumstance or event that arose or occurred in respect of, or in connection with, any Obligor between 10 December 2012 and the Implementation Date; and

(B) each Released Obligor Individual releases each TLB Scheme Creditor from all Claims relating to any fact, matter, circumstance or event that arose or occurred in respect of, or in connection with, any Obligor between 10 December 2012 and the Implementation Date,

except in each case, and in respect of each Claim, to the extent that the released party has engaged in fraud or wilful misconduct or been reckless, grossly negligent or dishonest in respect of the facts, matters, circumstances or events to which that Claim relates.

(h) **Step 8 (Partial release of debt)**:

Simultaneously with Step 7 (Release), Step 9 (Agents' Releases) and Step 10 (Amendment Documents):

(i) in consideration for the payments made in Step 4 (Preliminary payments) and the New Equity issue in Step 6 (New Equity issue), each TLB Scheme Creditor releases each of the Obligors from its obligation to pay to any of the parties to the Finance Documents (and, with respect to (b), the Amendment Documents):

(A) an amount equal to the Total Debt Contribution Amount; and

(B) any amount of interest accrued but unpaid in respect of the Facility (and, for the avoidance of doubt, the "Term Loans" as defined in the Amended SFA) as at the commencement of Step 8;

(ii) each of the parties to the Finance Documents who is also a party to this Scheme consents to the release in clause 7.5(h)(i) and waives all rights that it may have to require that any person comply with clause 10.1 (*Amendments and Waivers*) of the SFA or any of the waiver mechanics set out in any Finance Document or any other provisions set out in any of the Finance Documents to the extent necessary to effect the release under clause 7.5(h)(i).

(i) **Step 9 (Agents' Releases)**:

Simultaneously with Step 7 (Release), Step 8 (Partial release of debt) and Step 10 (Amendment Documents) each TLB Scheme Creditor, Obligor and Released Obligor Individual:

(A) releases each Agent, in such capacity, and their current and former officers, partners, directors, employees, staff, agents and counsel, and each of their predecessors, successors and assigns, and in their capacities as such from any and all Claims relating to any fact, matter, circumstance or event arising prior to the Implementation Date, including (without limitation) entering into the Undertakings, the Deeds Poll, and the Amendment Documents, save for any Claim of gross negligence or wilful misconduct in respect of the facts, matters, circumstances or events to which that Claim relates; and

(B) irrevocably and unconditionally confirms that neither the Administrative Agent nor the Collateral Agent will be liable in any jurisdiction directly or indirectly in connection with any actions taken pursuant to the Scheme, the Administrative Agent Deed Poll, the Collateral Agent Deed Poll and the necessary Undertakings (other than by reason of gross negligence or wilful misconduct).

(j) **Step 10 (Amendment Documents)**

Simultaneously with Step 7 (Release), Step 8 (Partial release of debt) and Step 9 (Agents' Releases), the Scheme Administrator shall release the Amendment Documents from escrow, at which point each Amendment Document shall operate in accordance with its own terms.

(k) **Step 11 (Resignation of directors)**

The Company must immediately after the completion of Step 1 through to and including Step 10 (Amendment Documents), take all actions necessary to ensure that no more than 2 of the Original Directors remain on the board of directors of the Company with effect from that time, being David Flanagan and one independent non-executive director.

(l) **Step 12 (Compromise of Subordinate Claims)**:

(i) Immediately after the completion of Step 11 (Resignation of directors):

(A) the right and entitlement of each Subordinate Claim Holder to enforce as against the Company any Subordinate Claim is limited to the amount (if any) actually recovered by the Company under any Applicable Insurance Policy, net of any expenses (including defence costs) incurred by the Company and/or any relevant insurer in connection with the claim (**Net Proceeds**); and

(B) the Company is released from any obligation to pay any amount in respect of any Subordinate Claim (including interest and costs) in excess of the Net Proceeds referrable to that claim.

(ii) Where the Company is entitled to claim under any Applicable Insurance Policy all or part of the amount claimed under a Subordinate Claim, the Company shall take all reasonable steps to make and pursue a claim for indemnity under the Applicable Insurance Policy in respect of that Subordinate Claim.

7.6 **No inconsistent acts**

The parties agree to treat themselves as bound by this Scheme for all purposes and not to act otherwise than in accordance with this Scheme.

8. **STANDSTILL AND CONSENTS**

8.1 **Standstill**

(a) During the period on and from the Effective Date up to the earlier of the completion of Step 10 (Amendment Documents) and the Sunset Date (each inclusive) (the **Standstill Period**), no TLB Scheme Creditor may, except for the purpose of enforcing the terms of this Scheme, or any Deed Poll or as otherwise expressly provided by this Scheme:

(i) give any direction to an Agent requiring that Agent to give any notice declaring any amount to be due and payable or payable on demand under or in connection with the Finance Documents;

(ii) give any direction to the Collateral Agent to enforce any Collateral Security;

(iii) take or concur in the taking of any step to wind up any Obligor pursuant to a right under the Finance Documents;

(iv) institute or prosecute any legal proceedings in relation to any Claim under the Finance Documents against any Obligor or any other person to be released under this Scheme to the extent that such Claim or obligation is to be released under this Scheme; or

(v) exercise any rights against any Obligor which they may have on the occurrence of an event of default or potential event of default or termination event (in each case, howsoever described) under any Finance Document.

(b) During the Standstill Period, each TLB Scheme Creditor agrees not to dispose of or transfer any right under any Finance Document and instructs the Administrative Agent not to register any such disposal or transfer.

8.2 **Consent, waiver and release**

Each TLB Scheme Creditor, and each Obligor whose consent or agreement is necessary under the Finance Documents to give effect to this Scheme:

(a) irrevocably consents and agrees to each Obligor:

(i) entering into, or otherwise becoming bound by, each Relevant Document;

(ii) performing its respective obligations and transactions under, or as contemplated by those Relevant Documents (including, but not limited to, Court applications for the purposes of this Scheme); and

(iii) carrying out any step for the purposes of, or otherwise acting consistently with, those Relevant Documents;

(b) agrees that no breach, non-compliance, default, event of default or potential event of default or termination event (in each case, howsoever described) under any Finance Document:

(i) has occurred (and agrees that it is taken to have not occurred), as a result of;

(ii) has been caused by (and agrees that it is taken to have not been caused by);

(iii) is continuing (and agrees that it is taken not to be continuing), as a result of; or

(iv) will or can occur, as a result of or be caused by,

any Obligor entering into or performing any Relevant Document or the obligations or transactions under, or contemplated by, any Relevant Document (including, but not limited to, any court applications for the purposes of this Scheme) or carrying out any step for the purposes of, or otherwise acting consistently with the Relevant Documents, and if any such event is deemed to have occurred then it is expressly waived notwithstanding any requirements relating to waiver in the Finance Documents;

(c) agrees and consents to any releases which are given, or disposals of rights or other property which are made or occur, by any Obligor under, or which are otherwise contemplated by, the Relevant Documents; and

(d) agrees that each of the Agents have committed no breach, non-compliance or default under the Finance Documents by executing the relevant Undertakings, and

if any such event is deemed to have occurred then it is expressly waived notwithstanding any requirements relating to waiver in the Finance Documents.

9. THE AGENTS' INDEMNITY

9.1 Indemnities

(a) Each TLB Scheme Creditor irrevocably acknowledges and confirms that all actions taken or to be taken by each Agent under this Scheme (including but not limited to signing the Administrative Agent Deed Poll, the Collateral Agent Deed Poll and signing the necessary Undertakings) and any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever that may at any time be imposed on, incurred by or asserted against each Agent in any jurisdiction (other than by reason of gross negligence or wilful misconduct) directly or indirectly in connection with the Scheme, the Administrative Agent Deed Poll, the Collateral Agent Deed Poll and the Undertakings and any further related valid instructions for the purpose of effecting the Scheme shall, without limitation, be covered by section 9.7 (*Indemnification*) of the SFA.

(b) The Company and each Obligor shall indemnify each Agent for all Liabilities, Losses and Demands directly or indirectly in connection with the Scheme, the Administrative Agent Deed Poll, the Collateral Agent Deed Poll, the Undertakings and the Finance Documents, and any further related valid instructions for the purpose of effecting the Scheme, other than by reason of gross negligence or wilful misconduct.

(c) If the Collateral Agent and / or the Administrative Agent (**Party A**) makes a claim under Clause 9.1(a) or 9.1(b) against either of the TLB Scheme Creditors, the Company, or any of the Obligors (**Party B**), Party B shall pay Party A the sum claimed against Party A within 30 days of receipt of written notice from Party A setting out in reasonable detail the nature of any Claim, Liability, Losses and / or Demands asserted against Party A.

(d) The provisions in clauses 6.6(b), 6.6(c) and 6.6(d) of this Scheme shall apply mutatis mutandis to this clause 9.

(e) The releases and indemnities granted in this Clause 9 in favour of each Agent are without prejudice to any protections afforded to the Agent under the Finance Documents and shall survive the termination of this Scheme.

10. NOTICES

10.1 How to give a notice

A notice, consent or other communication under this document is only effective if it is:

(a) in writing, signed by or on behalf of the person giving it;

(b) addressed to the person to whom it is to be given; and

(c) either:

(i) sent by pre-paid mail (by airmail, if the addressee is overseas) or delivered to that person's address;

(ii) sent by fax to that person's fax number and the machine from which it is sent produces a report that states that it was sent in full without error; or

(iii) sent in electronic form (such as email).

10.2 **When a notice is given**

A notice, consent or other communication that complies with this clause is regarded as given and received:

(a) if it is sent by fax or delivered, if received:

(i) by 5.00 pm (local time in the place of receipt) on a Business Day - on that day; or

(ii) after 5.00 pm (local time in the place of receipt) on a Business Day, or on a day that is not a Business Day - on the next Business Day;

(b) if it is sent by mail:

(i) within Australia - three Business Days after posting; or

(ii) to or from a place outside Australia - seven Business Days after posting; and

(c) if it is sent in electronic form - when the sender receives confirmation on its server that the message has been transmitted:

(i) if it is transmitted by 5.00 pm (Sydney time) on a Business Day – on that Business Day; or

(ii) if it is transmitted after 5.00 pm (Sydney time) on a Business Day, or on a day that is not a Business Day – on the next Business Day.

10.3 **Address for notices**

A person's mail and email address and fax number are those set out below, or as the person notifies the sender:

(A) Scheme Administrator

Attention: David McGrath

Address: PPB Advisory

Level 7, 8-12 Chifley Square

Sydney

New South Wales 2000

Australia

Fax: +61 2 8116 3111

Email: dmcgrath@ppbadvisory.com

(B) Collateral Agent

Attention: Malcolm White

Address: Credit Suisse AG, Sydney Branch

Level 41, 101 Collins Street

Melbourne

Victoria 3000

AUSTRALIA

Fax: +61 3 9914 1822

Email: malcolm.white@credit-suisse.com

With a copy to (but which will not constitute notice):

Attention: I Lewis H Grimm

Address: Jones Day, 222 East 41st Street. New York, NY 10017, United States

Fax: + 1.212.755.7306

Email: lgrimm@jonesday.com

(C) Administrative Agent

Attention: Sean Portrait

Address: Credit Suisse AG

Eleven Madison Avenue

New York, NY 10010

USA

Fax: (212) 322-2291

Email: agency.loanops@credit-suisse.com

Attention: Malcolm White

Address: Credit Suisse AG, Sydney Branch

Level 41, 101 Collins Street

Melbourne

Victoria 3000

AUSTRALIA

Fax: +61 3 9914 1822

Email: malcolm.white@credit-suisse.com

With a copy to (but which will not constitute notice):

Attention: Robert Hetu

Address: Credit Suisse AG

Eleven Madison Avenue

New York, NY 10010

USA

Fax: (212) 743-1857

Email: robert.hetu@credit-suisse.com

(D) Obligors (including the Company)

Attention: Tony Walsh

Address: c/- Atlas Iron Limited
'Raine Square'
Level 18, 300 Murray Street
Perth WA 6000
AUSTRALIA

Fax: +61 8 6228 8999

Email: tony.walsh@atlasiron.com.au

With a copy to (but which will not constitute notice):

Attention: James Marshall

Address: Ashurst, Level 11, 5 Martin Place, Sydney NSW 2000

Fax: + 61 2 9258 6999

Email: james.marshall@ashurst.com

(E) TLB Scheme Creditors

Attention: Sean Portrait

Address: Credit Suisse AG

Eleven Madison Avenue

New York, NY 10010

USA

Fax: (212) 322-2291

Email: agency.loanops@credit-suisse.com

Attention: Malcolm White

Address: Credit Suisse AG, Sydney Branch

Level 41, 101 Collins Street

Melbourne

Victoria 3000

AUSTRALIA

Fax:	+61 3 9914 1822
Email:	malcolm.white@credit-suisse.com
Attention:	Malcolm White
Address:	Credit Suisse AG, Sydney Branch Level 41, 101 Collins Street Melbourne Victoria 3000 AUSTRALIA
Fax:	+61 3 9914 1822
Email:	malcolm.white@credit-suisse.com

With a copy to (but which will not constitute notice):

Attention:	Dominic Emmett and David Clee
Address:	Gilbert + Tobin, Level 37, 2 Park St, Sydney NSW 2000
Fax:	+ 61 2 9263 4111
Email:	demmett@gtlaw.com.au
Email:	dclee@gtlaw.com.au

With a copy to (but which will not constitute notice):

Attention:	I Lewis H Grimm
Address:	Jones Day, 222 East 41st Street. New York, NY 10017, United States
Fax:	+ 1.212.755.7306
Email:	lgrimm@jonesday.com

11. GENERAL PROVISIONS

11.1 Further assurances

The Scheme Administrators, each Agent, each TLB Scheme Creditor and each Obligor must do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable (in the opinion of the Company, acting in good faith) to give full effect to the terms of this Scheme and the transactions contemplated by it.

11.2 Binding effect of Scheme

This Scheme binds the Company, each TLB Scheme Creditor (including each TLB Scheme Creditor who did not attend the Scheme Meeting, who did not vote at the Scheme Meeting or who voted against this Scheme) and each Subordinate Claim Holder (despite the fact

that a meeting of those creditors has not been ordered by the Court under section 411(1) of the Corporations Act) and, to the extent of any inconsistency, overrides the terms of any Finance Document. This Scheme also binds any party who agrees to be bound by this Scheme pursuant to a Deed Poll.

11.3 **Costs and Stamp Duty**

(a) The Company is liable for, and must pay all Stamp Duty on or relating to the execution, delivery and performance of this Scheme, any instrument executed under or in connection with this Scheme or any transaction evidenced, effected or contemplated by this Scheme.

(b) If a person other than the Company pays any Stamp Duty on or relating to the execution, delivery and performance of this Scheme, any instrument executed under or in connection with this Scheme or any transaction evidenced, effected or contemplated by this Scheme, then the Company must pay that amount to the paying party on demand.

(c) This clause 11.3 survives completion of this Scheme.

11.4 **Amendment**

A provision of this Scheme may not be amended or varied except by an order of the Court pursuant to section 411(6) of the Corporations Act, being an order which imposes alterations or conditions which do not change the substance of this Scheme, including the Steps, in any material respect.

11.5 **Governing Law and jurisdiction**

(a) This Scheme is governed by the laws of the State of New South Wales.

(b) Each party submits to the non-exclusive jurisdiction of the courts of that State and courts of appeal from them, in respect of any proceedings arising out of or in connection with the subject matter of the Scheme.

11.6 **Holding statements, register of members and admission to official quotation**

(a) The Company must procure that, within 10 Business Days after completion of the Steps, each TLB Scheme Creditor (or its nominee) to whom Shares and Options are issued under Step 6 (New Equity issue) is sent:

(i) a share certificate or holding statement (or equivalent document) representing the number of Shares issued to that TLB Scheme Creditor pursuant to this Scheme; and

(ii) an option certificate or holding statement (or equivalent document) representing the number of Options issued to that TLB Scheme Creditor pursuant to this Scheme.

(b) On the Implementation Date, the Company must:

(i) obtain official quotation of the New Shares; and

(ii) use its best endeavours to obtain official quotation of the New Options,

by ASX in accordance with the requirements of the ASX Listing Rules.

Atlas Iron Limited

Supplementary Independent Expert Report in relation to the proposed Scheme of Arrangement

30 March 2016

Strictly Private and Confidential

30 March 2016

Mr James Marshall
Partner
Ashurst Australia
Level 11, 5 Martin Place
Sydney NSW 2000

Supplementary Independent Expert Report in relation to the proposed Scheme of Arrangement (the Scheme) for Atlas Iron Limited

Dear Mr Marshall

In your letter of 22 March 2016 (**Additional Supplementary Instructions Letter**, included in Appendix A), you confirmed your additional supplementary instructions in relation to Atlas Iron Limited (**Scheme Company**) and its subsidiaries (**Group**) and we are now pleased to provide this Supplementary Independent Expert Report. Details of the scope and nature of our work are set out in the Additional Supplementary Instructions Letter.

This Report addresses the matters which we were instructed to complete in the Additional Supplementary Instructions Letter. This report should be in read in conjunction with our Independent Expert Report dated 24 February 2016 (**IER**, which is included at Appendix F to this Report).

Our comments and findings assume that the factual information provided to us by the Group is materially accurate. We have shown a draft of the Report to Mr Mark Hancock, Chief Financial Officer and Mr Tony Walsh, Company Secretary. They have confirmed that, to the best of their knowledge, the factual information in the Report does not contain any omissions or errors and the Report accurately sets out the recent results, state of affairs and prospects of the Group.

This Report has been prepared solely for the recipients and purposes stated in the Letters of Engagement (included at Appendix A to the IER) and should not be used for any other purpose.

We look forward to discussing the contents of this Report with you. In the meantime, if you require any clarification or further information, please contact us on the contact details provided.

Thank you for your instructions on this matter.

Yours sincerely

Philip Carter
Partner
P: +61 2 8116 3189
M: +61 412 667 823
E: pcarter@ppbadvisory.com

Simon Theobald
Partner
P: +61 8 9216 7601
M: +61 403 314 095
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P: +61 2 8116 3295
M: +61 414 226 224
E: mayres@ppbadvisory.com

Contents and Appendix Listing

Section

Appendix

Glossary

Term	Definition
Additional Supplementary Instructions Letter	The additional instructions provided by Ashurst to PPB Advisory in a letter dated 22 March 2016
APES	Australian Professional and Ethical Standards issued by the Australian Professional and Ethical Standards Board
Ashurst	Ashurst Australia, the Group's Australian legal advisors
ASIC	Australian Securities and Investments Commission
Asset Coverage Ratio	The total asset to total secured debt ratio covenant as set out in the SFA
ASX	ASX Limited or the financial market operated by ASX Limited, as the context requires
Atlas	Atlas Iron Limited
AUD / A$ / $	Australian Dollars
BGC	BGC Contracting Pty Ltd
Bn	Billion
Benchmark	The forecast or actual price USD price for 62% Fe iron ore
Borrowing Entities	Atlas and the US Borrower
Business Day	Any day (except Saturday, Sunday or a public holiday) that banks are open for business in Sydney
Calculation Date	The second Business Day after the Effective Date
Capex	Capital expenditure
Claim	Has the meaning given to the term in the Explanatory Statement
CFR	Cost plus freight
Closedown Scenario	The closedown insolvency scenario as described in section 6.1.3
Contractor Collaboration Deed	Deed dated 14 April 2015 between Atlas, MACA Mining Pty Ltd, McAleese Resources Pty Ltd and Qube Bulk Pty Ltd
Corporations Act or Act	*Corporations Act 2001 (Cth)*
Corporate Model	Financial model prepared by Management for the Production Projects and McPhee
Corunna	Corunna Downs Development Project, as described in the Valuation Report
Court	Supreme Court of NSW or such other court of competent jurisdiction
Court Orders	Orders of the Court approving the Scheme under section 411(4)(b) (and, if applicable, section 411(6) of the Corporations Act)
Daily Working Capital Model	The excel model incorporating the Group's short term cash flow forecast, dated 1 February 2016
DCF	Discounted Cash Flow
DCF Valuation	Valuation of the Group's assets prepared on a DCF basis
Development Projects	Projects currently in development phase - comprising Corunna and McPhee
DSO	Direct Shipping Ore
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
Effective	Means, when used in relation to the Scheme, the Court Orders coming into effect, pursuant to section 411(10) of the Corporations Act

Glossary

Effective Date	The date on which the Scheme becomes Effective
Enterprise Value / EV	Enterprise Value of the Group, calculated as equity plus debt minus cash
Explanatory Statement	Information booklet produced by Atlas, approved by the Court and including the Scheme and an explanatory statement in accordance with the Corporations Act
Exploration Projects	Early stage projects where no resources have been defined, as set out in the Valuation Report
External Administrators	Voluntary Administrators appointed to Atlas and its subsidiaries or Receivers and Managers appointed to the Obligors, as the context requires
Fe	Iron
February Valuation Scenario	The output of the Corporate Model based on the key assumptions utilised in deriving the valuation of the Group in section 3, including the iron ore futures prices at 29 February 2016
Finance Leases	Secured liabilities of the Group in respect of leased equipment at the Mount Webber mine site
First Valuation Report	The report entitled "Valuation of Business" dated 30 November 2015, attached as Appendix D to the IER
FOB	Free on Board. This refers to the price received for Atlas' iron ore product in a scenario where the purchaser pays for shipping, insurance and all other costs associated with the transportation of the goods to their destination
Forward Curve Case	The Daily Working Capital Model incorporating an assumed Benchmark iron ore price based on relevant iron ore futures prices as at the date of the forecast
FYXX	Financial Year ending 30 June 20XX
GAM	Global Advanced Metals Pty Ltd
Guarantors	Certain subsidiaries of Atlas as stated in the SFA, including but not limited to Atlas Operations Pty Ltd, Aurox Resources Pty Ltd, Australian Manganese Pty Ltd, Ferraus Pty Ltd, Ferro Metals Australia Pty Ltd, Giralia Resources Pty Ltd, Warwick Resources Pty Ltd, South East Pilbara Assets Pty Ltd
Group / The Group	Atlas and its subsidiaries
GST	Goods and Services Tax
IER	PPB Advisory's Independent Expert Report dated 24 February 2016
Illustrative Mitigation Scenario	The output of the Corporate Model based on the Valuation Scenario, amended as described in section 5.1.5
Implementation Date	The fifth Business Day after the Effective Date or such other date following the Effective Date but prior to the Sunset Date (as that term is defined in the Scheme)as determined by the Scheme Administrator, being the date the Scheme is implemented
Independent Forecasters x 3	The Benchmark iron ore price forecasts of three independent forecasters, provided by Management
Independent Forecasters x 4	The Benchmark iron ore price forecasts of four independent forecasters, provided by Management
Interim Amendment	The deed of amendment to the SFA dated 22 December 2015

Glossary

Letters of Engagement	The 'Engagement for Dividend and Solvency Analysis in relation to the Creditors Scheme of Arrangement of Atlas Iron Limited' between PPB Advisory and Ashurst on behalf of The Group dated 17 December 2015, the PPB Advisory 'Confirmation of Engagement' letter dated 21 December 2015 and the 'Supplementary instructions in relation to Creditors' Scheme of Arrangement of Atlas Iron Limited' letter dated 23 February 2016
Lump	Iron Ore product produced by Atlas containing approximately 58% Fe with a size generally in the range 6.3mm to 40mm
M	Million (AUD)
Management	The executives and senior management team of the Group
March Valuation Scenario	The output of the Corporate Model based on the key assumptions utilised in deriving the valuation of the Group in section 3, including the iron ore futures prices at 4 March 2016
McPhee	The McPhee Creek project, part of Atlas' second growth program that targets the expansion of Atlas' production base, as described in the Valuation Report
Minimum Cash Covenant	The requirement of the Group to maintain a cash balance of at least A$55m (less certain principal and interest payments), in accordance with the terms of the Interim Amendment. The covenant is forecast to reduce to approximately A$46m on 29 March 2016 (following the payment of interest and principal). Following implementation of the Scheme the Minimum Cash Covenant will be A$35m plus 50% of the aggregate principal amount outstanding (measured as of such calendar month end) under all secured Trade Finance Facilities, tested at month-end only
Net Proceeds	The amount, if any, actually recovered by Atlas from any available policy of insurance under which Atlas is entitled to indemnity in respect of any Subordinate Claim, net of any expenses (including defence costs) incurred by Atlas and/or any relevant insurer in connection with the claim
Obligor	Has the meaning given to that term in the SFA
Operating Sale Scenario	The operating sale scenario as described in section 6.1.3
Production Projects	Projects currently in production – comprising Wodgina, Abydos and Mt Webber
Q3 2015 Forecast	The Group's third quarter 2015 forecast, reflected as output in Corporate Model. The forecast was finalised on 23 December 2015
Report	This PPB Advisory Independent Expert Report in relation to the proposed Creditors' Scheme of Arrangement for Atlas
Restructuring	The amendments to the SFA contemplated by the Scheme
RSA	Restructuring Support Agreement dated 22 December 2015 between, among others, the Obligors, and certain TLB Scheme Creditors
Pa	Per annum
Scheme	The scheme of arrangement between Atlas, the TLB Scheme Creditors and the Subordinate Claim Holders under Part 5.1 of the Corporations Act
Scheme Date	The assumed date of implementation of the Scheme, 30 April 2016
Scheme Documents	Means together the Explanatory Statement and the Scheme
Scheme Hearing Date	The date of the hearing of the application to the Court for orders under section 411(1) and (1A) of the Act, assumed to be 30 March 2016

Glossary

Scheme Meeting	Meeting of the TLB Scheme Creditors ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to the Scheme, and includes any adjournment of that meeting
Secured Debt	The total amount owing by Atlas to the TLB Scheme Creditors under the SFA. Commonly referred to as the TLB. Note this excludes the Finance Leases, which are included in the calculation of the Asset Coverage Ratio
SFA	Syndicated Facility Agreement dated 10 December 2012 between, among others, Atlas, Credit Suisse AG, Cayman Islands Branch and Credit Suisse AG, Sydney Branch and the TLB Scheme Creditors
Shares	Fully paid ordinary shares in the capital of Atlas
State	State of Western Australia
Subordinate Claim	A subordinate claim within the meaning of subsection 563A(2) of the Corporations Act, against Atlas in respect of any fact, matter, circumstance or event which has arisen or occurred at any time prior to the compromise of those claims by the Scheme
Subordinate Claim Holders	Any person who has or, but for the scheme, would be entitled to make a Subordinate Claim
Supplementary Instructions	Instructions set out in the 'Supplementary instructions in relation to Creditors' Scheme of Arrangement of Atlas Iron Limited' letter dated 23 February 2016
Supplementary Valuation Date	29 February 2016
Supplementary Valuation Report	The report entitled "Valuation of the Business" attached as Appendix C
TLB	Term Loan B, Atlas' primary loan facility
TLB Scheme Creditors / Lenders	The Lenders as defined in the SFA
Trade Finance Facilities	A revolving trade credit facility, or forward sale facility for similar purposes
Updated Corporate Model	The updated financial model dated 21 March 2016 prepared by Management for the Production Projects and McPhee
Updated Daily Working Capital Model	The excel model incorporating the Group's short term cash flow forecast, dated 21 March 2016
Updated Forward Curve Case	The Updated Daily Working Capital Model incorporating an assumed Benchmark iron ore price based on relevant iron ore futures prices as at the date of the forecast
USD / US$	US Dollars
US Borrower	Atlas America Finance, Inc

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1. Executive Summary *continued*

On 18 March 2016 the Scheme Company received comments from ASIC in respect of the Scheme Company's explanatory statement and our independent expert report dated 24 February 2016 **(IER)**.

This supplementary report:

- Addresses certain matters that have arisen in the period since finalisation of the IER;
- Should be read in conjunction with the IER; and
- Has been prepared on an exceptions basis i.e. unless noted otherwise in this report, the opinions and analysis provided in the IER remain unchanged.

Unless otherwise stated, all amounts referenced in this Report are in Australian Dollars.

As set out in the Additional Supplementary Instructions letter dated 22 March 2016, we have been engaged to update the following scope items addressed in the IER:

	Scope	Section
	Valuation Report – Annexure D to IER	
	Provide an updated opinion of the value of the assets of the Group generally, and relative to the debt owing to the TLB Scheme Creditors under the SFA, as at 29 February 2016	3
	IER	
	Address and update each of the following corresponding sections of the IER:	
a)	**Section 1:** provide updated conclusions on the matters set out in the Letters of Instruction based on the revised output from the remainder of your supplementary report	1
b)	**Section 2**: provide a brief explanation of the background to your supplementary report	2
c)	**Section 3:** provide an updated summary of the value of the Scheme Company's assets following completion of a revised valuation analysis requested above	3
d)	**Section 4:** identify all updated source material used in preparing your supplementary report	4
e)	**Section 5:** provide an updated solvency and profit and loss analysis for the Group based on the 21 March Model and an updated balance sheet analysis based on the Scheme Company's audited accounts for 31 December 2015	5
f)	**Section 6:** provide:	6
	i. an updated forecast of the Scheme Company's performance against the Asset Coverage Ratio (as defined in the IER) as at 30 June 2016 and 31 December 2016 based on the 21 March Model (assuming that the Scheme is not implemented)	
	ii. a sensitivity analysis demonstrating the impact of potential movements in the AUD/USD exchange rate, the iron ore price and the impairment adjustments (with particular reference to the sensitivity analysis in Figure 22 of the Valuation Report, as updated, and any other variables you consider to be relevant) on the Asset Coverage Ratio as at 30 June 2016 and 31 December 2016; and	

iii. your opinion on the potential impact of reclassification of the TLB debt from non-current to current in the 31 December 2016 accounts;

g) **Section 7:** provide revised estimated outcome statements showing estimated dividends payable to the TLB Lenders and the Subordinate Claim Holders — 7

i. (i) as at 30 June 2016 and 31 December 2016 (or any other date which, in your opinion, would be a date on which the Scheme Company would be wound up) if the Scheme is not implemented;

ii. as at 30 April 2016, assuming the Scheme is implemented; and

iii. in each case reflecting the updated value of the Scheme Company's assets following your update to the valuation report annexed to the IER

In relation to scope item a), our updated conclusions on the matters set out in the Letters of Instruction are as follows:

a) We consider that immediately after the Scheme implementation the Group will be solvent but note that the Group's solvency remains sensitive to volatility in the Benchmark iron ore price and AUD/USD exchange rate incorporated in the February Valuation Scenario.

b) The estimated value of the Group's assets as at 29 February 2016 exceeds the debt owed to the TLB Scheme Creditors under the SFA, as illustrated in the table below:

Summary Valuation

$'m	Low	High
Present value of forecast cash flows - Production Projects	236.0	247.1
Present value of forecast cash flows - McPhee	187.8	204.2
Present value of forecast cash flows - Corunna	94.0	99.1
Present value of forecast cash flows - Total	**517.8**	**550.3**
Exploration assets	48.0	123.6
Investments	**0.2**	**0.2**
Enterprise Value	**566.0**	**674.1**

Source: PPBA Analysis, Management

The TLB Scheme Creditors' debt was US$259m (A$363m at an AUD/USD exchange rate of 0.714) as at 29 February 2016.

As set out in Appendix D, in arriving at our estimate of the value of the Group's assets we have used the generally accepted definition of fair market value, being *"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length"*. This definition is based on a hypothetical transaction between a hypothetical willing buyer and a hypothetical willing seller and assumes that a transaction will occur, even if, for market or other reasons, a transaction will not, or is unlikely to, occur. Therefore, the valuation should not be regarded as indicative of a transaction that is currently capable of being consummated by the Group.

We also highlight our conclusions in e) below, which suggest that if the Scheme is not implemented then the hypothetical valuation of the Group's assets as set out above would no longer be relevant and the value achievable for the Group's assets would be as set out in c), below.

c) The expected dividend that would be available to the TLB Scheme Creditors if Atlas were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act is in the range of 29.6 to 74.8 cents in the dollar on the forecast $361m of Secured Debt as at 30 June 2016 assuming that the Scheme is not implemented and nil

dividend (in addition to the net proceeds) to Subordinate Claim Holders, as set out in the following table:

Estimated outcome statement - 30 June 2016

	Closedown		Operating Sale	
$'m	Low	High	Low	High
Net Receivership Realisations	107.0	136.9	136.1	270.2
Forecast TLB debt at 30 June 2016	(361.0)	(361.0)	(361.0)	(361.0)
Surplus / (Shortfall) to TLB Scheme Creditors	**(254.0)**	**(224.1)**	**(224.9)**	**(90.8)**
TLB Scheme Creditor Recovery (cents in the A$)	*29.6*	*37.9*	*37.7*	*74.8*
Unsecured creditors	(203.0)	(203.0)	(203.0)	(203.0)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders	**(457.0)**	**(427.1)**	**(427.9)**	**(293.8)**

Source: PPBA Analysis
Note. Unsecured creditors include all liabilities excluding the TLB Debt and Mt Webber finance lease

The analysis above is based on the appointment of External Administrators to the Group as at 30 June 2016, assuming that the Scheme is not implemented, as that is the first date on which we consider that there is a high degree of risk that the Group will breach the Asset Coverage Ratio test.

However, if the Scheme is not implemented and the Group complies with the Asset Coverage Ratio test at 30 June 2016, we consider it likely that the Group will breach the subsequent Asset Coverage Ratio test at 31 December 2016.

For completeness, we have also considered the dividend that would be available as at 31 December 2016, as set out in the following table. In our opinion:

- The expected dividend that would be available to the TLB Scheme Creditors is in the range of 19.9 to 65.7 cents in the dollar on the forecast $360m of Secured Debt as at 31 December 2016; and
- The expected dividend that would be paid to the Subordinate Claim Holders, in addition to the Net Proceeds, is nil.

Estimated outcome statement - 31 December 2016

	Closedown		Operating Sale	
$'m	Low	High	Low	High
Net Receivership Realisations	71.5	100.7	104.1	236.4
Forecast TLB debt at 31 December 2016	(359.8)	(359.8)	(359.8)	(359.8)
Surplus / (Shortfall) to TLB Scheme Creditors	**(288.3)**	**(259.1)**	**(255.7)**	**(123.4)**
TLB Scheme Creditor Recovery (cents in the A$)	*19.9*	*28.0*	*28.9*	*65.7*
Unsecured creditors	(188.6)	(188.6)	(188.6)	(188.6)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders	**(476.9)**	**(447.7)**	**(444.3)**	**(312.0)**

Source: PPBA Analysis
Note. Unsecured creditors include all liabilities excluding the TLB Debt and Mt Webber finance lease

d) As set out in the following table, if the Scheme was put into effect as proposed, immediately after implementation of the Scheme:

- The expected dividend that would be available to the TLB Scheme Creditors is in the range of 51.5 to 100.0 cents in the dollar on the forecast $189m of Secured Debt as at 30 April 2016; and
- The expected dividend that would be paid to the Subordinate Claim Holders, in addition to the Net Proceeds is nil.

1. Executive Summary *continued*

Estimated outcome statement - 30 April 2016

	Closedown		Operating Sale	
$'m	**Low**	**High**	**Low**	**High**
Net Receivership Realisations	97.5	127.5	128.6	260.9
Forecast TLB debt at 30 April 2016	(189.1)	(189.1)	(189.1)	(189.1)
Surplus / (Shortfall) to TLB Scheme Creditors	**(91.6)**	**(61.6)**	**(60.5)**	**71.8**
TLB Scheme Creditor Recovery (cents in the A$)	*51.5*	*67.4*	*68.0*	*100.0*
Unsecured creditors	(188.6)	(188.6)	(188.6)	(188.6)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders	**(280.2)**	**(250.2)**	**(249.1)**	**(116.8)**

Source: PPBA Analysis

e) If the Scheme is not implemented, we consider that there is a high degree of risk that Atlas will breach the Asset Coverage Ratio test at the next test on 30 June 2016. Even if Atlas were to pass the Asset Coverage Ratio test as at 30 June 2016, we consider it is likely that Atlas will breach the test as at 31 December 2016.

Such a breach would allow the TLB Scheme Creditors to call for the immediate repayment of the Secured Debt. It is unlikely that the Group would have sufficient liquidity or be able to raise sufficient capital/external finance to repay the Secured Debt in such a short timeframe.

This would therefore be likely to result in the Group becoming insolvent and either the Group appointing Voluntary Administrators or the TLB Scheme Creditors appointing Receivers and Managers to the Obligors (or both).

The other scope items are addressed in the sections noted against each scope item above.

We have made all the inquiries that we consider are desirable and appropriate and that no matters of significance that we regard as relevant have, to our knowledge, been withheld from the Court.

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2. Background

Details of the proposed Scheme are detailed in the IER and the Explanatory Statement.

Following finalisation of the IER, there have been three key events that have impacted the analysis in the IER:

1. Changes in the market conditions under which the Group operates, notably spot and forward Benchmark iron ore prices and the AUD/USD exchange rate;
2. The Group's half-year audited accounts were released on 23 February 2016 and indicate that the Group passed the Asset Coverage Ratio test at 31 December 2015. Accordingly, if the Scheme is not implemented, this covenant will not be re-tested until 30 June 2016. It is therefore appropriate to analyse the likelihood of the Group complying with the Asset Coverage Ratio as at 30 June 2016; and
3. The Group and the Scheme Creditors have agreed the financial maintenance covenant which will be reflected in the proposed amendments to the SFA that will be implemented as part of the restructuring.

This report addresses each of these issues and should be read in conjunction with the IER.

2.1 Scope of Work and relevant experience

Attached at Appendix is the Additional Supplementary Instructions which are the focus of this report. We have been instructed by Ashurst on behalf of the Group to address the matters set out in section 1.1. The other Letters of Engagement are an appendix to the IER, which is attached to this report at Appendix F. Our relevant experience is set out in the IER (attached as Appendix E)

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3. Valuation of the Group's Assets

3.1 Valuation of the Group's Assets

The scope of this engagement requires us to provide an updated opinion on the value of the assets of the Group generally, and relative to the debt owing to the TLB Scheme Creditors under the SFA, as at 29 February 2016. As part of our supplementary analysis, we have:

a. Reviewed (and amended where appropriate) the AUD/USD exchange rate utilised in the First Valuation Report;

b. Included the latest iron ore price forward curve (together with any updated independent iron ore price forecasts) available at or around the valuation date; and

c. Updated or amended any ancillary items or calculations (including the sensitivity analysis at Figure 22 of the Valuation Report attached as Appendix D to the IER) where appropriate.

Our updated assessment of this value is undertaken in the Supplementary Valuation Report included at Appendix B.

The Group undertakes a portfolio of projects in Western Australia which are at different stages of development. We have determined the value of the Group using a combination of valuation methodologies, appropriate to the various groups of assets based on their stage in the development and operation cycle.

3.2 Basis of valuation

The basis of the valuation remains the same as that used in the IER.

We have updated the iron ore price forward curve and AUD/USD exchange rate in our accordance with the above instructions. Please refer to the Supplementary Valuation Report which sets out the assumptions used.

3.3 Summary valuation

We have shown a high to low range of values for each group of projects. The difference between the high and low scenarios is driven primarily by different discount rate assumptions.

Summary Valuation

$'m	Low	High
Present value of forecast cash flows - Production Projects	236.0	247.1
Present value of forecast cash flows - McPhee	187.8	204.2
Present value of forecast cash flows - Corunna	94.0	99.1
Present value of forecast cash flows - Total	**517.8**	**550.3**
Exploration assets	48.0	123.6
Investments	**0.2**	**0.2**
Enterprise Value	**566.0**	**674.1**

Source: PPBA Analysis, Management

In making this assessment, we have considered the Enterprise Value of the Group. The table above shows that the range of Enterprise Value for the Group is between $566m and $674m on the assumption that it is sold as a going concern on or around 29 February 2016 (the Valuation Date). A more detailed explanation of the valuation methodologies applied across the Group's portfolio of assets for each division is included with supporting information at Appendix D.

We highlight that the calculated Enterprise Value of the Group is highly sensitive to the assumed Benchmark iron ore price. In the Valuation Report we have set out a sensitivity analysis which illustrates the potential impact on the Enterprise Value of the Group based on variations in the forecast Benchmark Iron Ore Price.

In our assessment of the value of the Group's assets, we have not included the value of cash on the balance sheet at 29 February 2016 ($75.1m). Whilst the value of this cash may be attributable to the vendors in the event the Group was sold as a whole, we have not included it in our assessment because we have not considered any adjustments a purchaser may make to the Enterprise Value to

reflect, for example, working capital normalisations and debt-like items (amongst other adjustments). Such analysis is outside the scope of this engagement.

3.4 Secured Indebtedness of the TLB Scheme Creditors

As at 29 February 2016 (the Valuation Date), the TLB Scheme Creditors were owed US$259.3m (at an AUD/USD exchange rate of 0.714, this converts to A$363.1m).

3.5 Conclusion – value of the Group's assets relative to the debt owing to the TLB Scheme Creditors

Our range of Enterprise Values of the Group, of $566m to $674m, exceeds the debt owing to the TLB Scheme Creditors under the SFA of US$259.3m (A$363.1m) as at 29 February 2016.

As set out in Appendix B, in arriving at our estimate of the Group's Enterprise Value, we have used the generally accepted definition of fair market value, being *"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length"*. This definition is based on a hypothetical transaction between a hypothetical willing buyer and a hypothetical willing seller and assumes that a transaction will occur, even if, for market or other reasons, a transaction will not, or is unlikely to, occur. Therefore, the valuation should not be regarded as indicative of a transaction that is currently capable of being consummated by the Group.

We also highlight our conclusions in section 6, which suggest that if the Scheme is not implemented then the hypothetical valuation of the Group's assets as set out above would no longer be relevant and the value achievable for the Group's assets would be as set out in section 7.

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4. Solvency Approach and Assumptions

The scope of this engagement requires us to identify all updated source material used in preparing this supplementary report. In this section we comment on that source material and any impact it has had on our approach to assessing the solvency of the Group.

4.1 Approach

Our approach to assessing the solvency of the Group remains unchanged from the IER.

We have assumed for the purposes of our analysis that the Scheme will be implemented on 30 April 2016 (the Scheme Date).

4.1.1 Financial covenants

Prior to the Scheme Date, the Group remains subject to the A$55m Minimum Cash Covenant set out in the Interim Amendment (as reduced by any principal or interest paid to the TLB Scheme Creditors after 25 March 2016).

The Group's ability to comply with this covenant is discussed in section 5.

The IER noted that as part of the restructuring, the SFA was expected to include a financial maintenance covenant which had not been agreed at the date of the IER. We understand that the covenant has now been agreed as a reduced Minimum Cash Covenant of A$35m plus 50% of the aggregate principal amount outstanding (measured as of such calendar month end) under all secured Trade Finance Facilities, which will come into effect following the implementation of the Scheme. The Updated Corporate Model does not include utilisation of a trade finance facility; we have therefore not incorporated this into our analysis.

The covenant will be tested at the end of each month only, unlike the A$55m covenant under the Interim Amendment, which is an "at all times" covenant.

4.2 Source Data

Since delivering our IER we have received two key amended pieces of source material:

- Revised Corporate Model dated 21 March 2016 **(Updated Corporate Model)**
- Revised Daily Working Capital Model dated 21 March 2016 **(Updated Daily Working Capital Model)**

4.2.1 Cash Flow

Our analysis of cash flow is based on a combination of the Group's Updated Daily Working Capital Model as at 21 March 2016 and the Updated Corporate Model (incorporating the February Valuation Scenario).

Updated Daily Working Capital Model

The Updated Daily Working Capital Model is based on an actual opening cash position as at 29 February 2016 (of A$75.1m) and covers the period 1 March 2016 to 30 September 2016.

The model incorporates the iron ore price forward curve as at 18 March 2016. It also includes the effect of a significant level of price hedging that the Group has entered into, mainly since the improvement in the iron ore price in February 2016. We understand that c.90% of sales volumes in March and April are subject to either fixed price customer contracts or hedges such as swaps, puts, calls or collars.

Updated Corporate Model

The Updated Corporate Model:

- Was received on 21 March 2016.
- Includes actual results up to 29 February 2016 and forecasts from March 2016 onwards.
- Does not reflect the hedging incorporated in to the Updated Daily Working Capital Model.

- Includes the following adjustments to the Corporate Model used as the basis for the IER:
  - Additional cost savings provided by contractors from December 2015 to March 2016 have been removed for the month of March 2016 due to the increase in the iron ore price which means that these savings are no longer available;
  - Assumes a payables reversion benefit to take place in May 2016 (vs. April 2016 previously), with the size of the benefit adjusted to $10m, vs. $20m previously, reflecting a more conservative approach;
  - Assumed corporate cost savings of $250k per month have been removed on the basis of conservatism and to reflect that these have not been realised to date;
  - An additional corporate "cost buffer" of $300k per month to June 2016 has been included to capture additional restructuring costs, again incorporated in the model for the sake of conservatism.

The key operational, production and cost assumptions in the Updated Corporate Model are based on the Group's Q3 2015 Forecast.

4.3 Adjustments to source data

4.3.1 General adjustments across the cash flow, balance sheet and profit and loss statement

In line with the approach in the IER, we have created an updated scenario in the Updated Corporate Model (the February Valuation Scenario) that broadly reflects Management's method of forecasting, and includes the most recently available independent Benchmark iron ore price forecasts and forward foreign exchange rates as at 29 February 2016. We note that the Updated Daily Working Capital Model utilises an iron ore forward curve as at 18 March 2016 (which is meaningfully higher that the curve as at 29 February 2016) and spot AUD/USD also as at 18 March 2016.

Two independent forecasters have revised their iron ore price forecasts since the finalisation of the IER, which we have incorporated into the February Valuation Scenario. One of these forecasters had previously been excluded from the Valuation Report in the IER on the basis that we considered the forecast to be out of date. This fourth forecaster has now been added to the February Valuation Scenario, such that the forecasts of four independent forecasters are now considered in the February Valuation Scenario, compared with three independent forecasters in the IER.

We have also adjusted our foreign exchange rate assumptions, previously a flat rate from July 2016. We have now adopted the Independent Forecasters x4 from December 2016.

With the exception of changes noted above and in section 4.2, this February Valuation Scenario includes the same assumptions as the Valuation Scenario from the IER.

The February Valuation Scenario has been used as the basis of the Supplementary Valuation Report set out in section 3 and also as the basis for the cash flow, balance sheet and profit and loss information presented in section 5, subject to the additional sensitivities we have applied in respect of the cash flow forecast, as described in section 5.1.4 and the Asset Coverage Ratio in section 6.

The key assumptions underpinning the February Valuation Scenario are set out below and described in detail in the Supplementary Valuation Report, attached as Appendix B.

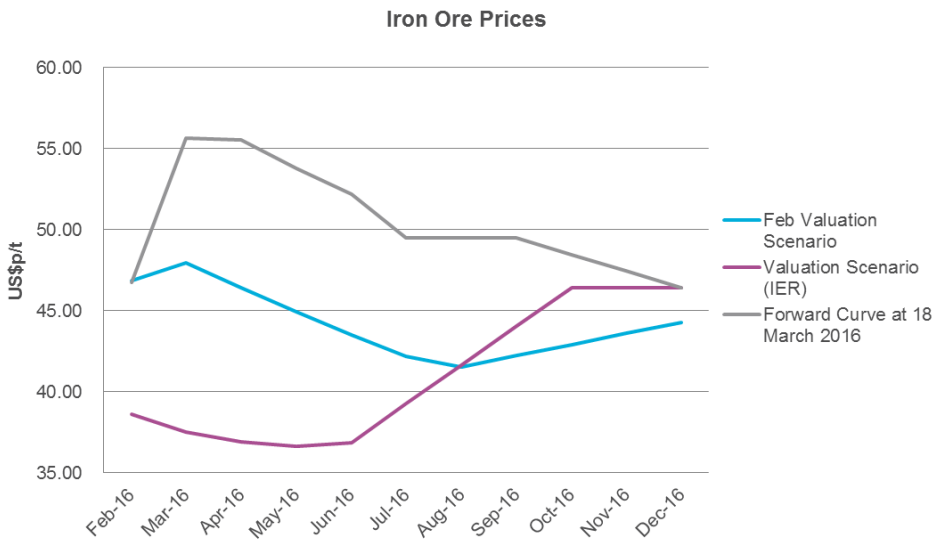
4. Solvency Approach and Assumptions *continued*

Key Valuation Scenario assumptions

	PPBA Valuation Scenario (IER)	PPBA February Valuation Scenario
Iron Ore Price	Forward Curve Jan 16 - Jun 16 Staged step up Jul 16 to Sep 16 Independent Forecasters x3 from Oct 16	Forward Curve (29 Feb 16) for Mar 16 - Aug 16 Staged step up Sep 16 to Nov 16 Independent Forecasters x4 from Dec 16
AUD/USD FX rate	Flat 0.69 for Jan 16 - June 16 Flat 0.72 from July 16	0.714 (Spot rate as at 29 Feb 16) for Mar 16 - Aug 16 Staged step up Sep 16 to Nov 16 Independent Forecasters x4 from Dec 16
Lump Premium	12.5% of Benchmark iron ore price	12.5% of Benchmark iron ore price
Corunna/McPhee Projects	McPhee - construction capex commences Feb 2018 / Revenue Nov 2018 Corunna - construction capex commences Jan 2017 / Revenue July 2017	McPhee - construction capex commences Feb 2018 / Revenue Nov 2018 Corunna - construction capex commences Jan 2017 / Revenue July 2017

The chart below outlines the benchmark iron ore price under the following scenarios:

- Valuation Scenario (as included in the IER)
- February Valuation Scenario (using the forward curve as at 29 February 2016)
- The forward curve as at 18 March 2016, as included in the Updated Daily Working Capital Model



The chart highlights that there has been a substantial increase in the forward price curve between 29 February 2016 and 18 March 2016.

Notwithstanding this increase we have not sought to utilise the 18 March 2016 forward curve as the basis for our solvency and Asset Coverage Ratio analysis for the following reasons:

- Given that the Valuation Date for the purposes of the valuation section of this report is 29 February 2016, we consider that keeping the pricing consistent between various sections of this Report is important for clarity and to minimise confusion for the reader;
- The Group has hedged a significant amount of sales in the period March through May and has undertaken a degree of hedging in June. Given that fixed price cargoes have been priced off lower prices in preceding months, and that hedges put into place such as swaps and collars tend to place a ceiling on received prices, we understand that the impact of these hedges on Atlas' revenue tends to be negative in periods of rising prices. As the potential upside from any rising prices is limited to some extent by the hedging in place, our view is that the February Valuation Scenario remains a reasonable base case; and

4. Solvency Approach and Assumptions *continued*

- We have provided a sensitivity analysis in section 6.2 which illustrates the potential impact of higher than forecast Benchmark iron ore prices on Atlas' forecast performance against the Asset Coverage Ratio test.

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5. Solvency Analysis of the Group

In this section we provide updated solvency, profit and loss and balance sheet analysis, based on the information set out in section 4.

5.1 Primary test: cash flow test

5.1.1 Group consolidated cash flow forecast – pre Scheme Date

We have analysed the Group's cash flows on the same basis as in the IER, by utilising the Updated Daily Working Capital Model. However, in light of the recent uplift in iron ore prices, we have only considered a Forward Curve Case and not a US$40 Case, which is no longer relevant given the current price environment ie. as at mid-late March 2016.

The Updated Daily Working Capital Model dated 21 March 2016 assumes a Benchmark iron ore price based the forward curve as at 18 March 2016 (Updated Forward Curve Case). This differs from the February Valuation Scenario which is based on the forward curve at 29 February 2016. However, as set out in section 4, the Updated Daily Working Capital Model also reflects price hedging arrangements entered into by the Group, and does not result in an overall cash flow outcome meaningfully different to the Updated Corporate Model over the period to June 2016.

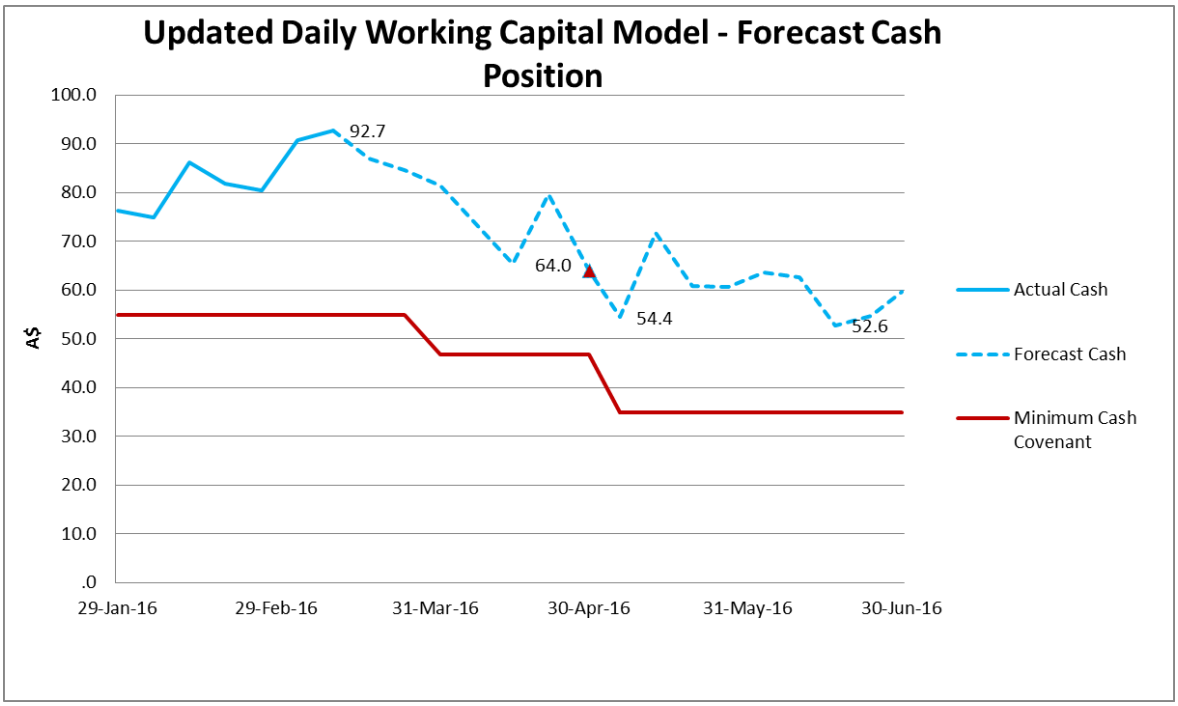
The Updated Daily Working Capital Model does not include the assumed $10m working capital improvement included in the Updated Corporate Model.

The output of the Updated Daily Working Capital Model is attached at Appendix D, and the weekly cash balance is set out in the chart below.

We note that this does not represent a worst case scenario for the Group, as the Benchmark iron ore price could fall below the prices assumed in the Updated Forward Curve Case although the Group will be protected to some extent from price falls, particularly during March to May, by the extensive hedging undertaken. Therefore, the actual cash balance as at 30 April 2016 (Scheme Date) may be higher or lower than what is implied in the chart below. This is due to the sensitivity of Atlas' cash flows to the iron ore price.

As set out in section 4.1.1, the $55m Minimum Cash Covenant introduced through the Interim Amendment is only applicable to Atlas for the period up to the Implementation Date (which, under the terms of the RSA, can be no later than 30 April 2016), following which it will be reduced to $35m (assuming the Scheme is implemented). Note that in the chart below the Minimum Cash Covenant is forecast to reduce to c.$47m at the end of March 2016 due to a c.$8m interest payment. Following implementation of the Scheme, the $35m Minimum Cash Covenant will increase by 50% of the aggregate principal amount of any trade finance facility utilised by the Group and provided by the TLB Lenders. The Updated Corporate Model does include utilisation of a trade finance facility; we have therefore not incorporated this into our analysis.

5. Solvency Analysis of the Group *continued*



The chart indicates that:

- The Group is forecast to satisfy the Minimum Cash Covenant throughout the period to 30 April 2016 (and also the subsequent period to 30 June 2016); and
- The Group's pre-Scheme cash holdings are forecast to reduce to a low point of $64.0m during the week ending 30 April 2016.

We understand that c.90% of sales volumes during March to May (and a degree of June sales) are subject to iron ore price hedging via fixed price agreements with customers or, collars (i.e. setting a range of price outcomes), or puts, which provide a degree of certainty as to the achievability of the forecast to 30 June.

5.1.2 Group Consolidated cash flows forecast – post Scheme Date

We set out below the Group's cash flow forecast for the following periods:

1. **March - July 2016:** Based on the February Valuation Scenario from the Updated Corporate Model, presented monthly (noting that there will be discrepancies between the Updated Corporate Model and the Updated Daily Working Capital Model reflecting differences in dates of forward curve used, hedging reflected in the Daily Working Capital Model and not the Updated Corporate Model, timing of payables and receivables which is analysed in more detail in the Daily Working Capital Model, and the $10m payables benefit in May 2016 included in the Corporate Model); and
2. **August 2016 – April 2017:** Based on the February Valuation Scenario from the Updated Corporate Model, presented on a quarterly basis.

5. Solvency Analysis of the Group *continued*

Cash Flow Forecast $'m	Notes	Mar 2016 Forecast	Apr 2016 Forecast	May 2016 Forecast	Jun 2016 Forecast	Jul 2016 Forecast	Aug - Oct 2016 Forecast	Nov - Jan 2016/17 Forecast	Feb - Apr 2017 Forecast	Total
Operating Cash Flows										
Customer receipts (inc freight)		72.6	72.5	69.8	67.9	56.5	170.0	169.9	141.4	**820.7**
Payments to suppliers	1	(63.2)	(60.2)	(49.4)	(57.9)	(53.9)	(163.0)	(156.0)	(135.2)	**(738.8)**
Contractor Profit Share	2	(0.7)	(0.7)	(0.7)	(0.4)	(0.1)	(0.5)	(0.2)	-	**(3.4)**
Royalty payments		-	(15.8)	-	-	(16.4)	(12.3)	(12.8)	(10.3)	**(67.6)**
Repayment of royalty relief		-	-	(3.0)	(3.0)	-	(3.0)	(3.0)	(3.0)	**(15.2)**
Other		0.1	0.1	-	-	-	-	-	-	**0.1**
Total operating cash flows		**8.8**	**(4.3)**	**16.7**	**6.5**	**(14.0)**	**(8.8)**	**(2.2)**	**(7.1)**	**(4.3)**
Capital Expenditure		(1.1)	(0.3)	(0.3)	(0.4)	(0.1)	(0.8)	(7.4)	(22.2)	**(32.7)**
Debt repayment	3	(1.0)	(172.8)	-	(0.3)	0.0	(0.5)	(0.5)	(0.5)	**(175.5)**
Interest payments		(8.0)	(2.6)	(0.9)	(0.9)	(0.9)	(2.7)	(2.7)	(2.7)	**(21.3)**
Equity Issued	3	-	169.3	-	-	-	-	-	-	**169.3**
Other Financing Costs	4	(0.1)	(5.0)	(9.9)	(0.1)	(0.1)	(0.4)	(0.4)	(0.4)	**(16.5)**
FX / Other adjustments		-	-	-	-	-	-	(1.0)	-	**(1.0)**
Increase / (Decrease) In Cash		**(1.4)**	**(15.7)**	**5.5**	**4.8**	**(15.1)**	**(13.1)**	**(14.2)**	**(32.8)**	**(82.0)**
Opening Cash		75.1	73.7	58.0	63.5	68.3	53.2	40.0	25.9	
Closing Cash	5	**73.7**	**58.0**	**63.5**	**68.3**	**53.2**	**40.0**	**25.9**	**(6.9)**	
Minimum Cash Covenant	6	46.3	46.3	35.0	35.0	35.0	35.0	35.0	35.0	
Cash covenant surplus / (shortfall)		**27.5**	**11.7**	**28.5**	**33.3**	**18.2**	**5.0**	**(9.1)**	**(41.9)**	

Source: Updated Corporate Model incorporating the February Valuation Scenario

Notes

1. Payments to major suppliers, including all contractor and corporate costs are assumed to occur in the month incurred until April 2016. From May 2016, following the proposed restructure, Atlas assumes a partial normalisation of payment terms with key contractors returning to 30-45 day payment terms. The one-off cash benefit of this assumption (c.$10m) can be seen in the reduced level of cash payments to suppliers in May 2016.

2. As increased iron ore prices have resulted in positive operating cash flows, a profit share arrangement has been activated, whereby Atlas pays 25% of the positive net operating cash flow from the Abydos and Wodgina mines to the collaborating contractors under Contractor Collaboration Deed. A profit share agreement is also in place with McAleese in respect of the Mount Webber mine.

3. As part of the proposed restructure, a payment of US$2.5m (A$3.5m) is required on the implementation of the Scheme. The forecast also shows the effect of the conversion of US$120.1m (A$169.3m) into 70% of the Group's equity and options, which has no cash impact. Therefore, the net difference between the $172.8m debt repayment and $169.3m equity issuance is the US$2.5m (A$3.5m) payment due to the TLB Scheme Creditors upon implementation of the Scheme.

4. Other financing costs include approximately A$12-15m paid during, and just after, the RSA period to financial/legal advisors representing Atlas and the TLB Scheme Creditors. This is based on high level Management estimates. We note that while legal and some other professional fees (i.e. fees other than success fees) are being paid over the period December 2015 to May 2016, for simplicity the Corporate Model assumes that these are paid as a one-off cost upon the assumed refinancing date of 30 April 2016.

5. The table below illustrates the cash balances across the Corporate Model February Valuation Scenario and Updated Daily Working Capital Model:

Cash Balance

$'m	Feb Valuation Scenario	Updated Daily WC Model	Actual
29 February 2016	75.1	75.1	75.1
30 June 2016	68.3	59.7	NA
Add: Working Capital benefit not included in Updated Daily WC Model	-	10.0	
30 June 2016 - adjusted	**68.3**	**69.7**	

In order to compare the forecast cash balances we have added back the assumed $10m working capital benefit included in the February Valuation Scenario into the Updated Daily

5. Solvency Analysis of the Group *continued*

Working Capital Model.

Whilst the Updated Corporate Model has not been reconciled to the Updated Daily Working Capital Model, the forecast cash balance as at 30 June 2016 in the Updated Corporate Model is within 2% of that forecast in the Updated Daily Working Capital Model. This suggests that the closing cash balance as at 30 June 2016 in the Corporate Model does not appear unreasonable.

6. As set out in section 4, a revised Minimum Cash Covenant of $35m (to be effective from the Implementation Date) has been agreed between the Group and the TLB Scheme Creditors (assuming the Scheme is implemented).

5.1.3 Observations on the cash flow forecast

Pre-Scheme

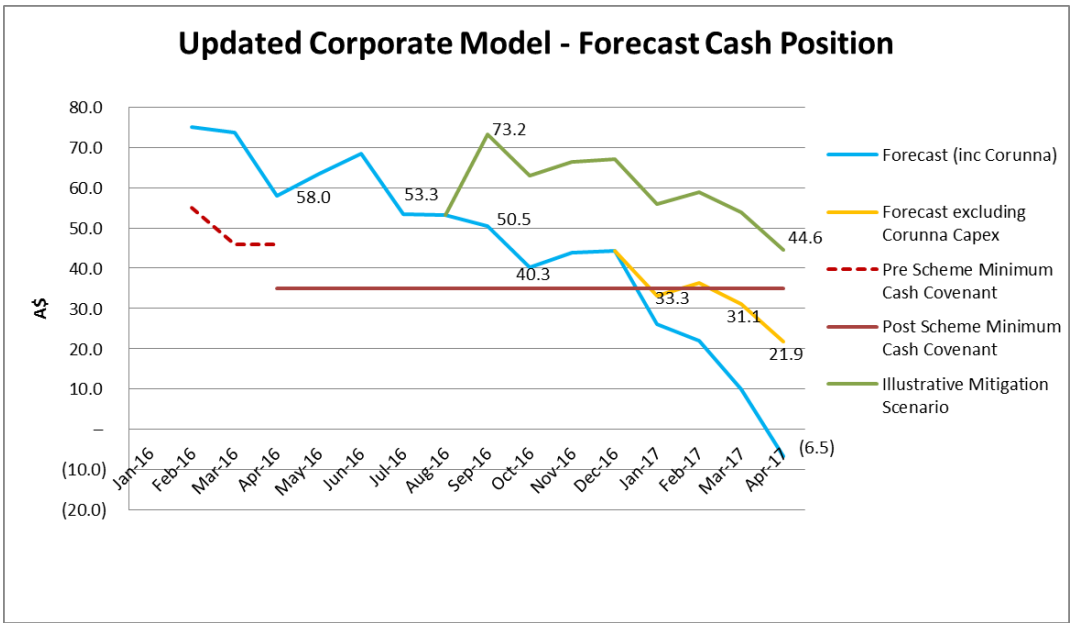
We consider that there is a reduced risk that the Group could breach the Minimum Cash Covenant prior to the Scheme Date compared with our conclusion in the IER due to the following factors:

- A significant improvement in the Benchmark iron ore price, compared with the assumptions underpinning the forecasts in the IER; and
- The Group has hedged a significant amount of sales in the period March through May and has undertaken a degree of hedging in June.

Post-Scheme

The Group is forecast to generate a cash outflow of A$64.9m during the period 1 May 2016 to 30 April 2017, of which $28.4m relates to the Capex required to commence the Corunna Project. As discussed in the IER, the Group would only proceed with the project at that time in the event of an increase in the Benchmark iron ore price and if the Group's liquidity position supported the required Capex (either through free cash flow or project specific financing). We also note that these cash flows are based on the forward curve as at 29 February 2016, and Independent Forecasters x4 average benchmark price of c.US$48/dmt in calendar year 2017, which is meaningfully lower than the average benchmark price in the month of March 2016.

The majority of the cash outflow is forecast to occur during the period January 2017 to April 2017, when the February Valuation Scenario assumes a Benchmark iron ore price of c.US$44/dmt. This is significantly lower than the current spot price.



The chart above shows the Group's forecast cash position with and without the Corunna Capex.

5. Solvency Analysis of the Group *continued*

We note that:

- The lowest forecast month end cash position is negative $6.5m in April 2017, assuming the construction of Corunna proceeds in January 2017. However, the Group would not proceed with Corunna unless it had sufficient liquidity to fund the construction phase and the ongoing management of the rest of the business. Therefore, it is reasonable to assume that the Group would not allow cash balances to reach this level;
- Assuming that the Corunna Capex is postponed until after the forecast period illustrated above, the cash balance is forecast to fall below the $35m Minimum Cash Covenant in January, March and April 2017. However, the February Valuation Scenario utilises a lower Benchmark iron ore price than the Updated Daily Working Capital Model which shows a forecast cash balance of c.$73m as at the end of September 2016, compared with c.$50m under the February Valuation Scenario (i.e. a $23m higher cash balance). We therefore consider that there may be some upside potential in forecasts set out in the chart above;
- To reflect this potential upside, we have shown an Illustrative Mitigation Scenario (i.e. based on the Updated Daily Working Capital Model utilising the forward price curve as at 18 March 2016) on the chart above, which adjusts the February Valuation Scenario to reflect a situation where the Group performs in line with the Updated Daily Working Capital Model through to 30 September and therefore the cash balance is $23m higher than the February Valuation Scenario through to 30 April 2017;
- Based on this Illustrative Mitigation Scenario, the Group is forecast to remain in compliance with the Minimum Cash Covenant throughout the 12 month period from the Scheme Date;
- The February Valuation Scenario cash flow forecast has not been prepared on a weekly basis and, accordingly, there may be mid-month points where the cash balance could be lower than the forecast month end position. However, as the Minimum Cash Covenant is only tested at month end, we do not consider that this will create specific issues with regards to covenant compliance; and
- The forecast includes a one-off $10m working capital benefit in May 2016. This has been reduced from $20m in the Corporate Model on which the IER was based.

On this basis, the Group appears to have sufficient cash to continue to trade for the twelve months following the Scheme Date and, whilst there is some risk of a breach of the $35m Minimum Cash Covenant, we acknowledge that:

- If the Group performs in line with the Updated Daily Working Capital Model in the period to 30 September 2016 then the Group is unlikely to breach the Minimum Cash Covenant;
- In addition to the Illustrative Mitigation Scenario, management may be able to mitigate any risks of reducing liquidity by undertaking further hedging as the year progresses, flexing working capital and, possibly, production levels. The range of potential mitigants available to the Group are discussed in the IER; and
- Given that the forecast breach of the Minimum Cash Covenant under the February Valuation Scenario is approximately eight months after the Scheme Date, the Group will have a significant period of time in which to plan for and implement mitigation strategies to manage the cash position and compliance with the Minimum Cash Covenant.

5.1.4 Key risks to the forecast

We consider that a lower than forecast cash position could result from any of the following additional key risks to the forecast:

- Iron ore pricing: whilst the Valuation Scenario assumes that the Benchmark iron ore price tracks in line with current forward pricing through to 31 August 2016 (following which it reverts over a three month period to the Independent Forecasters x 4 average), it is possible that iron ore prices over this period could be considerably lower than forecast. However, we note that the February Valuation Scenario is relatively conservative (assumed Benchmark iron ore price of US$48p/t for March compared to the average actual spot price of c.US$56p/t during the period 1 March to 28 March), and that there is significant price hedging in place until April, and some hedging in place in May and June, which provides a degree of protection against the risks of a price decline.

5. Solvency Analysis of the Group *continued*

- Working capital improvement: there remains a risk that the Group's contractors may not agree to more favourable payment terms, in which case the one-off benefit to the Group may be less than $10m.
- Exchange rate: the February Valuation Scenario assumes an AUD/USD exchange rate for the six months to August 2016 in line with the forward curve as at 29 February 2016, following which it reverts over a three month period to the Independent Forecasters x 4 average. If the Australian Dollar were to materially appreciate against that assumption, then the profitability and cash generation of the Group could be materially reduced.

5.1.5 Long term cash flow projections

Our comments in the IER with respect to the impact of not commencing operations at Corunna remain valid.

5.1.6 Findings

Based on the output of the February Valuation Scenario, the Group's cash position (in relation to the $35m Minimum Cash Covenant) is forecast to become very tight from January 2017 through to April 2017. Depending upon the outcome of trading, particularly over the period to 30 September 2016 (which, if the Group performs broadly in line with the Daily Working Capital Model will largely alleviate the cash pressure forecast for January to April 2017), compliance with the $35m Minimum Cash Covenant in the period January 2017 to April 2017 may be challenging and the Group may need to deploy the mitigants available to manage its cash position.

However, we also highlight that:

- The February Valuation Scenario is based on a 29 February forward curve – we accept that there is meaningful cash upside available to the Group if the Benchmark iron ore price tracks more recent forward curve (for example, the 18 March 2016 forward curve as shown in the Illustrative Mitigation Scenario), particularly post the period where the Group has hedged its sales (i.e. after June 2016);
- Complying with the Minimum Cash Covenant may require the short term deferral of Capex in respect of Corunna if the Benchmark iron ore price performs in line with the levels included in the February Valuation Scenario forecasts, or if the Group is unable to improve its liquidity position via other means;
- There is a real risk that the Group may not have sufficient cash to meet its liabilities as and when they fall due if a number of the key assumptions included in the forecast do not materialise as expected, primarily the Benchmark iron ore price. However, given the Group has hedged a significant amount of sales in the period from March through to May and has undertaken a degree of hedging in June, we consider it unlikely that any potential breach of the Minimum Cash Covenant could occur before June 2016; and
- In a scenario of materially lower than forecast iron ore prices (or unfavourable FX movements), Management may be able to partly mitigate any deterioration through the options outlined in the IER.

5.1.7 Conclusion – cash flow test

Based on our review of the forecasts, the application of the Illustrative Mitigation Scenario and our understanding of the mitigants available to the Group to manage any liquidity shortfall, Atlas appears to have sufficient cash to support the business through to 30 April 2017.

5.2 Indicative Test: Balance Sheet Test

5.2.1 Balance sheets as at 31 December 2015 and 30 April 2016

We have analysed the Group's audited consolidated balance sheet as at 31 December 2015 and compared it to the forecast balance sheet as at 30 April 2016, as extracted from the Corporate Model on the basis of the February Valuation Scenario.

5. Solvency Analysis of the Group *continued*

The February Valuation Scenario provides the estimated financial position of the Group as at 30 April 2016 (i.e. the Scheme Date), based on the following assumptions:

- Working capital movements reflect actual trading to 29 February 2016 and forecast trading for the remainder of the period;
- Movements in non-current assets reflect only the actual capex and depreciation to 31 December 2015 and forecast thereafter. The fixed assets have not been subject to impairment testing since that carried out as at 31 December 2015; and
- The movement in non-current liabilities primarily reflects the reduction in Secured Debt due to the Scheme.

Set out in the table below is the Group's audited Balance Sheet as at 31 December 2015 and the forecast balance sheet as at 30 April 2016 from the Corporate Model incorporating the February Valuation Scenario, reflecting the position immediately following implementation of the Scheme.

Balance Sheet $'m	Audited as at 31 December 2015	Movement	Forecast Balance Sheet as at 30 April 2016
Current assets			
Cash	107.9	(50.0)	57.9
Accounts receivable	35.9	11.4	47.3
Inventory	18.0	(2.0)	16.0
Other	17.7	0.7	18.4
Total current assets	**179.5**	**(39.8)**	**139.7**
Non-current assets			
Mining Assets	428.2	(22.4)	405.8
Property, plant and equipment	138.1	(5.3)	132.8
Intangibles	1.0	0.1	1.1
Other receivables	10.4	(0.0)	10.4
Prepayments non-current	1.7	(0.8)	0.9
Total non-current assets	**579.5**	**(28.5)**	**551.0**
Total assets	**759.0**	**(68.3)**	**690.7**
Current liabilities			
Trade and other payables	(113.0)	36.4	(76.6)
Employee benefits	(1.3)	0.1	(1.2)
Current interest bearing liabilities	(5.3)	4.4	(0.9)
Provisions current	(7.4)	(0.0)	(7.4)
Total current liabilities	**(126.9)**	**40.8**	**(86.1)**
Non-current liabilities			
Trade and other payables	(9.2)	(0.2)	(9.4)
Employee benefits	(0.5)	(0.1)	(0.6)
Non-current interest bearing liabilities	(350.3)	154.7	(195.6)
Provisions non-current	(95.2)	1.6	(93.6)
Total non-current liabilities	**(455.2)**	**156.0**	**(299.2)**
Total liabilities	**(582.1)**	**196.8**	**(385.3)**
Net assets	**176.9**	**128.5**	**305.4**

Source: February Valuation Scenario and Financial Report dated 31 December 2015

The forecast balance sheet as at 30 April 2016 indicates that, following implementation of the Scheme the Group is forecast to have net assets of $305.4m.

5.2.2 Current assets

The Corporate Model forecasts the Group having current assets of $139.7m immediately following the Scheme Date. The material asset balances include $57.9m of cash and cash equivalents comprising cash on hand and at bank. The $50.0m reduction in cash from 31 December 2015 to 30 April 2016 is reconciled as follows:

5. Solvency Analysis of the Group *continued*

Cash Reconciliation - 31 December 2015 to 30 April 2016

$'m	
Cash balance at 31 December 2015	107.9
Add:	
Foreign exchange gains	1.7
	1.7
Less:	
Operating cash flows	(27.9)
Debt repayments	(3.5)
Financing costs	(17.3)
Investing cash flows	(2.7)
Other adjustments	(0.3)
	(51.7)
Forecast cash balance at 30 April 2016	**57.9**

We note that operating cash flows are adversely impacted by a $36m decrease in payables, implying that Atlas' operations are forecast to generate cash from operations over the period after ignoring working capital movements, restructuring costs and debt repayments.

We understand that the forecast $11.4m in accounts receivable between December 2015 and April 2016 reflects increases in the received price for iron ore shipments.

5.2.3 Non-current assets

The Group's non-current assets are forecast to reduce by $28.5m to $551.0m, mainly due to the amortisation and depreciation of fixed assets. The Corporate Model forecasts total depreciation and amortisation of $89.8m in FY16 (FY15: $117.8m).

5.2.4 Non-current liabilities

The total of non-current liabilities is forecast to decrease by $156.0m to $299.2m following the implementation of the Scheme. This primarily relates to the retirement of $166.3m (US$124.5m) of the Secured Debt following implementation of the Scheme.

5.2.5 Conclusion – balance sheet test

The above analysis indicates that the Group is forecast to have both positive net current assets and total assets substantially in excess of its liabilities, which supports our view that the Group will be solvent on a balance sheet basis following the implementation of the Scheme.

5. Solvency Analysis of the Group *continued*

5.3 Indicative Test: Profit and Loss Statement

The Group's annual profit and loss statement for the year ended 30 June 2015 and the annual forecasts to 30 June 2020 (based on the February Valuation Scenario) are summarised below.

Profit and Loss Statement

$'m	FY15 Actual	FY16 Out-turn	FY17 Forecast	FY18 Forecast	FY19 Forecast	FY20 Forecast
Sales Revenue (CFR)*	718.5	794.4	636.6	668.7	888.0	1,033.9
Less Freight	(122.4)	(121.2)	(110.9)	(121.1)	(144.2)	(153.2)
Sales Revenue (FOB)**	**596.1**	**673.2**	**525.6**	**547.6**	**743.8**	**880.7**
Expenses						
Direct Operating Costs						
Mining and Processing	(224.6)	(174.7)	(148.2)	(133.9)	(166.9)	(186.3)
Haulage	(203.4)	(192.6)	(174.9)	(208.5)	(274.9)	(299.8)
Port	(128.9)	(109.9)	(92.5)	(87.3)	(107.7)	(118.6)
Contractor C1 Cost uplift	-	(6.3)	-	-	-	-
Other operating costs	(41.8)	(48.9)	(42.4)	(41.1)	(41.7)	(40.1)
Total Direct Operating Costs	**(598.6)**	**(532.4)**	**(458.1)**	**(470.7)**	**(591.1)**	**(644.9)**
Royalties	(55.8)	(62.2)	(45.8)	(47.0)	(61.8)	(72.2)
Exploration, Evaluation Expenditure	(5.2)	(5.6)	(5.9)	(3.6)	(4.6)	(5.3)
Corporate Costs	(49.9)	(26.3)	(20.5)	(14.2)	(16.9)	(19.6)
Inventory adjustment	(8.6)	(1.9)	(4.0)	2.6	8.2	0.4
Other income	2.7	-	-	-	-	-
Unwind of port prepayment	(7.5)	-	-	-	-	-
Other	(12.0)	(0.4)	(0.7)	(0.5)	(0.6)	(0.6)
Contractor Profit Share	-	(12.2)	(0.9)	(0.5)	-	-
Total Expenses	**(734.9)**	**(641.0)**	**(535.8)**	**(533.5)**	**(666.8)**	**(742.1)**
EBITDA (pre JV & Associates)	**(138.9)**	**32.2**	**(10.2)**	**14.1**	**77.0**	**138.5**
Add/(Less): JV & Associates	(3.6)	6.9	-	-	-	-
Other cost adjustment	0.9	-	-	-	-	-
EBITDA	**(141.6)**	**39.1**	**(10.2)**	**14.1**	**77.0**	**138.5**
Amortisation / Depreciation	(117.8)	(92.7)	(75.2)	(87.3)	(86.7)	(68.2)
EBIT	**(259.4)**	**(53.5)**	**(85.4)**	**(73.2)**	**(9.7)**	**70.3**
Net interest expenses/income	(31.5)	(40.2)	(16.7)	(17.3)	(17.9)	(17.8)
Net foreign exchange gain / (loss)	(39.3)	(23.8)	3.9	(1.5)	3.6	2.4
Profit before tax	**(330.3)**	**(117.5)**	**(98.2)**	**(92.0)**	**(24.1)**	**54.9**
Tax Expense	(67.0)	-	-	-	-	-
Profit after tax (before exc. item)	**(397.3)**	**(117.5)**	**(98.2)**	**(92.0)**	**(24.1)**	**54.9**
Exceptional item: Imp. loss (after tax)	(980.4)	(43.8)	-	-	-	-
Profit after tax	**(1,377.6)**	**(161.4)**	**(98.2)**	**(92.0)**	**(24.1)**	**54.9**

*Includes provisional pricing and hedge effects

**Includes Shipping Costs (Free on Board)

Source: Financial Report 30 June 2015, February Valuation Scenario and Updated Corporate Model

The profit and loss statement includes the commencement of Corunna in FY18 and McPhee in FY19.

In FY15, the Group recorded total revenue of $718.5m and total expenses of $734.9m. Group EBITDA was negative $141.6m.

5. Solvency Analysis of the Group *continued*

5.3.1 FY16

The full year out-turn is based on actuals to 29 February 2016 and the February Valuation Scenario forecast thereafter. FY16 EBITDA is forecast to improve substantially, compared to FY15. This is primarily a result of:

- Temporary shut-down of operations in April 2015 impacting FY15 production, and full year of Mt Webber production ramp-up to 6Mtpa in FY16
- Significant cost savings achieved pursuant to the Contractor Collaboration Deed agreed in mid-2015;
- Cost savings negotiated with BGC at Mount Webber;
- Reduced port charges; and
- Reductions in corporate costs due to organisational restructuring.

5.3.2 FY17-20

In FY17, revenue is forecast to decline due to the cessation of mining activities at Abydos and Wodgina as those mines reach the end of their operating lives. EBITDA is also heavily impacted by a forecast reduction in the Benchmark iron ore price in FY17.

During FY18 to FY20, EBITDA is forecast to increase significantly, primarily due to a further increase in forecast Benchmark iron ore prices. Revenue is also enhanced by the forecast commencement of mining activity at Corunna in FY18 (Corunna is forecast to contribute $5.9m to EBITDA in FY18) and McPhee in FY19.

5.3.3 Conclusion – profit and loss test

The above analysis indicates that the Group is forecast to return positive EBITDA during FY16 and from FY18 onwards, with a limited period of trading losses in FY17.

5.4 Other considerations

In forming our view as to the solvency of the Group, we have considered the additional matters below:

5.4.1 Debt obligations

As at 29 February 2016, TLB Scheme Creditors had secured indebtedness of US$259m (A$363m).

In addition, the Group held Finance Leases totalling $7.5m at the same date.

5.4.2 Impact of the Scheme on the Group's debt obligations

Please refer to the IER.

5.4.3 Audit opinions

The Group's half-yearly audit report at 31 December 2015 contained a note highlighting that the Group's cash flow forecasts include assumptions, the outcomes of which are materially uncertain. These include:

- The implementation of the Scheme (and therefore the debt restructuring);
- The sensitivity of the Group's cash flows to AUD iron ore prices; and
- Production and cost assumptions included in the Group's cash flow forecasts not eventuating.

The auditors state that these uncertainties cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

5. Solvency Analysis of the Group *continued*

We highlight that the Scheme will indirectly deal with these concerns, by reducing the quantum of the Secured Debt and deferring its maturity to April 2021. However, as noted earlier, the volatility of the AUD iron ore price remains a relevant factor to the Group's solvency.

5.5 Conclusion - solvency of the Group immediately following implementation of the proposed Scheme

We are of the opinion that the Group will be solvent immediately following the implementation of the Scheme as:

- The Group is forecast to have positive month end cash balances in the 12 months immediately following the Scheme Date, reducing to a minimum month end cash balance of $21.9m in January 2017 (on the assumption that the Corunna Capex is postponed), which it can utilise to meet its debts as and when they fall due;
- The Group's balance sheet will be in a positive net asset/current asset position following implementation of the Scheme;
- The Group is forecast to generate positive EBITDA in FY16, a reduced EBITDA loss in FY17 (compared to the EBITDA loss incurred in FY15) and positive EBITDA for FY18, FY19 and FY20.

We highlight that the solvency of the Group remains dependent on the forecast improvement in the Benchmark iron ore price incorporated in the Valuation Scenario and compliance with the $35m Minimum Cash Covenant agreed between Atlas and the TLB Scheme Creditors pursuant to the Restructuring.

6

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2. Background
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6. Likely outcome for the Group should the Scheme not be implemented
7. Dividend Analysis - Impact of Insolvency on the TLB Scheme Creditors

6. Likely outcome for the Group should the Scheme not be implemented

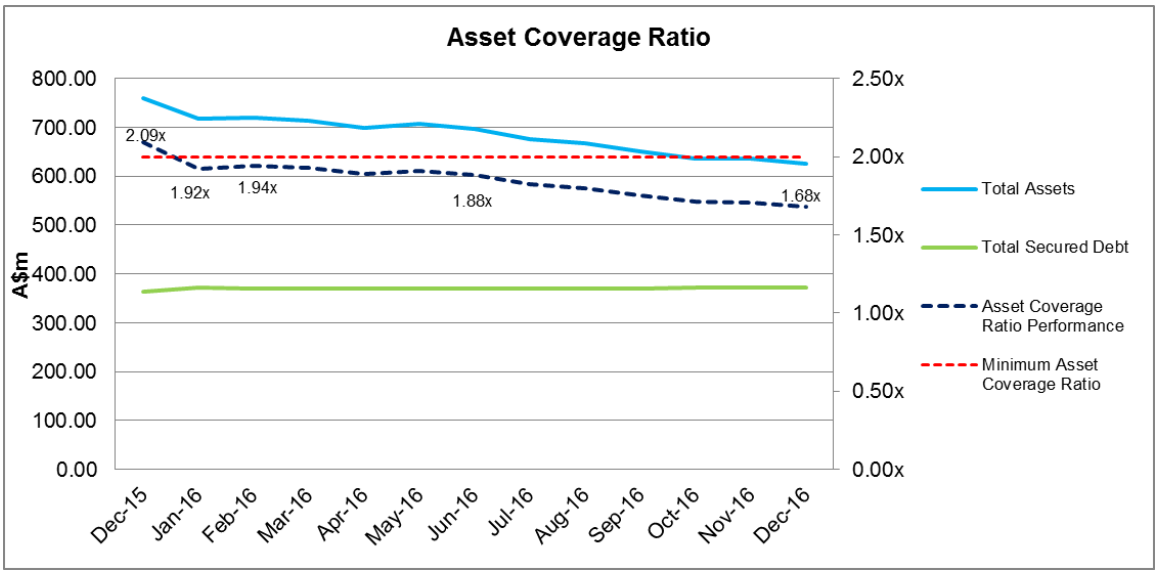
In this section we set out an updated opinion regarding the likely outcome for Atlas should the Scheme not be implemented, based on the updated information set out in section 4.

Clause 7.13 of the SFA states that the Asset Coverage Ratio, as determined on the last day of each semi-annual period, is to be greater than 2:1, i.e. total assets are required to be greater than Secured Debt (plus Finance Leases) by a ratio of 2:1.

6.1 Estimated performance against Asset Coverage Ratio

Atlas was compliant with the Asset Coverage Ratio test at 31 December 2015 (2.09x). The next scheduled test of the covenant is 30 June 2016.

The chart below illustrates the forecast Asset Coverage Ratio based on the February Valuation Scenario from December 2015 to December 2016.



We note that there was a step change in the Asset Coverage Ratio between December 2015 and January 2016, partly due to:

- Decreased cash balance of $76.3m (December: $107.9m) as large volumes of creditors were paid during January 2016; and
- A weaker AUD/USD exchange rate that increased total secured debt (i.e. including the TLB and finance leases, which are included in the covenant calculation) to $373m (December: $362m).

If the Scheme is not implemented the Asset Coverage Ratio is forecast to deteriorate each month to December 2016 as the Secured Debt does not materially change, whilst the Group's total assets are reduced by ongoing depreciation and amortisation of fixed assets.

The chart above highlights that, as at:

- 30 June 2016: Atlas is forecast to breach the Asset Coverage Ratio (1.88x); and
- 31 December 2016: Atlas is forecast to breach the Asset Coverage Ratio (1.68x).

Therefore, whilst we cannot conclusively state that the Asset Coverage Ratio test will show a breach of the covenant in June 2016, we consider that there is a high degree of risk that Atlas will breach the test as at 30 June 2016, based on the February Valuation Scenario forecasts, unless there is an uplift in the AUD/USD exchange rate, improved iron ore prices contributing to greater cash generation (offset to some extent by existing hedges) or an equity injection.

6. Likely outcome for the Group should the Scheme not be implemented *continued*

Furthermore, whilst we cannot conclusively state that the Asset Coverage Ratio test will show a breach as at 31 December 2016, on the basis of the decline in forecast covenant performance at that date, we consider that it is likely that Atlas will breach the test as at 31 December 2016, based on the February Valuation Scenario forecasts, unless there is an uplift in the AUD/USD foreign exchange rate, improved iron ore prices contributing to greater cash generation (offset to some extent by existing hedges) or an equity injection.

6.2 Sensitivity analysis

We have applied five sensitivities to the February Valuation Scenario to reflect movements in two of the key performance drivers of the business, the AUD/USD exchange rate and iron ore price.

To reflect the range of movements in both variables during the last six to 12 months, we have applied the following sensitivities at both June 2016 and December 2016, the next two potential Asset Coverage Ratio covenant testing dates:

Specific sensitivities:

- "28 March FX Scenario": applies the 28 March 2016 AUD/USD exchange rate (0.751) to the February Valuation Scenario; and
- "18 March Price and FX Scenario": applies the 18 March 2018 iron ore price forward curve (as set out in the Updated Daily Working Capital Model) and 18 March 2018 AUD/USD exchange rate (0.765) to the February Valuation Scenario.

General sensitivities:

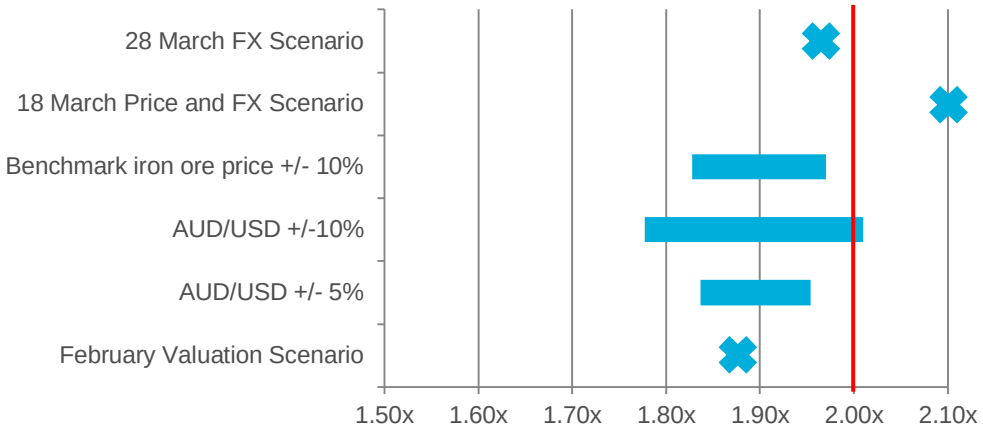
- "Benchmark iron ore price +/- 10%: a 10% positive and negative sensitivity to the iron ore price assumptions in the February Valuation Scenario;
- "AUD/USD +/-10%": a 10% positive and negative sensitivity to the exchange rate assumptions in the February Valuation Scenario; and
- "AUD/USD +/- 5%": a 5% positive and negative sensitivity to the exchange rate assumptions in the February Valuation Scenario.

We highlight that with respect to those sensitivities that amend the Benchmark iron ore price beyond the February Valuation Scenario, the upside in performance against the covenant generated by the sensitivity may be reduced by the impact of hedging put in place by the Group, which in some cases limits the upside that may be available to Atlas as a result of improved Benchmark iron ore prices, particularly in the period up to 30 June 2016.

6. Likely outcome for the Group should the Scheme not be implemented *continued*

6.2.1 30 June 2016

Forecast Asset Coverage Ratio: June 2016 - Sensitivity Analysis



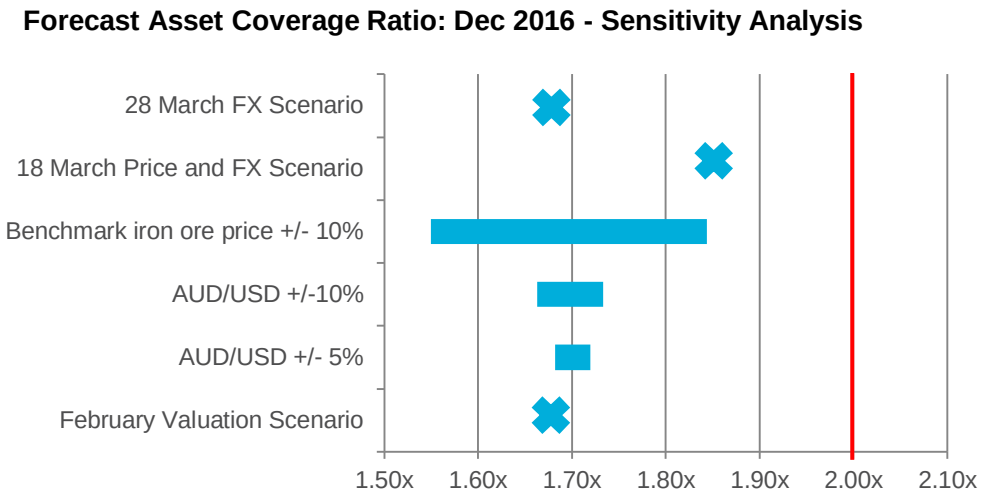
The above chart illustrates that at 30 June 2016:

- Based on the February Valuation Scenario, Atlas is forecast to breach the Asset Coverage Ratio (1.88x) before applying sensitivities;
- Applying the 28 March 2016 AUD/USD exchange rate to the February Valuation Scenario shows Atlas breaching the Asset Coverage Ratio (1.96x)
- Applying the 18 March 2016 AUD/USD exchange rate and Benchmark iron ore price forward curve shows Atlas complying with the Asset Coverage Ratio (2.10x). However, in respect of this scenario, we reiterate that the sensitivity analysis modelling does not take into account the effect of the Group's iron ore price hedging, which may limit the upside available to Atlas from the improved pricing in this scenario;
- A 10% increase in the iron price between March and June is unlikely to result in Atlas complying with the covenant (note also our comments above with respect to the impact of improved Benchmark iron ore prices); and
- A 10% increase in AUD/USD exchange rate appears to be sufficient for Atlas to comply with the covenant.

The sensitivity analysis as at 30 June 2016 shows a wide range of potential outcomes with respect to the Asset Coverage Ratio test. Whilst the 18 March Price and FX Scenario shows Atlas complying with the covenant as at 30 June 2016, there are limitations in respect of the upside available under this scenario. Taking into account the range of potential outcomes, we consider that there is a high degree of risk that Atlas will breach the Asset Coverage Ratio test as at 30 June 2016 in the event the Scheme is not implemented.

6. Likely outcome for the Group should the Scheme not be implemented *continued*

6.2.2 31 December 2016



We have applied the sensitivities outlined in section 6.2 to the forecast Asset Coverage Ratio as at 31 December 2016.

The chart above illustrates that at 31 December 2016:

- Based on the February Valuation Scenario, Atlas is forecast to breach the Asset Coverage Ratio (1.68x) before applying sensitivities;
- Applying the 28 March 2016 AUD/USD exchange rate to the February Valuation Scenario shows Atlas breaching the Asset Coverage Ratio (1.67x)
- Applying the 18 March 2016 AUD/USD exchange rate and Benchmark iron ore price forward curve shows Atlas breaching with the Asset Coverage Ratio (1.85x). However, in respect of this scenario, we reiterate that the sensitivity analysis modelling does not take into account the effect of the Group's iron ore price hedging, which may limit the upside available to Atlas from the improved pricing in this scenario;
- A 10% increase in the iron price between March and June is unlikely to result in Atlas complying with the covenant (note also our comments above with respect to the impact of improved Benchmark iron ore prices); and
- A 10% increase in AUD/USD exchange rate appears to be insufficient for Atlas to comply with the covenant.

The sensitivity analysis as at 31 December 2016 shows that under each of the sensitivities applied, Atlas is forecast to breach the Asset Coverage Ratio test.

We consider that, in the event that the Scheme is not implemented and that Atlas passes the Asset Coverage Ratio test at 30 June 2016, it is likely that Atlas will breach the covenant at 31 December 2016 unless there is a significant uplift in the AUD/USD exchange rate and/or the iron ore price (beyond the sensitivities outlined above), or an equity injection.

6.2.3 Effect of impairment testing on the Asset Coverage Ratio test

Adjustments made to the book value of Atlas' fixed assets, in consultation with the Group's auditors, at the date of Atlas' half year and full year audited accounts (i.e. 30 June and 31 December) may have an impact on Atlas' performance against the Asset Coverage Ratio test. It is not possible to predict with any degree of accuracy what, if any, impairment adjustments will be required at each reporting date, as any adjustments required will depend on a range of factors including the long term forecasts for the Group at that particular reporting date. However, we note that any further

impairment adjustments would likely put further downward pressure on Atlas' performance against the Asset Coverage Ratio test.

6.3 Potential reclassification of the TLB debt from non-current to current in the 31 December 2016 audited accounts

As the maturity date of the TLB debt is 10 December 2017, the debt will be re-classified from non-current to current in the half-yearly audited accounts at 31 December 2016.

Once the debt is re-classified the directors would need to carefully consider whether the debt could be repaid or refinanced within the following 12 months.

Without a substantial improvement in the iron ore price above the February Valuation Scenario, we consider that the Group would be unable to refinance the debt and therefore the directors would need to consider appointing an External Administrator at that time.

6.4 Estimated outcome for the Group should the Scheme not be implemented

As discussed in section 6.1.1, if the Scheme is not implemented, we consider that there is a high degree of risk that that Atlas will breach the Asset Coverage Ratio test at 30 June 2016 and that it is likely that Atlas will breach the Asset Coverage Ratio test at 31 December 2016.

Such a breach would allow the TLB Scheme Creditors to call for the immediate repayment of the Secured Debt. It is unlikely that the Group would have sufficient liquidity or be able to raise sufficient capital/external finance to repay the Secured Debt in such a short timeframe.

If this were to occur, it would be likely to result in the Group becoming insolvent and either the Group appointing Voluntary Administrators or the TLB Scheme Creditors appointing Receivers and Managers to the Obligors (or both appointments occurring concurrently).

Furthermore, even if the Asset Coverage Ratio was not breached, the potential reclassification of the TLB Debt from non-current to current at December 2016 may result in the Group's directors appointing an External Administrator if a refinancing does not appear possible.

6.5 Impact of appointment of External Administrators to Atlas

Please refer to the IER.

6.6 Conclusion – the likely outcome for the Group should the Scheme not be implemented

If the Scheme is not implemented, we consider that there is a high degree of risk that Atlas will breach the Asset Coverage Ratio test at 30 June 2016 and that it is likely that Atlas will breach the Asset Coverage Ratio test as at 31 December 2016, unless there is an improvement in the Benchmark iron ore price, AUD/USD exchange rate or an equity injection.

If the Asset Coverage Ratio is breached, the Group is likely to become insolvent and an External Administrator would be appointed to the Group.

The External Administrator would look to realise the assets of the Group on either an operating sale basis, or a piecemeal basis, as described in the IER.

7

7. Dividend Analysis - Impact of Insolvency on the

The scope of this engagement requires us to provide revised estimated outcome statements showing estimated dividends payable to the TLB Lenders and the Subordinate Claim Holders:

i. As at 30 June 2016 and 31 December 2016 (or any other date which, in our opinion, would be a date on which the Scheme Company would be wound up) if the Scheme is not implemented;

ii. As at 30 April 2016, assuming the Scheme is implemented; and

iii. In each case reflecting the updated value of the Scheme Company's assets following the update to the valuation report annexed to the IER.

Accordingly, we have applied the methodology in section 7 of the IER to the updated forecast based on the February Valuation Scenario.

7.1 Dividend to TLB Scheme Creditors and Subordinate Claim Holders if Atlas is wound up on 30 June 2016 or 31 December 2016 – assuming the Scheme has not been implemented

This section of the report has been updated on the same basis as the IER.

7.1.1 Estimated outcome statement at 30 June 2016 – assuming the Scheme has not been implemented

In section 6 we concluded that, in the absence of the Scheme, there is a high degree of risk that Atlas will breach the Asset Coverage Ratio test at 30 June 2016.

Estimated outcome statement - 30 June 2016

		Valuation		Closedown		Operating Sale	
$'m	Notes	Low	High	Low	High	Low	High
Producing Projects		236.0	247.1	-	-	236.0	247.1
Distress value erosion				-	-	*(165.2)*	*(123.6)*
Development Projects (McPhee and Corunna)		281.8	303.2	-	-	28.2	91.0
Exploration Projects		48.0	123.6	-	-	4.8	12.4
Investments		0.2	0.2	0.2	0.2	0.2	0.2
Option value of projects in a Closedown		-	-	5.0	10.0	-	-
Balance Sheet assets as at 30 June 2016							
Cash	1			67.9	67.9	67.9	67.9
Receivables	1			35.1	44.5	-	-
Inventory	1			6.0	8.9	-	-
Other receivables	1			-	2.9	-	-
Property, plant and equipment	1			6.5	13.0	-	-
Total Asset value		**566.0**	**674.1**	**120.8**	**147.4**	**171.9**	**295.0**
Less:							
Trading costs	2			-	-	(2.5)	(0.7)
Duress creditors				-	-	(15.0)	(10.0)
Limited Care and maintenance				(0.5)	(0.3)	-	-
External Administrator costs				(5.0)	(3.0)	(8.0)	(6.0)
Legal costs				(1.0)	(0.5)	(3.0)	(2.0)
Sales Advisor Costs				-	-	(1.4)	(2.5)
Employee termination costs				(7.3)	(6.8)	(5.8)	(3.6)
Net Receivership Realisations				**107.0**	**136.9**	**136.1**	**270.2**
Forecast TLB debt at 30 June 2016				(361.0)	(361.0)	(361.0)	(361.0)
Surplus / (Shortfall) to TLB Scheme Creditors				**(254.0)**	**(224.1)**	**(224.9)**	**(90.8)**
TLB Scheme Creditor Recovery (cents in the A$)				*29.6*	*37.9*	*37.7*	*74.8*
Unsecured creditors				(203.0)	(203.0)	(203.0)	(203.0)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders				**(457.0)**	**(427.1)**	**(427.9)**	**(293.8)**

Source: PPBA Valuation and February Valuation Scenario

Notes and Key Assumptions

Our notes and key assumptions underpinning the above outcome statement remain unchanged from the IER except the following:

7. Dividend Analysis - Impact of Insolvency on the TLB Scheme Creditors *continued*

1. We have updated the value of these balance sheet items, but the discounts applied are in line with the IER; and
2. Lower trading costs compared with the IER analysis reflect more profitable trading during July and August 2016 under the February Valuation Scenario.

We have used the forecast cash balance from the February Valuation Scenario as the basis for the realisable cash available as at 30 June 2016, adjusted as follows:

Cash book value at 30 June 2016

	$'m
Cash balance assuming Scheme is implemented per Updated Corporate Model	**68.4**
Less:	
$10m working capital benefit not achieved in May 2016 if Scheme not implemented	(10.0)
Additional interest payments on full TLB debt	(3.5)
Add:	
US$2.5m payment not made to TLB Scheme Creditors	3.5
Professional adviser success fees not incurred	9.5
Cash balance assuming Scheme is not implemented	**67.9**

We note that if the Scheme is implemented, all accrued interest would be paid at the Implementation Date.

7.1.2 Estimated outcome statement at 31 December 2016 – assuming the Scheme has not been implemented

If the Group passes the Asset Coverage Ratio test at 30 June 2016, it will be re-tested as at 31 December 2016. In section 6 we concluded that it is likely that Atlas will breach the Asset Coverage Ratio test at 31 December 2016.

Whilst 31 December 2016 is outside the window of six months from the Scheme Hearing Date (as set out in the Engagement Letter dated 17 December 2015), we have nevertheless prepared the analysis to provide an additional reference point for the Scheme Creditors.

7. Dividend Analysis - Impact of Insolvency on the TLB Scheme Creditors *continued*

Estimated outcome statement - 31 December 2016

		Valuation		Closedown		Operating Sale	
$'m	Notes	Low	High	Low	High	Low	High
Producing Projects		236.0	247.1	-	-	236.0	247.1
Distress value erosion				-	-	*(165.2)*	*(123.6)*
Development Projects (McPhee and Corunna)		281.8	303.2	-	-	28.2	91.0
Exploration Projects		48.0	123.6	-	-	4.8	12.4
Investments		0.2	0.2	0.2	0.2	0.2	0.2
Option value of projects in a Closedown		-	-	5.0	10.0	-	-
Balance Sheet assets as at 31 December 2016							
Cash	1			33.4	33.4	33.4	33.4
Receivables				34.4	43.5	-	-
Inventory				6.2	9.1	-	-
Other receivables				-	2.9	-	-
Property, plant and equipment				6.1	12.1	-	-
Total Asset value		**566.0**	**674.1**	**85.2**	**111.3**	**137.4**	**260.5**
Less:							
Trading costs	2			-	-	-	-
Duress creditors				-	-	(15.0)	(10.0)
Limited Care and maintenance				(0.5)	(0.3)	-	-
External Administrator costs				(5.0)	(3.0)	(8.0)	(6.0)
Legal costs				(1.0)	(0.5)	(3.0)	(2.0)
Sales Advisor Costs				-	-	(1.4)	(2.5)
Employee termination costs				(7.3)	(6.8)	(5.8)	(3.6)
Net Receivership Realisations				**71.5**	**100.7**	**104.1**	**236.4**
Forecast TLB debt at 31 December 2016				(359.8)	(359.8)	(359.8)	(359.8)
Surplus / (Shortfall) to TLB Scheme Creditors				**(288.3)**	**(259.1)**	**(255.7)**	**(123.4)**
TLB Scheme Creditor Recovery (cents in the A$)				*19.9*	*28.0*	*28.9*	*65.7*
Unsecured creditors				(188.6)	(188.6)	(188.6)	(188.6)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders				**(476.9)**	**(447.7)**	**(444.3)**	**(312.0)**

Source: PPBA Valuation and February Valuation Scenario

Notes and Key Assumptions

Our notes and key assumptions underpinning the above outcome statement remain unchanged from the IER except the following:

1. We have used the forecast cash balance from the February Valuation Scenario as the basis for the realisable cash available as at 31 December 2016, adjusted as follows:

   Cash book value at 31 December 2016

	$'m
Cash balance assuming Scheme is implemented per Updated Corporate Model	**44.3**
Less:	
$10m working capital benefit not achieved in May 2016 if Scheme not implemented	(10.0)
Additional interest payments on full TLB Debt	(13.9)
Add:	
US$2.5m payment not made to TLB Scheme Creditors	3.5
Professional adviser success fees not incurred	9.5
Cash balance assuming Scheme is not implemented	**33.4**

   We note that an additional $13.9m of interest payments are to be made between July and December 2016 if the Scheme is not implemented. The cash balance is also adversely impacted by forecast trading performance during the second half of 2016.

2. Under the February Valuation Scenario, the Group is forecast to generate $5m of cash during January and February 2017. We have not reflected this potential trading profit in the above analysis in order to reflect a prudent position.

7. Dividend Analysis - Impact of Insolvency on the TLB Scheme Creditors *continued*

7.1.3 Conclusion: estimated return to the TLB Scheme Creditors in the event that the Scheme is not implemented

In an insolvency scenario as at 30 June 2016 the TLB Scheme Creditors are:

- Highly unlikely to be repaid in full in respect of their debt; and
- Likely to receive a return in the range of $107m to $270.2m, which equates to a dividend in the range of c.29.6 to c.74.8 cents in the dollar against their forecast Secured Debt of c.$361m.

In an insolvency scenario as at 31 December 2016 the TLB Scheme Creditors are:

- Highly unlikely to be repaid in full in respect of their debt; and
- Likely to receive a return in the range of $71.5m to $236.4m, which equates to a dividend in the range of c.19.9 to c.65.7 cents in the dollar against their forecast Secured Debt of c.$360m.

7.1.4 Conclusion: estimated return to Subordinate Claim Holders if the event that the Scheme is not implemented

The analysis above indicates that if the Scheme is not implemented and External Administrators are appointed to Atlas, then there will be a shortfall against the claims of the TLB Scheme Creditors under the scenarios described in section 6.1.3 of the IER. Accordingly, there will be no funds available to pay a dividend to any Subordinate Claim Holders.

We note that the above conclusion excludes any return that may be available to Subordinate Claim Holders through the Net Proceeds, which, in accordance with our instructions, we are not required to quantify.

We also highlight that the forecast deterioration in the TLB Scheme Creditors' recovery position between 30 June 2016 and 31 December 2016 would be a factor in the TLB Creditors' decision as to whether to enforce their security if a breach of the Asset Coverage Ratio test were to occur as at 30 June 2016.

7.2 Estimated dividend payable to the TLB Lenders and the Subordinate Claim Holders as at 30 April 2016, assuming the Scheme is implemented

The basis of this analysis in unchanged from the IER, however we have updated the relevant numbers to reflect the February Valuation Scenario.

7. Dividend Analysis - Impact of Insolvency on the TLB Scheme Creditors *continued*

Estimated outcome statement - 30 April 2016

		Valuation		Closedown		Operating Sale	
$'m	Notes	Low	High	Low	High	Low	High
Producing Projects		236.0	247.1	-	-	236.0	247.1
Distress value erosion				-	-	*(165.2)*	*(123.6)*
Development Projects (McPhee and Corunna)		281.8	303.2	-	-	28.2	91.0
Exploration Projects		48.0	123.6	-	-	4.8	12.4
Investments		0.2	0.2	0.2	0.2	0.2	0.2
Option value of projects in a Closedown		-	-	5.0	10.0	-	-
Balance Sheet assets as at 30 April 2016							
Cash	1			57.9	57.9	57.9	57.9
Receivables	1			35.5	44.9	-	-
Inventory	1			6.0	8.9	-	-
Other receivables	1			-	2.9	-	-
Property, plant and equipment	1			6.6	13.3	-	-
Total Asset value		**566.0**	**674.1**	**111.2**	**138.1**	**161.9**	**285.0**
Less:							
Trading costs	2			-	-	-	-
Duress creditors				-	-	(15.0)	(10.0)
Limited Care and maintenance				(0.5)	(0.3)	-	-
External Administrator costs				(5.0)	(3.0)	(8.0)	(6.0)
Legal costs				(1.0)	(0.5)	(3.0)	(2.0)
Sales Advisor Costs				-	-	(1.4)	(2.5)
Employee termination costs				(7.3)	(6.8)	(5.8)	(3.6)
Net Receivership Realisations				**97.5**	**127.5**	**128.6**	**260.9**
Forecast TLB debt at 30 April 2016				(189.1)	(189.1)	(189.1)	(189.1)
Surplus / (Shortfall) to TLB Scheme Creditors				**(91.6)**	**(61.6)**	**(60.5)**	**71.8**
TLB Scheme Creditor Recovery (cents in the A$)				*51.5*	*67.4*	*68.0*	*100.0*
Unsecured creditors				(188.6)	(188.6)	(188.6)	(188.6)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders				**(280.2)**	**(250.2)**	**(249.1)**	**(116.8)**

Source: PPBA Valuation and February Valuation Scenario

7.2.1 Notes and key assumptions

Our notes and key assumptions underpinning the above outcome statement remain unchanged from the IER except for the following:

1. We have updated the value of these balance sheet items, but the discounts applied are in line with the IER.
2. Under the February Valuation Scenario, the Group is forecast to generate cash of $6.9m during May and June 2016. We have not reflected this potential trading profit in the above analysis in order to reflect a conservative position.

7.2.2 Conclusion: estimated return to the TLB Scheme Creditors in the event that the Scheme is implemented

In a winding up of the Group immediately following implementation of the Scheme, the TLB Scheme Creditors would likely receive a return in the range of $97.5m to $189.1m, which equates to a dividend in the range of c.52 to 100 cents in the dollar against their Secured Debt of c.$189m.

Following the implementation of the Scheme, the TLB Scheme Creditors' shareholdings in Atlas will be subordinated to Atlas' unsecured creditors. However, we note our conclusion in section 5.5 states that Atlas will be solvent immediately following implementation of the Scheme.

7.2.3 Conclusion: estimated return to Subordinate Claim Holders in the event that the Scheme is implemented

The analysis above indicates that if the Scheme is implemented and External Administrators are appointed to Atlas, then there will be a shortfall against the claims of the TLB Scheme Creditors

7. Dividend Analysis - Impact of Insolvency on the TLB Scheme Creditors *continued*

under the scenarios described in section 6.1.3 of the IER, except in a high Operating Sale Scenario. However, in this scenario, we estimate that any surplus funds will be fully absorbed by unsecured creditor claims and therefore there will be no return to Subordinate Claim Holders (excluding through the Net Proceeds, which, in accordance with our instructions, we are not required to quantify).

A. Additional Supplementary Instructions Letter

Appendix A. Additional Supplementary Instructions Letter

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22 March 2016

BY EMAIL
CONFIDENTIAL & PRIVILEGED

Philip Carter
PPB Advisory
Level 7
8 - 12 Chifley Square
SYDNEY NSW 2000

Dear Philip

Request for supplementary expert report in relation to Creditors' Scheme of Arrangement of Atlas Iron Limited

We refer to our letter of engagement dated 19 December 2015 and our supplementary letter of instruction dated 23 February 2016 (**Letters of Instruction**). Capitalised terms used in this letter have the same meaning as set out in our Letters of Instruction, unless otherwise defined.

1. **BACKGROUND**

On 18 March 2016, we received comments from the Australian Securities and Investments Commission (**ASIC**) in relation to the Scheme Company's draft explanatory statement as well as your independent expert report dated 24 February 2016 (**IER**). You have been provided with ASIC's letter dated 18 March 2016 to the Scheme Company.

We are instructed to request that you to prepare a supplementary independent expert report to address certain matters raised by ASIC.

You have been provided with an updated financial model in respect of the Scheme Company as at 21 March 2016 (**21 March Model**).

2. **SUPPLEMENTARY INSTRUCTIONS**

You are instructed to prepare a further independent expert report to supplement the IER. Your supplementary report should address each of the matters set out below.

2.1 **Valuation Report – Annexure D to IER**

Please provide an updated opinion of the value of the assets of the Group generally, and relative to the debt owing to the TLB Scheme Creditors under the SFA, as at 29 February 2016. Your supplementary analysis should:

(a) review (and amend where appropriate) the AUD / USD exchange rate utilised in the valuation report;

(b) include the latest iron ore price forward curve (together with any updated independent iron ore price forecasts) available at or around the valuation date; and

Appendix A. Additional Supplementary Instructions Letter

(c) update or amend any ancillary items or calculations (including the sensitivity analysis at Figure 22 of the Valuation Report) where appropriate.

2.2 **IER**

Please address and update each of the following corresponding sections of the IER in your supplementary report:

(a) **Section 1**: provide updated conclusions on the matters set out in our Letters of Instruction based on the revised output from the remainder of your supplementary report;

(b) **Section 2**: provide a brief explanation of the background to your supplementary report (including annexing this letter);

(c) **Section 3**: provide an updated summary of the value of the Scheme Company's assets following completion of a revised valuation analysis requested in paragraph 2.1 above;

(d) **Section 4**: identify all updated source material used in preparing your supplementary report (including the 21 March Model);

(e) **Section 5**: provide an updated solvency and profit and loss analysis for the Group based on the 21 March Model and an updated balance sheet analysis based on the Scheme Company's audited accounts for 31 December 2015;

In preparing your updated solvency analysis, you are to assume that the Minimum Cash Covenant, under the Amended Syndicated Facility Agreement, following implementation of the Scheme will be A$35 million.

(f) **Section 6**: provide:

(i) an updated forecast of the Scheme Company's performance against the Asset Coverage Ratio (as defined in the IER) as at 30 June 2016 and 31 December 2016 based on the 21 March Model (assuming that the Scheme is not implemented);

(ii) a sensitivity analysis demonstrating the impact of potential movements in the AUD / USD exchange rate, the iron ore price and impairment adjustments (with particular reference to the sensitivity analysis in Figure 22 of the Valuation Report, as updated, and any other variables you consider to be relevant) on the Asset Coverage Ratio as at 30 June 2016 and 31 December 2016; and

(iii) your opinion on the potential impact of reclassification of the TLB debt from non-current to current in the 31 December 2016 accounts; and

(g) **Section 7**: provide revised estimated outcome statements showing estimated dividends payable to the TLB Lenders and the Subordinate Claim Holders (in the case of Subordinate Claim Holders, excluding any Net Proceeds (as that term is defined in the IER)):

(i) as at 30 June 2016 and 31 December 2016 (or any other date which, in your opinion, would be a date on which the Scheme Company would be wound up) if the Scheme is not implemented;

(ii) as at 30 April 2016, assuming the Scheme is implemented; and

Appendix A. Additional Supplementary Instructions Letter

(iii) in each case reflecting the updated value of the Scheme Company's assets following your update to the valuation report annexed to the IER.

Please contact James Marshall or Matt Benson should you require any further information or confirmation, or if you have any questions or issues in relation to this letter or otherwise.

Yours faithfully

Ashurst Australia

Ashurst Australia

338666952.05

ashurst

B. Supplementary Valuation Report

Atlas Iron Limited

Valuation of business

at 29 February 2016

PPB ADVISORY

30 March 2016

Mr James Marshall
Partner
Ashurst Australia
Level 11, 5 Martin Place
Sydney NSW 2000

Dear Mr Marshall

Valuation of Atlas Iron Limited

PPB Advisory has been engaged to prepare a valuation report ("Valuation Report") on the fair market value of Atlas Iron Limited ("Atlas" or "the Company") as at 29 February 2016 for the purposes of the proposed scheme of arrangement between Atlas and its creditors under Part 5.1 of the Corporations Act ("Scheme"). The Scheme will have the effect of restructuring the debt owing to the lenders under the Syndicated Facility Agreement. The valuation has been undertaken in accordance with our engagement letter dated 17 December 2015 and subsequent instruction letter from Ashurst dated 22 March 2016. We previously prepared a valuation report as at 30 November 2015, which is now superseded by this Valuation Report as at 29 February 2016 ("Valuation Date").

This Valuation Report is to be appended to the Supplementary Independent Expert Report in relation to the Scheme and is provided for the above purpose only. It should not be used or relied upon for any other purpose, nor should it be disclosed to or discussed with any other party (except relevant statutory authorities or your professional advisors acting in that capacity, provided they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) without our prior written consent.

We have determined that the fair market value of Atlas, on an ungeared basis, is between $565.99 million and $674.14 million. No value within the range is any more or less appropriate than any other value in the range. In the event that a single value is required, we would recommend the adoption of the mid-point of our valuation range of $620.07 million.

In preparing this Valuation Report, we have considered and relied upon information provided by the management of Atlas ("Management"). We consider, on reasonable grounds, that this information is reliable and not misleading. In this regard, Management has represented to us that all information held by the Company that may influence our opinion has been provided to us and is accurate and complete.

A summary of information we have received and used in our valuation is outlined in Appendix A. This information has been obtained from a variety of sources as indicated within the Valuation Report. While our work has involved analysis of financial information and accounting records, it has not included an audit or a review in accordance with generally accepted auditing and assurance standards. Accordingly, we assume no responsibility for and make no representations with respect to the accuracy or completeness of any information provided to us by and on your behalf.

Management has reviewed a draft version of this report and has confirmed that the information provided to us and presented in this report is accurate and that no significant information essential to our Valuation Report has been withheld.

This letter should be read in conjunction with our full Valuation Report that is attached.

Yours sincerely

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Fiona Hansen
Director
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Appendices

Glossary

Term	Definition
Agreements	On 23 December 2015, Atlas announced it had signed a Restructuring Support Agreement (the Scheme) with more than 75% of the TLB Lenders and an amendment to its existing Syndicated Facility Agreement
Al_2O_3	Aluminium oxide
APES 225	Accounting Professional & Ethical Standards Board Limited professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Atlas or the Company	Atlas Iron Limited
AUD/$	Australian dollars
BIF	Banded Iron Formation
Bt	Billion (metric) tonnes
CaFe	Calculated calcined Fe grade where CaFe=(Fe%/(100-LOI%))*100
CAPM	Capital Asset Pricing Model
Centaurus	Centaurus Metals Limited. Atlas owns 60,320,264 shares equivalent to an 11.567% interest at 29 February 2016
CFR	Cost plus freight
CGB	Commonwealth Government Bond
Completed Projects	Projects recently completed that are under "care and maintenance" – comprising Pardoo and Mount Dove
Contractor Collaboration Deed	Deed dated 14 April 2015 between Atlas, MACA Mining Pty Ltd, McAleese Resources Pty Ltd and Qube Bulk Pty Ltd
Corporate Model	Financial model prepared by Management of Atlas for the Production Projects and McPhee
Corunna	Corunna Downs Development Project
Corunna Model	Financial model prepared by Management of Atlas for Corunna
CSI	Crushing Services International
DCF	Discounted cash flow
Development Projects	Projects currently in development with production imminent - comprising Corunna and McPhee
dmt	Dry metric tonne
DSO	Direct Shipping Ore
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest tax depreciation and amortization
EV	Enterprise Value – calculated as equity plus debt minus cash
EEA	Exploration, Evaluation and Approvals
Exploration Projects	Early stage projects where no resources have been defined
Fe	Iron
Financial Models	The Corporate Model and the Corunna Model, collectively
FOB	Free On Board. This refers to the price received for Atlas' iron ore product in a scenario where the purchaser pays for shipping, insurance and all other costs associated with the transportation of the goods to their destination
FY	Financial Year ending or ended 30 June

Term	Definition
Horizon II	The second phase of growth projects which will expand the Company's production base by expansion of its North Pilbara production, development of its South East Pilbara Resources and participation in port and rail developments to provide a supporting logistics chain.
HY	Half year ended 31 December 2015
Independent Expert's Report	Independent Expert's Report in relation to the Scheme
Independent Forecasters	Four independent forecasters engaged by the Management of Atlas to present forecast iron ore prices and AUD/USD exchange rates
Indicated (Mineral) Resource	That part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve.
Inferred (Mineral) Resource	That part of a Mineral Resource for which quantity and grade (or quality) is estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to an Ore Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration.
JORC	Australasian Joint Ore Reserves Committee. The JORC Committee was established in 1971 and is sponsored by the Australian mining industry and its professional organisations. The Committee comprises representatives of each of the three parent bodies: The Minerals Council of Australia, The Australasian Institute of Mining and Metallurgy, and the Australian Institute of Geoscientists; as well as representatives of the ASX, the Financial Services Institute of Australasia and the accounting profession. The Committee is responsible for the development and ongoing update of the JORC Code.
Kd	Cost of debt
Ke	Cost of equity
Km	Kilometres
Kt	Thousand (metric) tonnes
LOI	Loss on ignition
LOM	Life of mine
Management	The management of Atlas
McAleese	McAleese Resources Pty Ltd
McPhee	The McPhee Creek project, is part of the Company's growth program that targets the expansion of the Company's production base
Measured (Mineral) Resource	That part of a Mineral Resource for which quantity, grade (or quality), densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proved Ore Reserve or under certain circumstances to a Probable Ore Reserve.
MEE	Multiple of Exploration Expenditure
Mineral Resource/s	A concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

Term	Definition
Modifying Factors	Are considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors.
MRP	Market Risk Premium (Rm – Rf) represents the risk associated with holding a market portfolio of investments, that is, the difference between the expected return on holding the market portfolio and the risk free rate. It represents the additional return above the risk free rate that investors seek to invest in equity securities.
Mt	Million (metric) tonnes
mth	Month
Mtpa	Million (metric) tonnes per annum
Mwmt	Million wet metric tonnes
NBV	Net book value
NWI	NWI Pty Ltd. A port development joint venture (formerly the North West Iron Ore Alliance) in which Atlas has an investment of 63%.
Ore Reserve/s	The economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.
pa	Per annum
PEM	Prospectivity Enhancement Multiplier
PFS	Pre-Feasibility Study
Pre-Development Projects	The following projects are collectively referred to as Pre-Development Projects: Anthiby Well, Farrell's Well (including Miralga Creek), Hickman, Jigalong (Davidson Creek Hub), Jimblebar, Warrawanda, Weld Range (Mid West) and Western Creek.
Probable (Ore) Reserve	The economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve.
Production Projects	Projects currently in production – comprising Wodgina, Abydos and Mount Webber
Proved (Ore) Reserve	The economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors.
Qube	Qube Bulk Pty Ltd
RC	Reverse Circulation (drilling)
Resource Multiple	Enterprise value per unit of contained Fe (in Mineral Resource)
Rf	Risk free rate
Scheme	The scheme of arrangement between Atlas and the Scheme Creditors under Part 5.1 of the Corporations Act
Shaw	Shaw River Manganese Limited
SiO2	Silicon dioxide
TLB Lenders	The term lenders that are party to the Restructuring Support Agreement
USD	US Dollars
VALMIN	The VALMIN Committee is a joint committee of The Australasian Institute of Mining and Metallurgy (AusIMM) and the Australian Institute of Geoscientists. The committee was established to develop and maintain the "Australasian Code for Public Reporting of technical assessments and valuations of mineral assets", commonly known as the VALMIN Code.
Valuation	Valuation of the business of Atlas as at the Valuation Date
Valuation Date	29 February 2016
Valuation Report	This report prepared by PPB Advisory

Term	Definition
VWAP	Volume Weighted Average share Price
WACC	Weighted Average Cost of Capital
wmt	Wet metric tonne
YTD	Year to date

All dollars ($) referred to in this report are Australian dollars unless stated otherwise.

1. Executive summary

Purpose and Scope	PPB Advisory has been engaged to prepare this Valuation Report setting out our opinion as to the fair market value of Atlas. The valuation has been undertaken as at 29 February 2016 ("Valuation Date"). This Valuation Report has been prepared for the purposes of the proposed Scheme. The Scheme will have the effect of restructuring the debt owing to the lenders under the Syndicated Facility Agreement. The Valuation has been undertaken in accordance with our engagement letter dated 17 December 2015 and subsequent instruction letter from Ashurst dated 22 March 2016. This Valuation Report superceedes our previous valuation report as at 30 November 2015 and is to be appended to the Supplementary Independent Expert Report in relation to the proposed Scheme of Arrangement. Our valuation has been undertaken in accordance with the Accounting Professional & Ethical Standards Board Limited professional standard APES 225 '*Valuation Services'* ("APES 225"). This engagement is considered to be a Valuation Engagement under APES 225.
Definition of Value	We have used the generally accepted definition of fair market value, as set out below: *"The price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length."* This definition is based on a hypothetical transaction between a hypothetical willing buyer and a hypothetical willing seller and assumes that a transaction will occur, even if, for market or other reasons, a transaction will not, or is unlikely to occur. We have not taken special value into account.
Valuation Method	We have valued Atlas using the sum of the parts, due to the discrete nature of the activities of Atlas including production, development and exploration. Atlas also has investments and other assets and liabilities. We have used the following valuation methodologies to value the parts of Atlas: ***Production Projects and Development Projects*** – Income approach, specifically the Discounted Cash Flow ("DCF") method. We used an after tax discount rate in the range of 12% to 13% to discount the future after tax cash flows of the Production Projects and the Development Projects to their net present values. ***Exploration Projects*** – Cost approach, specifically the Multiple of Exploration Expenditure ("MEE") methodology which considers the costs incurred in connection with the exploration and development of a project and applies a Prospectivity Enhancement Multiplier ("PEM") which adjusts the exploration expenditure base depending on the degree to which the past exploration expenditure has improved (or diminished) the prospectivity of the tenement. ***Pre-Development Projects –*** Combination of the cost approach as used for the Exploration Projects and the market approach – specifically the comparable trading methodology, which estimates the value of the subject asset or project based on a comparison of the market value of publicly traded companies and the contained iron ("Fe") in their Mineral Resources. ***Investment and other assets*** – Cost approach. Our valuation methodologies are set out at Appendix B.
Valuation Opinion	We have determined that the fair market value of the business of Atlas, on an ungeared basis, is between $565.99 million and $674.14 million (refer to Section 9.1 of the Valuation Report). No value within the range is any more or less appropriate than any other value in the range. In the event that a single value is required, we would recommend the adoption of the mid-point of our valuation range of $620.07 million.

Cross Checks	We have assessed the reasonableness of our valuation by: • calculating the implied earnings before interest tax depreciation and amortisation ("EBITDA") multiples of Atlas and comparing them to comparable listed companies – refer to Appendix C for descriptions of the comparable listed companies used • calculating the net asset value of the Company • considering the prices at which the Company's shares have traded on the Australian Securities Exchange ("ASX").
Qualifications & Limitations	Our qualifications and limitations are included in Section 10 of this report, and should be read in conjunction with the analysis and conclusions outlined above and throughout this report.

2. Company background

2.1. Business overview

Atlas Iron Limited is an Australian company, focussed on mining and exporting Direct Shipping Ore ("DSO") from its operations in the Northern Pilbara region of Western Australia. Atlas listed on the ASX in December 2004.

The Company's main operating activity is the discovery, development and mining of DSO deposits in locations within proximity of its existing infrastructure. Its current projects include established iron ore mines, near-term development projects and exploration projects ranging from greenfields to advanced pre-development projects. The Company has three operational mines and a number of other projects at varying stages of development.

The Company's portfolio of existing projects covers an area in excess of 5,000km squared located in the northeast Pilbara and the Midwest of Western Australia.

The Company ships its iron ore from Port Hedland, via the Utah Point port facility, which is a multi-user facility owned by the Western Australian Government.

Atlas uses mining contractors to extract and process the iron ore from the Company's mines. Currently, Atlas produces iron ore as both lump and fines products. Lump iron ore traditionally sells at a premium to fines iron ore as the steel mill customers are able to avoid the cost of sintering the fines product for use in their blast furnaces. The Company also uses contractors to haul the iron ore by road transport from the mines to the port facility and then to load the vessels. The Company is heavily reliant on its contractors for the operation of its business.

Currently, Atlas sells its iron ore under both term contracts and on a spot basis.

2.2. History of business

A brief history of significant events relating to the Company is summarised in Table 1.

Table 1 History of business summary

Financial Year	Events
2016[1]	Market capitalisation $37 million 1,207 Mt DSO resource
2015	Market capitalisation $110 million 1,207 Mt DSO resource
2014	Mt Webber expansion approved Market capitalisation $577 million 1,201 Mt DSO resource
2013	200th shipment from Port Hedland Abydos commenced production Market capitalisation $678 million 1,170 Mt DSO resource
2012	Acquired the remaining 25% of Mt Webber from Haoma Mining NL Utah Point expansion Mt Dove commenced production Completed USD 275 million and $50 million financing package Market capitalisation $1.8 billion 1,100 Mt DSO resource
2011	Acquired FerrAus Limited Acquired a 19.9% interest in Centaurus Market capitalisation $3.1 billion 1,000 Mt DSO resource

Financial Year	Events
2010	Acquired Giralia Resources Limited Merged with Aurox Resources Limited McCamey's North discovery Market capitalisation $999 million 205 Mt DSO resource
2009	Merged with Warwick Resources Limited Mt Webber discovery Market capitalisation $567 million (joined ASX 200) 165 Mt DSO resource
2008	First shipment to China Wodgina discovery 39 Mt DSO resource
2007	Abydos discovery 23 Mt DSO resource
2006	Changed its name from Atlas Gold Limited 7 Mt DSO resource
2005	Acquired tenements totaling 450km squared located 40km south east of Port Hedland Pardoo discovery
2004	Listed on the ASX with a market capitalisation of $9 million Incorporated

Note 1: Market capitalisation for 2016 is as at 29 February 2016
Source: Management, Capital IQ

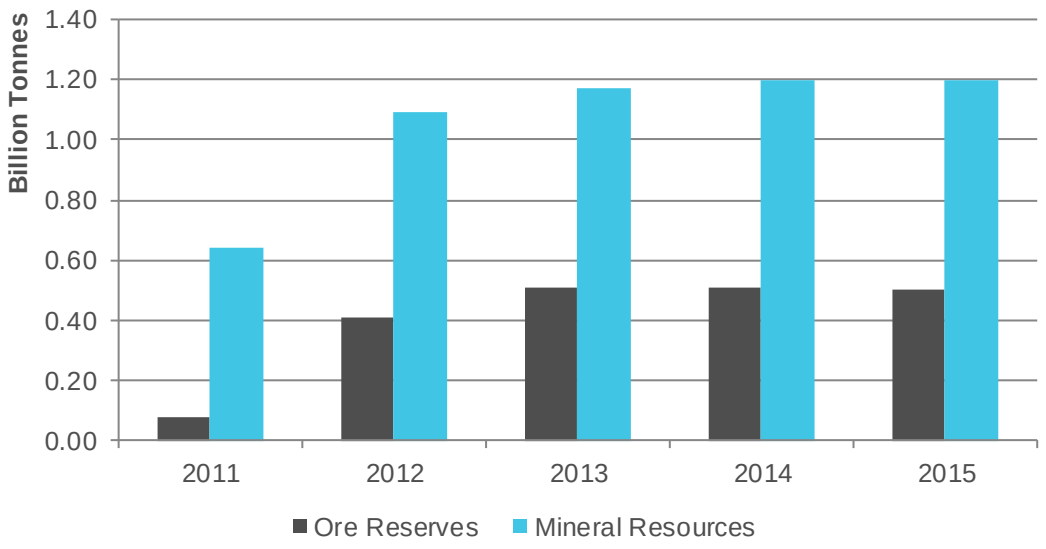
2.3. Overview of the projects

Atlas has a portfolio of projects in Western Australia, primarily in the north and south-east Pilbara area and the Midwest region. These include established mines, development projects and exploration projects ranging from greenfields through to advanced pre-development projects.

The Company's previous strategy of pursuing and developing exploration opportunities has led to rapid growth in its resource inventory.

Figure 1 shows the growth in the Company's Ore Reserves and Mineral Resources between FY2011 and FY2015.

Figure 1 The Company's Ore Reserves and Mineral Resources



Source: Management

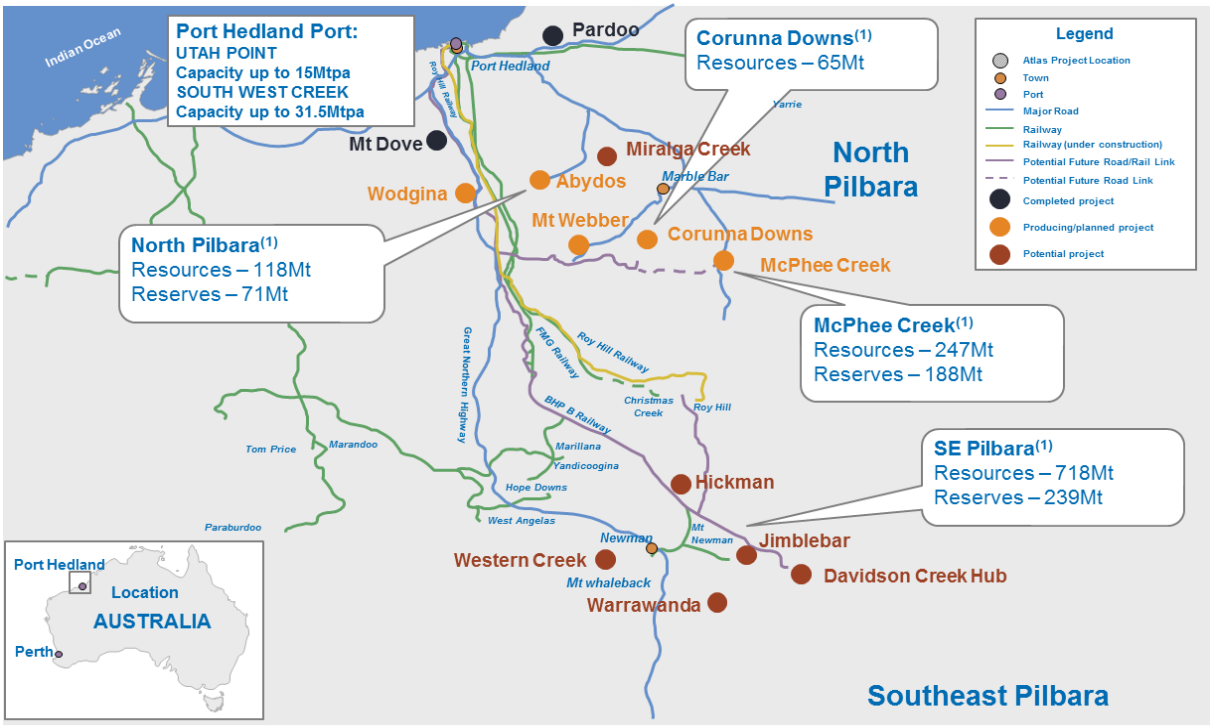
Through a sustained commitment to building its Pilbara DSO business, Atlas has grown its mine portfolio and resource inventory through a series of exploration, acquisition and development initiatives.

Atlas currently has three key production projects comprising Wodgina, Abydos and Mount Webber ("Production Projects"), two development projects comprising Corunna Downs ("Corunna") and McPhee Creek ("McPhee") (together the "Development Projects"), eight pre-development projects comprising Anthiby Well, Farrell's Well, Hickman, Jigalong (also referred to as the Davidson Creek Hub), Jimblebar, Warrawanda, Weld Range and Western Creek (together the "Pre-Development Projects") and seven exploration projects comprising Blue Rose, Corktree, Mount Gould, Upper Ashburton, Watershed, Western Shaw and Yuinmery (together the "Exploration Projects").

Atlas has recently completed two projects that are under care and maintenance: Pardoo and Mount Dove (together the "Completed Projects"). The Mount Dove facilities are currently utilised for contractor accommodation and Pardoo is on care and maintenance while the economics of producing the remaining resources are evaluated.

The locations of the Company's operations are shown on the map in Figure 2:

Figure 2 Summary of operations



Source: Management

(1) Resources and Reserves as at 30 June 2015. Resources and reserves are published annually at 30 June

Mineral Resources and Ore Reserves

The Mineral Resources and Ore Reserves in the following tables are valid as at 30 June 2015, as reported in the Company's 2015 Annual Report. Refer to the Mineral Resources and Ore Reserves Corporate Governance and Competent Persons' statements included in the 2015 Annual Report for further details.

Table 2 Mineral Resources as at 30 June 2015

	Measured Resources		Indicated Resources		Inferred Resources		Total Mineral Resources	
	Tonnage	Grade	Tonnage	Grade	Tonnage	Grade	Tonnage	Grade
Iron Ore (a)	Kt	% Fe	Kt	% Fe	Kt	% Fe	Kt	% Fe
Pardoo					9,000	55.7	**9,000**	**55.7**
Abydos (b)			13,100	57.2	6,000	56.7	**19,100**	**57.1**
Wodgina (c)	2,200	56.2	13,200	56.5	17,000	54.0	**32,400**	**55.1**
Mount Webber (d,e)	35,300	58.3	25,100	55.3	1,800	57.3	**62,200**	**57.1**
McPhee	32,900	57.4	205,000	56.2	9,000	55.0	**246,900**	**56.3**
Miralga Creek (f)					4,000	57.6	**4,000**	**57.6**
Corunna (g)			20,000	57.3	45,000	57.3	**65,000**	**57.3**
Mid-West					12,000	60.0	**12,000**	**60.0**
Hickman					70,000	55.4	**70,000**	**55.4**
Western Creek					79,000	56.0	**79,000**	**56.0**
Jimblebar			41,100	58.1	28,000	55.6	**69,100**	**57.1**
Warrawanda					24,000	56.8	**24,000**	**56.8**
Davidson Creek Hub	43,200	57.9	339,100	55.9	94,000	55.8	**476,300**	**56.0**
West Pilbara					38,000	53.6	**38,000**	**53.6**
	113,600	**57.9**	**656,600**	**56.2**	**436,800**	**55.8**	**1,207,000**	**56.2**

Source: Management, ASX announcements
Mineral Resources are reported inclusive of Ore Reserves

Notes to Table 2:

(a) Iron Ore Mineral Resource tonnes are reported on a dry weight basis, tonnes are rounded according to JORC category with grades carried through.

(b) Abydos Mineral Resource has increased as a result of drilling and remodelling at Leighton and decreased due to production at Trigg and Mettams and drilling and remodelling at Scarborough.

(c) Wodgina Mineral Resource has reduced due to production at Avro, Constellation, Dragon, and Hercules.

(d) Mount Webber Mineral Resource has increased due to drilling and remodelling at Ibanez and then subsequently reduced due to production at Ibanez.

(e) Mount Webber Mineral Resource for Ibanez, Fender and Gibson is no longer subject to third party joint venture. Atlas interest has increased from 70% to 100%.

(f) Maiden Mineral Resource at Miralga Creek released May 2015.

(g) Corunna Mineral Resource increased due to the maiden Mineral Resource for Glen Herring, reported May 2015.

Other Mineral Resources remain unchanged from 30 June 2014.

Table 3 Ore Reserves at 30 June 2015

	Product Type (a),(b)	Proved Ore Reserves		Probable Ore Reserves		Total Ore Reserves (c)	
		Kt	% Fe	Kt	% Fe	Kt	% Fe
Abydos (d)	Standard Fines	200	56.3	7,200	57.2	**7,400**	**57.2**
Wodgina (d)	Standard Fines	300	55.9	7,100	57.2	**7,400**	**57.1**
Wodgina (d)	Value Fines	-	-	3,000	53.3	**3,000**	**53.3**
Mount Webber (d)	Standard Fines	32,300	58.2	20,900	55.8	**53,200**	**57.2**
McPhee	Standard Fines	29,700	57.1	158,500	55.8	**188,200**	**56.0**
Davidson Creek Hub	Standard Fines	31,300	58.1	207,700	56.2	**239,000**	**56.5**
Port Stocks	Standard Fines	100	56.6			**100**	**56.6**
Total Ore Reserves (c)		**93,900**	**57.8**	**404,400**	**56.0**	**498,300**	**56.4**

Source: Management
Mineral Resources are reported inclusive of Ore Reserves

Notes to the Table 3:

(a) All Ore Reserves are iron ore, reported on a dry weight basis, to be mined by open pit method or located in stockpiles.

(b) Standard fines product targets a grade at or above 57% Fe. Value fines are a lower grade product.

(c) The presented tonnages and grades are rounded. Total tonnages and grade are summed on the raw data then rounded.

(d) Ore Reserves at Abydos, Wodgina and Mount Webber decreased following production depletion.

2.3.1. Completed Projects

Pardoo

Pardoo is located in the Pilbara region, about 75km from Port Hedland. It is 100% owned by Atlas and was the Company's first DSO iron ore discovery in 2005. The Pardoo project commenced producing in October 2008 at a 1Mt pa initial rate and ramped up to 3Mt pa before operations were ended in 2014 upon completion of mining in the existing pits.

Further resources exist at Pardoo and development of these in the future is possible pending further environmental approvals and a supportive iron ore price.

Mount Dove

The Mount Dove DSO project was a small scale / short life open pit iron ore mine located 65km south of Port Hedland.

Mining activities at Mount Dove commenced in 2012 and ceased in 2014 once the reserve was fully depleted. Total ore of 2.4Mt was extracted from the site, in excess of the 2.1Mt reserve published prior to the commencement of mining.

2.3.2. Production Projects

Wodgina

The Wodgina project is located approximately 100km south of Port Hedland, via the Great Northern Highway.

Atlas acquired 100% of the iron ore rights to the project area from Talison Minerals Pty Ltd (now Global Advanced Metals Pty Ltd) in 2008. This project became the main focus of the Company's exploration efforts from the commencement of drilling in late 2008 to the commissioning of the Wodgina DSO mine in 2010.

As at 30 June 2015, the Wodgina mine had a remaining Mineral Resource of 32.4Mt (2.2Mt Measured Resource, 13.2Mt Indicated Resource and 17.0Mt Inferred Resource) and an Ore Reserve of 10.4Mt (0.3Mt Proved Reserve and 10.1Mt Probable Reserve). Since commencing production, approximately 27.7Mt of ore has been mined (as at 31 December 2015).

The Wodgina mine has a remaining life of approximately 1.5 years (as at 31 December 2015), which could be extended through the sale of fines product. The mine has a remaining average strip ratio of approximately 0.92 to 1, waste to ore.

Mining consists of traditional drill, blast, load and haul operations. Processing is via a dry crushing and screening operation to produce a 100% fines product. Transportation of ore from the mine to the port in Port Hedland is via quad configuration road trains.

Mining at Wodgina is contracted to MACA Limited. Processing at Wodgina is contracted to Crushing Services International ("CSI"), with downstream road train haulage contracted to McAleese Resources Pty Ltd ("McAleese"). Qube Bulk Pty Ltd ("Qube") and the Pilbara Ports Authority provide port and handling services.

The Company suspended pit operations at Wodgina in April 2015 as part of a decision to suspend operations at all three mines. A significantly reduced cost base has been achieved through the Contractor Collaboration Deed and a decision was subsequently made to re-start operations in May 2015.

Wodgina is now producing at a rate of 5Mtpa to 6Mtpa.

Historically the Wodgina mine, at different times, has produced a 'value fines' product from the lower grade parts of the ore body. Whilst market conditions currently present challenges for the production of value fines as a stand-alone product, there is potential to extend the life of mine for Wodgina by either blending value fines with higher grade product from another site or by selling value fines as a stand-alone product according to market demand.

Abydos

The Abydos mine is located 130km south-southeast of Port Hedland. Atlas commenced mining at Abydos in 2013.

As at 30 June 2015, the Abydos mine had a Mineral Resource of 19.1Mt (13.1Mt Indicated Resources and 6.0Mt Inferred Resources) and an Ore Reserve of 7.4Mt (0.2Mt Proved Reserves and 7.2Mt Probable Reserves).

As at 31 December 2015, approximately 7.7Mt of ore had been mined at Abydos since mining commenced. Production from Abydos is forecast at varying rates in the range of 3Mtpa to 4Mtpa.

Abydos has a remaining mine life of approximately 1.5 years (as at 31 December 2015), subject to mine production rates, further conversion of Mineral Resources to Ore Reserves and the utilisation of the mine's existing infrastructure for the potential development of nearby projects such as Miralga Creek. The mine has a remaining average strip ratio of approximately 1.1 to 1, waste to ore.

Mining consists of traditional drill, blast, load and haul operations. Processing is via dry crushing and screening operations to produce lump and fines products. Transportation of the ore from the mine to the port in Port Hedland is via quad configuration road trains.

Both mining and processing is contracted to MACA Limited, with downstream road train haulage contracted to McAleese. Qube and Pilbara Ports Authority provide port and handling services.

Up until early 2015, Abydos had produced a 100% fines product. In March 2015 processing trials were conducted with the existing plant on site for the purpose of investigating the production of a lump product (in addition to fines). The trials and previous metallurgical test work results supported a lump to fines production split of approximately 66% lump to 34% fines. Subsequent production of lump product on site has confirmed the previous test work results.

Following the successful trial in March 2015 and favourable marketing response, Abydos commenced lump production in April 2015, with the product being part of the Abydos production schedule.

Mount Webber

The Mount Webber mine is located approximately 230km (via road) south-southeast of Port Hedland. It was opened in 2014 following completion of Stage 1 of the project (3Mtpa). Construction of Stage 2 was completed in late 2014, taking production capacity to 6Mtpa.

At 30 June 2015, the Mount Webber mine had a Mineral Resource of 62.2Mt (35.3Mt Measured Resources, 25.1Mt Indicated Resources and 1.8Mt Inferred Resources) and an Ore Reserve of 53.2Mt (32.2Mt Proved Reserves and 20.9Mt Probable Reserves).

Mine life is estimated to be approximately 8 years to 9 years depending on mine plans and ultimate production rates. Mount Webber has a remaining average strip ratio of approximately 0.25 to 1 waste to ore ratio.

Mining consists of traditional drill, blast, load and haul operations. Processing is via a dry crushing and screening operation which to date has predominantly produced fines product. Previous metallurgical test work results support a lump to fines production split of approximately 50% lump product to 50% fines product. On the basis of this successful test work and market soundings for the blended Mount Webber and Abydos lump product, the Company recently commenced production of lump product from Mount Webber, with lump now expected to comprise some 50% of the mine's total production.

Transportation of ore from the mine to the port in Port Hedland is via quad configuration road trains.

Mining and the processing are contracted to BGC Contracting Pty Ltd, with road train haulage contracted to McAleese. Qube and Pilbara Ports Authority provide port and handling services.

The Company made a decision in April 2015 to suspend operations resulting in Mount Webber suspending pit operations and processing.

As announced to the ASX on 2 June 2015, the Company subsequently reached agreement with BGC Contracting Pty Ltd to recommence mining and crushing services at Mount Webber. Pursuant to that agreement, production has ramped up to a run-rate of approximately 6Mtpa as at February 2016.

2.3.3. Development Projects

Corunna

Corunna is located 35km from the Mount Webber mine and 241km from Port Hedland.

The Mineral Resource is approximately 65.4Mt at 57.2% Fe. The low phosphorous and low alumina exploration results indicate the potential scale of the Mineral Resource and its blending capacity. Ore Reserves announced in the Pre-Feasibility Study ("PFS") are 21.1Mt at 57.0% Fe.

Subject to regulatory, environmental and internal company approvals, construction of the mine is expected to commence in FY17 with initial capital expenditure expected to be in the range of $37 million to $43 million. A PFS was completed in December 2015 and the results were announced by the Company on 23 December 2015, which also contained Competent Persons' statements in relation to Corunna's Mineral Resources and Ore Reserves.

Table 4 Corunna Mineral Resource

Corunna Mineral Resource										
Deposit	**COG %Fe**	**Resource Classification**	**Kt[(a)]**	**Fe (%)**	**SiO_2 (%)**	**Al_2O_3 (%)**	**P (%)**	**S (%)**	**LOI (%)**	**CaFe (%)[(b)]**
Split Rock	**50**	Measured	-	-	-	-	-	-	-	-
		Indicated	22,077	57.1	6.5	1.5	0.12	0.01	9.0	62.7
		Inferred	3,36	56.9	7.2	1.4	0.11	0.01	8.9	62.5
Shark Gully	**50**	Measured	-	-	-	-	-	-	-	-
		Indicated	8,936	57.6	5.5	2.2	0.09	0.01	9.4	63.6
		Inferred	246	56.9	6.6	2.3	0.07	0.01	9.0	62.5
Runway	**50**	Measured	-	-	-	-	-	-	-	-
		Indicated	11,093	57.3	5.3	2.1	0.04	0.01	9.7	63.5
		Inferred	315	56.3	7.8	2.2	0.04	0.01	8.9	61.8
Razorback	**50**	Measured	-	-	-	-	-	-	-	-
		Indicated	-	-	-	-	-	-	-	-
		Inferred	5,862	57.1	5.5	1.8	0.04	0.01	10.0	63.5
Glen Herring	**50**	Measured	-	-	-	-	-	-	-	-
		Indicated	-	-	-	-	-	-	-	-
		Inferred	13,517	57.3	7.1	1.5	0.05	0.01	8.8	62.9
Sub Total		**Measured**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
		Indicated	**42,106**	**57.3**	**6.0**	**1.8**	**0.09**	**0.01**	**9.3**	**63.1**
		Inferred	**23,307**	**57.2**	**6.7**	**1.6**	**0.06**	**0.01**	**9.1**	**62.9**
Total			**65,413**	**57.2**	**6.2**	**1.7**	**0.08**	**0.01**	**9.2**	**63.1**

Source: Management, PFS

Notes to Table 4:

(a) Mineral Resource tonnes are reported on a dry weight basis.

(b) Calculated calcined Fe grade where CaFe=(Fe%/(100-LOI%))*100.

Table 5 Corunna Ore Reserves

Deposit	COG %Fe	Reserve Classification	Kt	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	S (%)	LOI (%)	CaFe (%)[(a)]
Runway	**53**	Proved	-	-	-	-	-	-	-	-
		Probable	4,467	56.9	5.3	2.6	0.04	0.02	9.7	63.1
Split Rock	**51**	Proved	-	-	-	-	-	-	-	-
		Probable	11,838	57.0	6.4	1.8	0.13	0.01	9.0	62.6
Shark Gully	**51**	Proved	-	-	-	-	-	-	-	-
		Probable	4,755	57.1	5.9	2.5	0.10	0.02	9.5	63.1
Sub Total		**Proved**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
		Probable	**21,060**	**57.0**	**6.0**	**2.1**	**0.1**	**0.0**	**9.3**	**62.8**
Total			**21,060**	**57.0**	**6.0**	**2.1**	**0.1**	**0.0**	**9.3**	**62.8**

Source: Management, PFS

Notes to Table 5:

(a) Calculated calcined Fe grade where CaFe=(Fe%/(100-LOI%))*100.

(b) The proximity of Corunna to Port Hedland and the other existing North Pilbara portfolios such as the nearby Mount Webber and McPhee, presents an opportunity to contribute to the Company's existing trucking model.

(c) A drilling program comprising 508 reverse circulation ("RC") drill holes for resource definition, 20 diamond drill holes for geotechnical, metallurgical and hydrogeological analysis were undertaken to support the PFS. The PFS indicates 2 months development and pre-stripping prior to ramping up to full production of 4Mt pa over 4 months.

McPhee

McPhee is part of the Company's growth program and is located approximately 270km southeast of Port Hedland. It comprises three deposits, Main Range, Main Range West and Crescent Moon.

It is well located should a blending operation between the Corunna and McPhee sites be contemplated.

As at 30 June 2015, Ore Reserves totaled 188.2Mt at 56.0% Fe and Mineral Resources totaled 246.9Mt at 56.3% Fe.

The previous development focus was on rail-based delivery but new routes and reduced trucking costs indicate that road-based 'capital expenditure lite' solutions are possible.

A feasibility study on rail-based mine and infrastructure has been completed previously and this is expected to be supplemented with a road-based delivery study during FY17.

Subject to regulatory, environmental and internal company approvals, construction of the mine is expected to commence in FY18 with initial capital expenditure expected to be approximately $50 million to $60 million, with first production and shipment expected late in calendar year 2018.

2.3.4. Pre-Development Projects

Anthiby Well

The Anthiby Well iron ore project is a channel iron deposit located approximately 100km west of Paraburdoo in the Pilbara region of Western Australia and approximately 220km by road from Onslow Port. An initial 87 hole drilling program was completed in December 2008 following which Giralia Resources NL, the previous owner, reported an Inferred Mineral Resource of 37.6Mt at 53.6% Fe. The mineralisation commences at or very near the natural land surface, to a maximum depth of approximately 40 metres.

Farrell's Well (including Miralga Creek)

Farrell's Well is 100% owned by Atlas and includes the Miralga Creek Project. Successful first pass RC drilling at the project, located 35km from the existing Abydos mine, has indicated continuity of mineralisation along strike from the Abydos operation and higher grade intercepts point to strong blending potential across the Company's existing mine portfolio.

Drilling to date at Miralga Creek has confirmed the presence of mineralisation and defined an Inferred Resource of 3.8Mt at 57.7% Fe.

Hickman

The Hickman project consists of three tenements in the southeast Pilbara region. Tenement E47/2052 contains Inferred Mineral Resources in Halley (10Mt at 56.1%Fe), Hale-Bopp (11Mt at 55.4%Fe) and Levy (9Mt at 55.2%Fe). Tenement E47/2053 has some un-modelled drilling on target HK13 and an untested target (HK23).

Tenement E47/2054 contains the Shoemaker Inferred Mineral Resource of 40Mt at 55.3%Fe with no additional targets.

Jigalong (Davidson Creek Hub)

The Davidson Creek Hub is a DSO project located 110km southeast of Newman. It was previously referred to as the Jigalong-Ferraus Project. The combined area includes Davidson Creek, Robertson Range (both 100% owned by Atlas), Mirrin Mirrin and Jigalong itself, over which Atlas owns 100% of the iron rights.

Davidson Creek Hub is the largest project in the Company's southeast Pilbara portfolio. As at 30 June 2015, Mineral Resources totaled 476.3Mt (43.2Mt Measured Resources, 339.1Mt Indicated Resources and 94.0Mt Inferred Resources).

The previous owner, FerrAus Limited conducted systematic exploration at Davidson Creek and Robertson Range from 2005 until the acquisition by Atlas in late 2011, culminating in a draft definitive engineering study completed in December 2011.

In November 2012, Atlas received environmental approvals for the Davidson Creek Hub and associated rail spurs. With combined DSO Ore Reserves of 239.0Mt (31.3Mt Proved Reserves and 207.7Mt Probable Reserves), Davidson Creek Hub has the potential to underpin any future expansion by Atlas into the southeast Pilbara region, should market conditions allow.

Jimblebar

Jimblebar incorporates the Jimbelbar Range, McCamey's North, and Caramulla South resources.

Jimblebar Range is located approximately 50km to the east of Newman and 8km from BHP Billiton Limited's Jimblebar iron ore mine and railway line.

McCamey's North is 100% owned by Atlas. It is a significant DSO exploration project located approximately 45km east of Newman and 3km northeast of BHP Billiton Limited's Jimblebar mine.

Early work on the project by Warwick Resources Limited (previous owner) identified a number of areas of high-grade surface iron enrichment within the Boolgeeda Formation. Atlas commenced its first RC drilling program in 2010, and after three rounds of drilling a maiden Mineral Resource estimate was announced to the market in early 2011.

Caramulla South is located 19km to the east of BHP Billiton Limited's Jimblebar iron ore mine and railway. Atlas has published a Mineral Resource of 9Mt at 53.8% Fe at Caramulla South.

Warrawanda

The Warrawanda project contains part of Wishbone Inferred Resource of 24Mt @ 56.8%Fe. There is limited additional prospectivity with several targets having been tested unsuccessfully.

Weld Range (Mid-West)

The Weld Range DSO project is one of the Company's two high grade projects in the mid-west region of Western Australia. The project incorporates the premium grade hematite deposit at Wilgie Mia, for which Atlas has published a Mineral Resource of 5Mt at 61.0% Fe, and deposits at Beebyn, for which Atlas has published a Mineral Resource of 7.2Mt at 57.2% Fe. The project also includes the Beebynganna Hills DSO project.

The Wilgie Mia area of the Weld Range has historically been mined for ochre and mined on a commercial scale for specularite to be used in paint manufacture. A small program of RC drilling by Atlas confirmed the extent and tenor of iron mineralisation, with assays as high as 68% Fe. The deposit remains open at depth and along strike.

The Company has an in-principal reached agreement with an un-related party to sell the M20/118 tenement for approximately $100,000 plus $1/t sales royalty. The transaction is expected to complete in April 2016.

Western Creek

The Western Creek is a DSO project that is 100% owned by Atlas. It is a group of tenements situated between 15km and 50km west of Newman in the southeast Pilbara.

The project area includes prospects formerly owned by Warwick Resources Limited and Giralia Resources Limited. The Marra Mamba Formation hosts two published Mineral Resource estimates at Western Creek and Western Ridge.

2.3.5. Exploration Projects

Blue Rose (JV with PacMag)

Atlas acquired Giralia Resources Limited's interest in the Blue Rose project in 2011. The project is located 300km northeast of Adelaide, and previously comprised two Exploration Licences EL3848 and EL3849, of which Atlas now only holds EL3848.

Atlas is now the minority joint venture partner in the tenement with the majority owner paying ongoing holding costs. At the date of acquisition of Giralia Resources Limited's interest, The Blue Rose base metal project was classified as an 'Advanced Exploration Area' where coherent areas of exploration interest for copper-gold mineralisation have been outlined and the mineralisation model is sufficiently well understood for further evaluation of the mineral prospectivity of the tenement.

Corktree

The Corktree copper project occurs on the western edge of the Earaheedy Basin, Western Australia. Atlas holds iron ore rights in the tenements, which were acquired from Giralia Resources Limited.

At the date of acquiring Giralia Resources Limited's interest, the project was classified as an 'Exploration Area' where areas of exploration interest have been outlined but significant and coherent mineralisation intersections and volumes have yet to be identified. The commodity of interest for exploration is primarily copper mineralisation. No Mineral Resources have been defined for this project.

Mount Gould

The Mount Gould project is located in the Jack Hills region northwest of Meekatharra in Western Australia. Mount Gould contains the interpreted strike extension to iron ore that has been mined and exported from Jack Hills by Crosslands Resources.

Upper Ashburton

Part of Aruma's Bulloo Downs copper project with very limited channel iron deposit prospectivity. One target was unsuccessfully drill tested.

Watershed

Part of Aruma's Bulloo Downs copper project. Very limited iron ore prospectivity.

Western Shaw

Western Shaw consists of two exploration tenements. There is limited Fe prospectivity with unsuccessful drill testing of the main target. Other targets remain untested; however the tenements provide Atlas with some strategic value.

Yuinmery

The Yuinmery gold project is located approximately 10km east of the historic Youanmi mine and approximately 500km northeast of Perth in the East Murchison Mineral Field of Western Australia. The total tenement area of the project is 184km squared. Atlas acquired Giralia Resource Limited's interest in the iron ore rights for the project in April 2011.

At the date of acquiring Giralia Resource Limited's interest, the project was classified as an 'Exploration Area' mineral asset where areas of exploration interest have been outlined but significant and coherent mineralisation intersections and volumes have yet to be identified. The commodity of interest for exploration is primarily gold mineralisation. No Mineral Resources have been defined for the project.

2.3.6. Other projects

Ridley Magnetite

The Ridley Magnetite project is 100% owned by Atlas, and is located within the Pardoo project area.

The Ridley Magnetite resource consists of Banded Iron Formation ("BIF") which forms part of the Ridley Range. An extensive drilling campaign and PFS on the project were performed in FY09.

The project has an estimated Mineral Resource of 2Bt of magnetite with an average in situ grade of 36.5% Fe. Estimated Ore Reserves of 970mt have the potential to support an approximate 30 year mine life should the project be developed. See Atlas' ASX announcement of 14 April 2009 for full details and Competent Persons Statement.

Table 6 Summary of the Completed Projects, Production Projects and the Development Projects

Mine	Note	Pardoo	Mount Dove	Wodgina	Abydos	Mount Webber	Corunna	McPhee
Status		*Completed*	*Completed*	*In production*	*In production*	*In production*	*Development*	*Development*
Production commencement		October 2008	December 2012	June 2010	April 2013	June 2014	September 2017	August 2018
Total mine life		5-6 years	2 years	6-7 years	10 years	9-10 years	5-6 years (stage 1)	10 plus years
Remaining mine life at 31 December 2015		na	na	Approximately 1 year	1.5 years	9 years	5-6 years (stage 1)	10 plus years
Distance from port		75km	65km	100km	130km	230km	240km	270km
Production per annum		1.5-2.0Mtpa	1.5Mtpa	5-6Mtpa	3-4.3Mtpa	6-7Mtpa	4Mtpa	3-4Mtpa
Shipped to date	2	7.0Mt	2.5Mt	27.7Mt	7.7Mt	4.1Mt	na	na
Percentage of lump		-	-	-	66%	50%	57%	50%
Ore Reserve	1	7.4Mt	2.1Mt	7.4Mt	7.4Mt	53.2Mt	21.1Mt-	188.2Mt
Reserve grade	1	57.3%	57.7%	57.1%	57.2%	57.2%	57.0%	56.0%
Mineral Resource	1	24Mt	2.5Mt	32.4Mt	19.1Mt	62.2Mt	65Mt	246.9Mt
Resource grade		55.7%		55.1%	57.1%	57.1%	57.3%	56.3%
Strip ratio	3	13.5:1	0.25:1	0.92:1	1.07:1	0.25:1	0.5:1	1.50:1
C1 costs including haulage	4	$49-$56/wmt	$39-$48/wmt	$31-$36/wmt	$36-$40/wmt	$34-$38/wmt	$37-42/wmt	$40/wmt
Development capital expenditure	5	$45 million	$30-$35 million	$165-$170 million	$200-$210 million	$270-$280 million	$35-$40 million	$50-$60 million
Ownership		100%	100%	100%	100%	100%	100%	100%
Other				Large value fines stockpiles can be sold on standalone or blended to standard fines	Miralga Creek in close proximity and could access Abydos infrastructure	Production not within current full collaboration agreement – therefore no uplift amount or profit share other than haulage	Resource of scale with further exploration potential and opportunities to produce higher Fe grade product	Resource of scale with opportunity to increase production to 10-15Mtpa if rail has capacity

Source: Management, 30 June 2015 annual report, ASX announcements
Na = not applicable

Notes to Table 6:

1. Reserve grade, Ore Reserves and Mineral Resources for operating projects plus McPhee as at 30 June 2015. Corunna as per 23 December 2015 PFS announcement. Pardoo Ore Reserves and Mineral Resources as at 30 June 2008. Mount Dove Ore Reserves and Mineral Resources as at February 2013.
2. Cumulative production for the Production Projects as at 31 December 2015.
3. Strip ratio for completed projects based on life of mine ("LOM"). Operating projects based on remaining LOM. Corunna strip ratio as per PFS announcement. McPhee as per company desktop study.
4. C1 costs for completed projects based on LOM. Operating projects based on remaining LOM and excludes any contractor cost uplift or profit share payments. Corunna costs as per PFS. McPhee as per company desktop study.
5. Development capital expenditure for (full life of mine) completed and operating projects includes capital expenditure to commencement of mining plus any expansionary capital expenditure. Excludes pre-strip spend.

Table 7 Summary of Exploration Projects and Pre-Development Projects

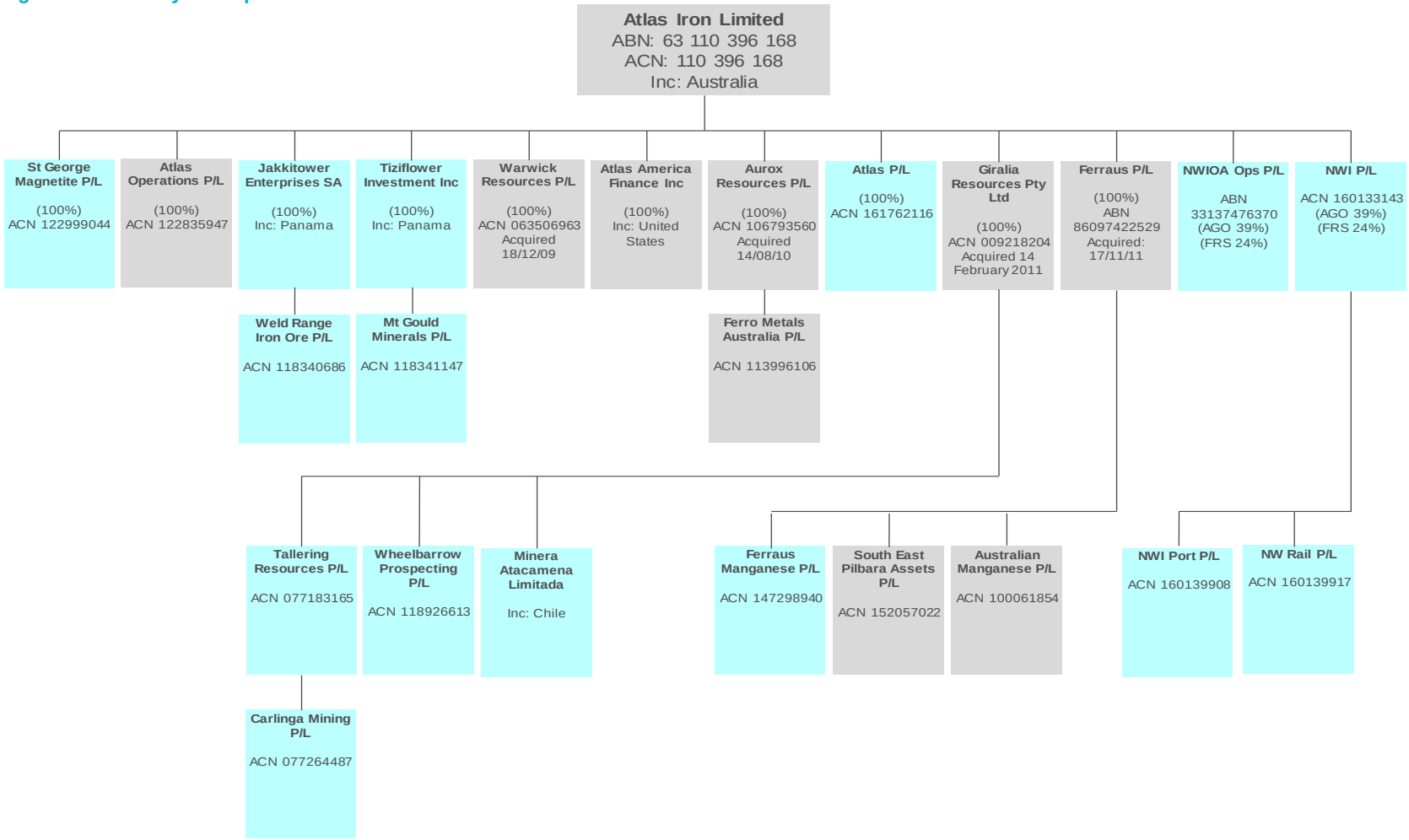
Project	Total Ore Reserve (Mt)	Ore Reserve Grade (Fe%)	Total Mineral Resource (Mt)	Mineral Resource Grade (Fe%)
Anthiby Well (West Pilbara)	-	-	38.0	53.6
Blue Rose (joint venture PacMag)	-	-	-	-
Corktree	-	-	-	-
Farrell's Well (Miralga Creek)	-	-	4.0	57.6
Hickman	-	-	70.0	55.4
Jigalong (Davidson Creek)	239.0	56.5	476.3	56.1
Jimblebar	-	-	69.1	57.1
Mount Gould	-	-	-	-
Warrawanda	-	-	24.0	56.8
Watershed	-	-	-	-
Weld Range (Mid-West)	-	-	12.0	60.0
Western Creek	-	-	79.0	56.0
Western Shaw	-	-	-	-
Yuinmery	-	-	-	-

Source: Management, 30 June 2015 annual report, ASX announcements
Na = not applicable

2.4. Corporate structure

The Company has a large number of subsidiaries. The corporate structure is summarised in Figure 3:

Figure 3 Summary of corporate structure



Source: Management
Greyed entities are the borrowers / guarantors in the group

2.5. Directors and key management

The directors and key Management of the Company are summarised in Table 8 below:

Table 8 Summary of directors and key Management

Position	
Non-Executive Chair	**Hon. Cheryl Edwardes** • Appointed Non-Executive director of Atlas on 6 May 2015 and subsequently as Non-Executive Chair on 11 June 2015 • Ms Edwardes held positions including Western Australia's Attorney General, Minister for the Environment and Minister for Labour Relations. She also has broad experience and networks within China's business community • Former Minister in the Western Australian Legislative Assembly with extensive experience and knowledge of Western Australia's legal and regulatory framework relating to mining projects, environmental, native title, heritage and land access.
Managing Director	**David Flanagan** • Founding managing director of Atlas in 2004 • Assumed the role of Non-Executive Chairman from 2012 to June 2015 before resuming the role of Managing Director • Holds position of Murdoch University chancellor since 2013 • Western Australian of the Year and West Australian Business Leader of the Year in 2014 • Geologist graduated from WA School of Mines 1993.
Non-Executive Director	**Ken Brinsden** • Joined Atlas in May 2006 as Operations Manager. Assumed the role of Managing Director from February 2012 to June 2015. Since this time he has assumed a Non-Executive Director role • Mining Engineer with over 20 years' experience in surface and underground operations • Currently the Chief Executive Officer (CEO) of Pilbara-based lithium development company, Pilbara Minerals Limited. Commenced role in January 2016 • Graduated from the WA School of Mines in 1993 • Previously worked for WMC Resources, Normandy, Central Norseman Gold Corporation, Gold Fields and Iluka Resources in production, management, brownfields and greenfields mine development roles.
Non-Executive Director	**Jeff Dowling** • Corporate leader with 36 years' experience in professional services with Ernst Young, culminating in his in his appointment as Managing Partner of the Ernst Young Western Region for a period of five years • Professional expertise centres around audit, risk and financial acumen derived from acting as lead partner on large public company audits, capital raisings and corporate transactions • Former chairman at Sirius Resources, chairman of Pura Vida Energy, a Non-executive Director at NRW and a Director of Neptune Marine Services Limited • Joined the Atlas board in 2011.
Chief Financial Officer	**Mark Hancock** • Joined Atlas in July 2006 as Chief Financial Officer (CFO) • Chartered Accountant with over 25 years' experience • Commenced his career in public practice and subsequently held senior financial management roles across a variety of industries in Australia and Southeast Asia with companies including Woodside Petroleum, Premier Oil and Lend Lease • Director of Centaurus Metals Limited.

Position	
Chief Operating Officer	**Jeremy Sinclair** • Mining Engineer with 20 years' experience in surface mining operations • Previously held key management roles within Rio Tinto in their iron ore Pilbara operations • Has spent time consulting to the mining industry and also working in other operational roles in large scale operations mining nickel, iron ore and gold • Joined Atlas in 2007 and has led the delivery of all mining projects.
Company Secretary	**Tony Walsh** • Rejoined Atlas in 2015 after having previously served as the Company Secretary for the seven years preceding 2013 • Previous Company Secretary and General Manager Corporate of Independence Group, an ASX listed diversified mining producer • Previously a member of the West Australian State Council of Governance Institute of Australia • Fellow of Chartered Secretaries Australia and the Institute of Chartered Accountants in Australia.

Source: Management

2.6. Business outlook

As indicated in the presentation to shareholders at the 2015 annual general meeting and the 31 December 2015 Quarterly Activities Report, the Company will continue to look for cost savings and other opportunities to improve margins in a climate of volatile iron ore prices, such as the Contractor Collaboration Deed and the Mount Webber Haulage Agreement.

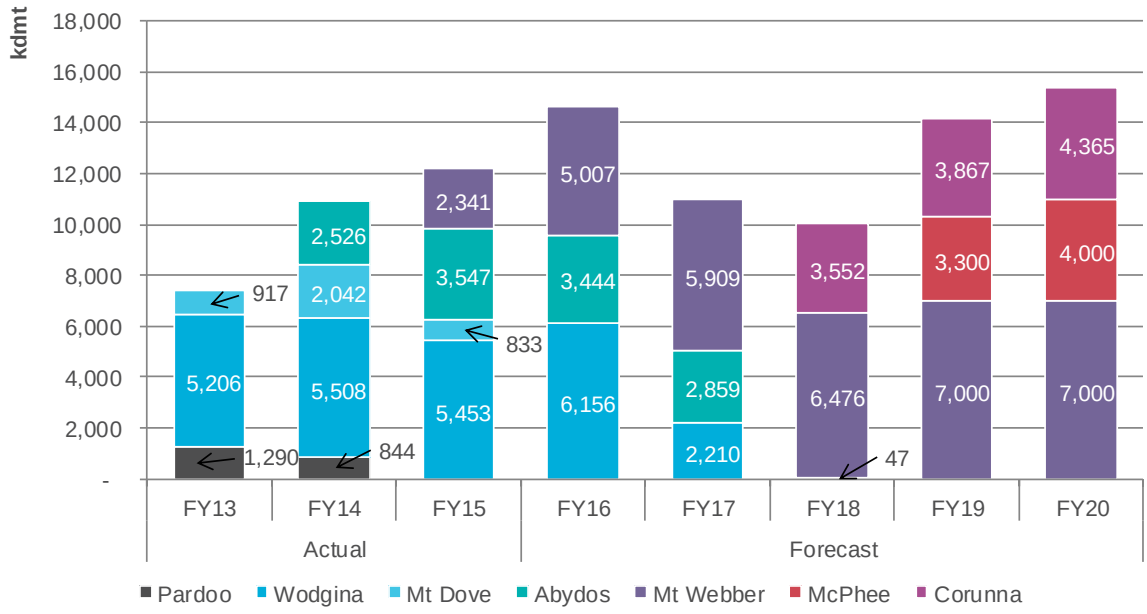
The Company will also continue to look for opportunities to hedge a greater portion of its shipments to remove revenue volatility and will also seek to establish its lump product in the market to benefit from the premium pricing it traditionally offers.

Where possible, the Company will seek to leverage the existing mine infrastructure to maintain production levels via low cost development of:

- Corunna, which presents an opportunity to contribute to the Company's existing trucking model
- McPhee, where previous focus had been on rail-based delivery but new routes and reducing trucking rates illustrating road-based capital expenditure lite solutions are possible
- Miralga Creek, which has some potential to bolt-on to the existing Abydos infrastructure, including road haulage.

Actual annual production and targets per mine are summarised in Figure 4:

Figure 4 Summary of actual and forecast production per mine (standard grade)



Source: Management and Management's financial models

Notes to Figure 4:

- The mine production estimates and mine lives are based on Ore Reserves as at 30 June 2015, less depletion to September 2015.
- The production above 6Mtpa at Mount Webber is based on estimated existing Ore Reserves.
- Annual production is based on ore shipped.
- During the quarter ended 30 September 2015, 3.3Mwmt was shipped, as Mount Webber ramped-up.
- The result for the quarter ended 31 December 2015 was 3.6Mwmt shipped and a production rate of 14Mt to 15Mt per annum.
- It assumes opportunities to extend the life of mine at Abydos and Wodgina.
- Excludes extension of Wodgina mine life via 'value fines' opportunity.
- There is a portfolio of project opportunities beyond existing Ore Reserves, targeting extended mine lives and higher production (subject to further study).
- Subject to economic conditions and all necessary approvals, Corunna and then McPhee Creek are considered the most likely development projects and will continue to be the focus of ongoing refinement of existing pre-feasibility and feasibility studies.

On 23 December 2015, Atlas announced it had signed a Restructuring Support Agreement (the Scheme) with more than 75% of the Term Loan B lenders ("TLB Lenders") and an amendment to its existing Syndicated Facility Agreement") (collectively called "the Agreements").

Under these Agreements, Atlas will pay down the TLB Lenders loan by USD 10 million (USD 7.5 million was paid during the December 2015 quarter) and issue shares and options to the TLB Lenders in exchange for the TLB Lenders retiring USD 132 million (approximately $183 million) of debt.

Upon implementing the Scheme and financial restructuring contemplated under the Agreements (the "Financial Restructuring"), Atlas will have:

- reduced its term loan debt from USD 267 million to USD 135 million
- extended the debt maturity date from December 2017 to April 2021
- reduced its cash interest expense by over 65% (due to the lower debt balance and reduced cash interest rate).

2.7. Capital structure

As at 29 February 2016, Atlas had the following securities on issue:

Table 9 Securities on issue

Security	Number '000,000
Fully paid listed ordinary shares	2,670
Listed options	1,745
Unlisted options	190

Source: Statutory financial statements, 30 June 2015 & Capital IQ

The listed options on issue are:

Table 10 Listed options on issue

Issue date	Listed options '000,000	Exercise price $	Expiry date
24-Jul-15	1,745	0.075	30-Jun-17
Total	**1,745**		

Source: ASX announcement dated 18 November 2015, statutory financial statements, 30 June 2015

Based on the current share price as reflected in Section 2.9, the listed options are out of the money.

The unlisted options on issue are:

Table 11 Unlisted options on issue

Issue date	Unlisted options '000,000	Exercise price $	Expiry date
Executive options	190	nil	13-Nov-20
Total	**190**		

Source: ASX announcement dated 18 November 2015, statutory financial statements, 30 June 2015

The executive options issued on 18 November 2015 are exercisable for $nil and vest on completion of the Scheme.

Based on the current share price as reflected in Section 2.9, these options are in the money.

2.8. Top 10 shareholders

The top 10 shareholders of the ordinary shares at the Valuation Date are:

Table 12 Top 10 shareholders

	Shareholder	Total shares held Number '000,000	% of total issued shares
1	BGC Contracting Pty Ltd	462	17.3%
2	McAleese Resources Pty Ltd	260	9.7%
3	Citicorp Nominees Pty Ltd	121	4.5%
4	HSBC Custody Nominees	113	4.2%
5	J P Morgan Nominees Australia Ltd	43	1.6%
6	National Nominees Ltd	35	1.3%
7	Comsec Nominees Pty Ltd	31	1.2%
8	Quintessential Investments Pty Ltd	14	0.5%
9	Catercare Services Pty Ltd	13	0.5%
10	Mrs Christina Xu Wynne	11	0.4%
Total of the top 10 shareholders		**1,103**	**41.3%**
Other shareholders		1,566	58.7%
Total		**2,670**	**100.0%**

Source: Management, Computershare Australia, Capital IQ
May not add due to rounding

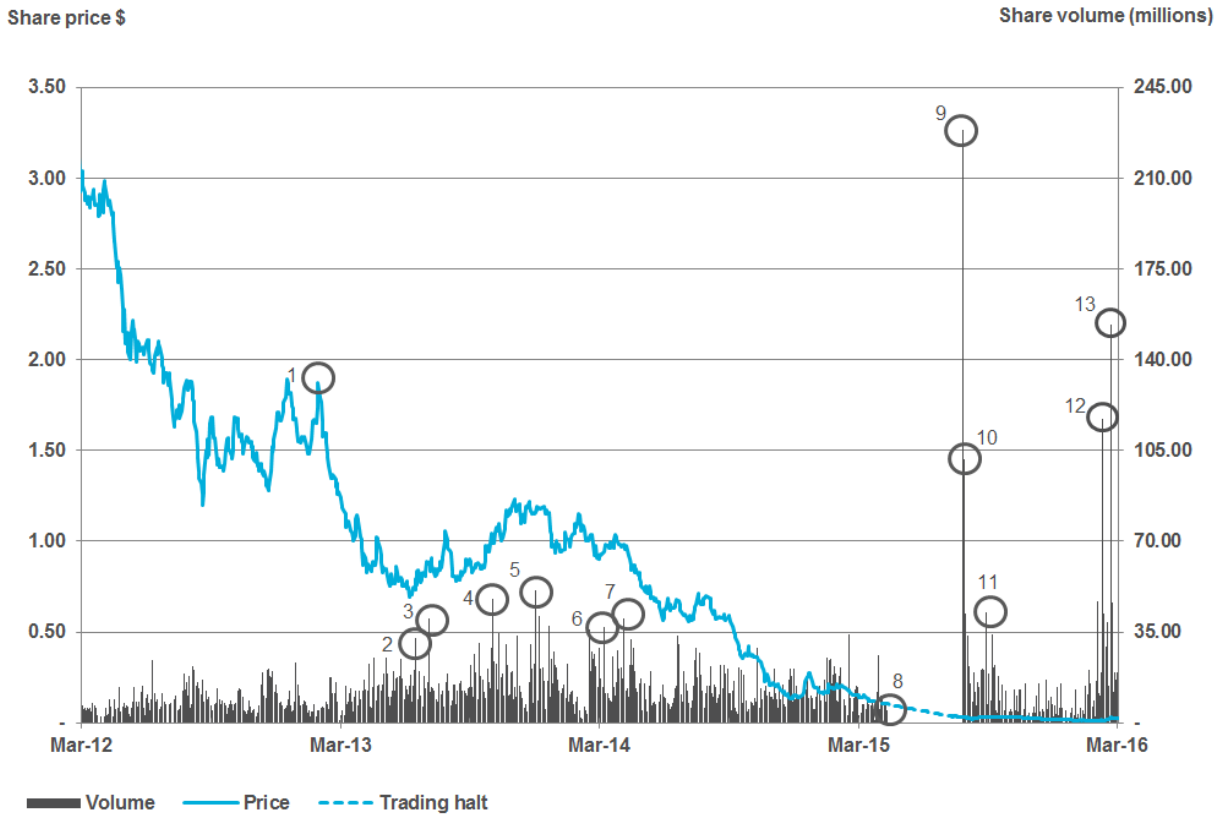
BCG Contracting Pty Ltd is a major contractor to Atlas, and currently working on the Mount Webber project providing crushing and screening and contract mining services.

McAleese provides Atlas with specialised bulk commodity haulage services.

2.9. Share price performance

The share prices and volumes of the Company's ordinary shares from 18 March 2012 to 18 March 2016 are summarised in Figure 5 below:

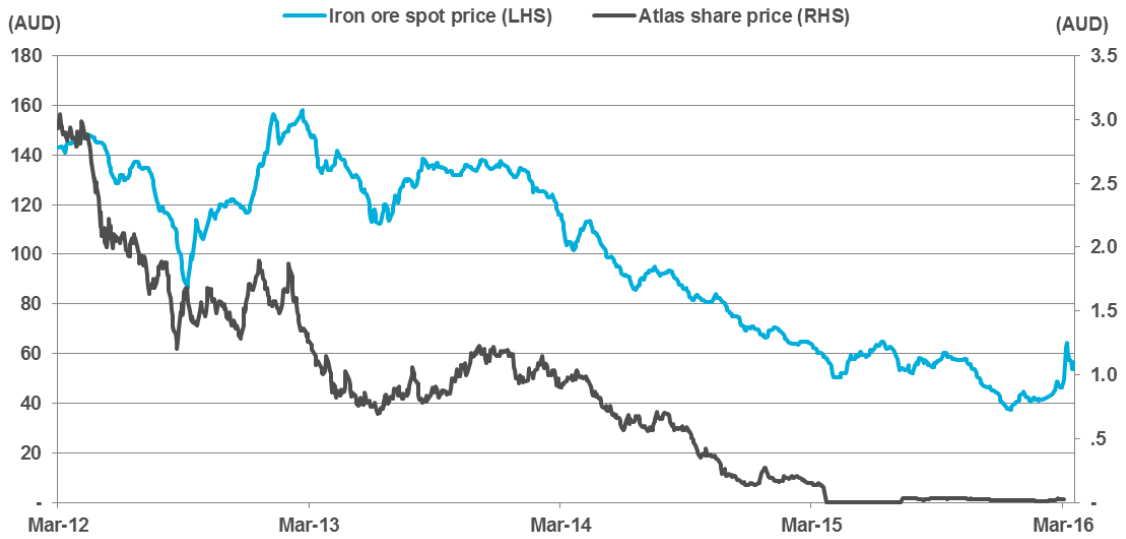
Figure 5 Summary of share price performance



Source: Capital IQ, PPB Advisory analysis
Refer to Table 13 for a summary of the events that may have impacted the share price and trading volumes

The share price of Atlas has been significantly influenced by the volatility and decline of the iron ore price over the past four years. Figure 6 below shows the movement in Atlas' share price and the iron ore spot price.

Figure 6 Summary of share price performance compared to the iron ore spot price (62% Fe)



Source: Capital IQ, Bloomberg, PPB Advisory analysis

Other events that may have impacted the share price and volumes of shares traded are:

Table 13 Summary of events

Note	Date	Event
1	4-Jan-13	Production commences at Mount Dove
2	17-Apr-13	Atlas March 2013 quarterly activities report
3	3-May-13	Atlas investor presentation May 2013
4	6-Aug-13	Diggers and dealers presentation - five mines in five years
5	17-Oct-13	September 2013 quarterly activities report
6	29-Jan-14	North Pilbara exploration and resource development success
7	25-Feb-14	Half yearly report and statutory accounts, growing production and robust prices drive strong profits, Atlas investor presentation on half year results, Mount Webber expansion to 6Mtpa approved
8	7-Apr-15	Voluntary suspension
9	24-Jul-15	Request to lift suspension, reinstatement to official quotation
	29-Jul-15	MCS: Business update and FY15 results
10	31-Jul-15	Quarterly activities report
11	28-Aug-15	Production update
12	24-Feb-16	Half year report and Appendix 4D
13	7-Mar-16	Iron ore spot 62% Fe (USD) price increased from USD 49.6 on 4 March 2016 to USD 62.7 on 7 March 2016 (or 26.41%).

Source: ASX announcements, Atlas website, Bloomberg

Table 14 summarises the Volume Weighted Average share Price ("VWAP") of the ordinary shares between 1 and 60 days through to 29 February 2016.

Table 14 VWAP of the Company's ordinary shares at 29 February 2016

Trading period to 29-Feb-16	VWAP value $	Maximum value $	Minimum value $	VWAP $	Cumulative volume traded	% of issued shares
1 day	37,296,925	40,046,806	34,707,232	0.0140	25,413,250	0.95%
15 days	36,418,921	53,393,121	26,696,560	0.0136	405,283,580	15.18%
30 days	36,618,368	53,394,431	26,697,215	0.0137	506,165,590	18.96%
60 days	38,916,081	53,395,086	26,697,543	0.0146	664,288,530	24.88%

Source: Capital IQ, PPB Advisory analysis

We note the following with regard to Table 14, above:

- the shares were voluntarily suspended on 7 April 2015 and resumed trading on 27 July 2015
- the average bid-ask spread percentage has ranged from 5.00% to 10.53% with an average of 6.63% for the period observed, which indicates a reasonable level of liquidity in the share trading
- for the period 1 December 2015 to 29 February 2016 the monthly traded volume as a percentage of average shares outstanding was 18.01%
- for the period 1 December 2015 to 24 March 2016 the VWAP was $0.0197 and the monthly traded volume as a percentage of average shares outstanding was 19.16%.

The shares appear to be reasonably well traded given the volumes traded and the relatively narrow bid-ask spread.

3. Industry overview

We have used the latest applicable IBISWorld reports, Reserve Bank of Australia reports, Bloomberg and other publicly available market publications as sources for our commentary on the iron ore industry, as summarised in this section.

3.1. Introduction

The iron ore industry has been a key driver of Australian economic growth and national income in recent times. It has also been strongly affected by global market movements.

Australia has developed a global reputation as an efficient, competitive, stable and reliable supplier of iron ore. Australia currently accounts for approximately one third of world iron ore production.

Industry revenue (ie the value of iron ore sales, in AUD) primarily depends on:

- the level of iron ore demand
- the level of supply (including any supply bottlenecks and other short and long term constraints on production)
- the market price of iron ore
- the Australian dollar.

The level of iron ore demand is closely tied to levels of steel production, particularly the level of steel production in China. Steel production is in turn influenced by demand from downstream industries that purchase steel. The largest downstream steel-using industries in China and around the world are construction, motor vehicle manufacturing, shipbuilding, plant and equipment manufacturing, and consumer goods manufacturing.

Strong activity in some or all of these industries flows through to rising steel demand and output, which boosts demand for iron ore.

Like all commodities, iron ore prices are set by global demand and supply. The iron ore market is well developed and has significant depth of buyers and sellers. Buyers, for example, can negotiate with numerous countries and their producers for exports of iron ore.

Iron ore is produced and graded based on its iron content and the content of deleterious elements such as silica, phosphorous and alumina (among other elements). Therefore, iron ore can be sold for different prices per tonne based on its grade. Grades generally range from 55% Fe to 67% Fe.

Ore containing very high quantities of hematite (greater than ~55% iron) is known as DSO, meaning it can be fed directly into blast furnaces. Iron ore is the raw material used to make pig iron, which is one of the main raw materials used to make steel. Up to 98% of the iron ore mined is used to make steel.

The pricing of iron ore has historically been quoted in USD although some products have, more recently, been quoted in Chinese Yuan.

The price is generally specified in USD per dry metric tonne unit (“dmtu”). One dmtu represents 1% Fe contained in one metric tonne of dry ore (ie excluding moisture). One dmtu is therefore equivalent to 10kg of Fe.

In order to calculate the price per tonne of ore (on a dry basis) it is necessary to multiply the price per dmtu by the grade (% Fe).

Every iron ore product produced in Australia and around the world is different. Prices are negotiated between buyer and seller based on the quality and specific features of each particular ore, with reference to published price indices.
-
The key considerations taken into account in negotiating price include:

- the concentration or percentage of Fe contained in the ore (lower grade ores are sold at a discount to higher grade ores)
- the concentration or percentage of other deleterious elements contained in the ore such as silica, aluminium and phosphorus
- whether the product is lump or fines (or some other product such as a pellet)
- whether the customer purchases the ore on FOB or CFR terms (or some other terms)
- the moisture content of the ore as this affects the cost of freight
- the quantity purchased and whether it is a one off (spot) sale or long term agreement
- the consistency of product quality over time
- the continuity of ore product supply over time (ie the life of the mine)
- the alternatives available to customers to blend one grade of ore with another.

The level and nature of market price discovery for iron ore has evolved over time. Historically, the key sources of market pricing were industry publications which provided market intelligence on prices (known as journalistic pricing) and the annual or quarterly benchmark prices typically set by Rio Tinto Limited or BHP Billiton Limited in negotiation with the major steel mills.

Benchmark pricing was overtaken by index pricing which is now the most common market price tool. Iron ore indices are typically based on daily reference prices for the iron ore spot market. They are a tonnage-weighted calculation of actual transactions that have been normalised to a base specification of Fe content (eg Fe 62%) and delivery point (eg Tianjin, China).

Since the establishment of a number of iron ore indices, there has been an increase in the availability and transparency of prices.

The evolution of the iron ore market pricing has advanced over the past few years with financial market participation (eg iron ore swaps and futures being traded on a number of exchanges).

However, iron ore pricing is still not as advanced as it is for other commodities such as gold or copper cathode which can be sold to a physical warehouse through the London Metals Exchange or where trades can be settled for cash, again through the London Metals Exchange.

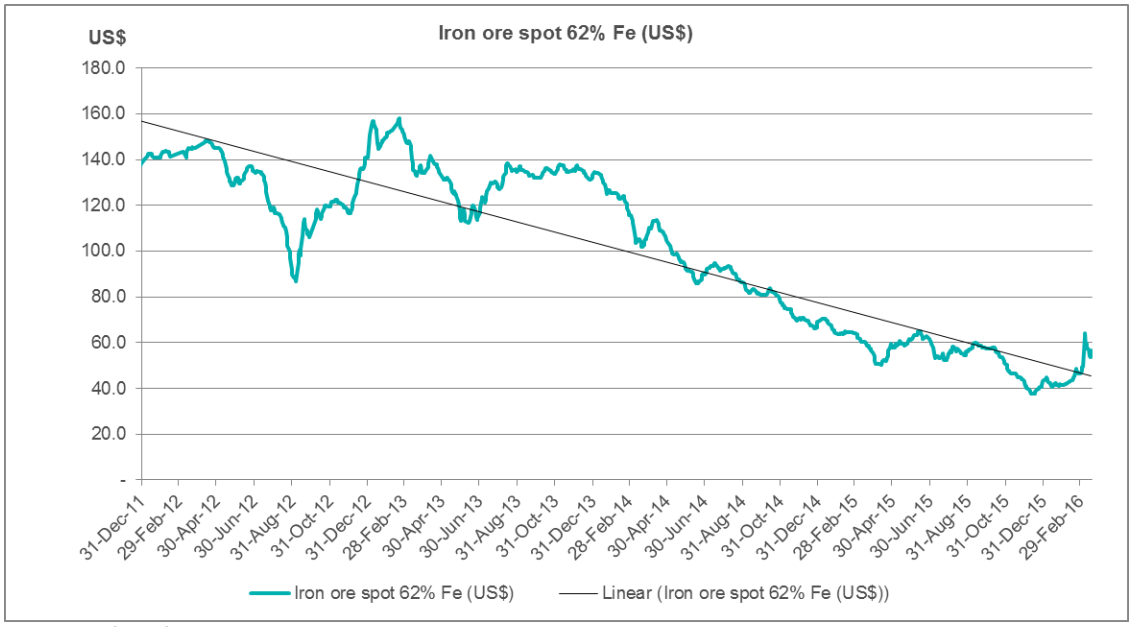
3.2. Recent performance and outlook

From about 2003, strong economic growth in China has caused an increase in the demand for iron ore. That iron ore has been used primarily to produce the steel needed to construct buildings, transport infrastructure and other development projects.

Greater demand for iron ore led to a spike in world iron ore prices. In turn, higher demand and higher prices saw a significant increase in the development of iron ore supply, including through new mine development.

The supply response, which coincided with a slowdown in Chinese demand and economic growth, has led to a global oversupply and, from 2011, a significant fall in world iron ore prices, as illustrated in Figure 7.

Figure 7 Graph of the spot price for iron ore (62% Fe)



Source: Bloomberg

The financial performance of Atlas has been heavily influenced by these global market movements.

Market predictions are mixed and continue to change, however there appears to be some general expectation that prices could remain around USD 45/dmt (CFR China 62% Fe) with potential downside risk over the next 6 months to 12 months before a rebalancing of supply and demand provides support for prices to increase over the medium term to plus USD 55-60/dmt (CFR China 62% Fe).

As a result of the steady decline in prices since 2011, a number of smaller producers have exited the market while the profits of those remaining producers (large and small) are significantly lower than average levels over the preceding five years or so.

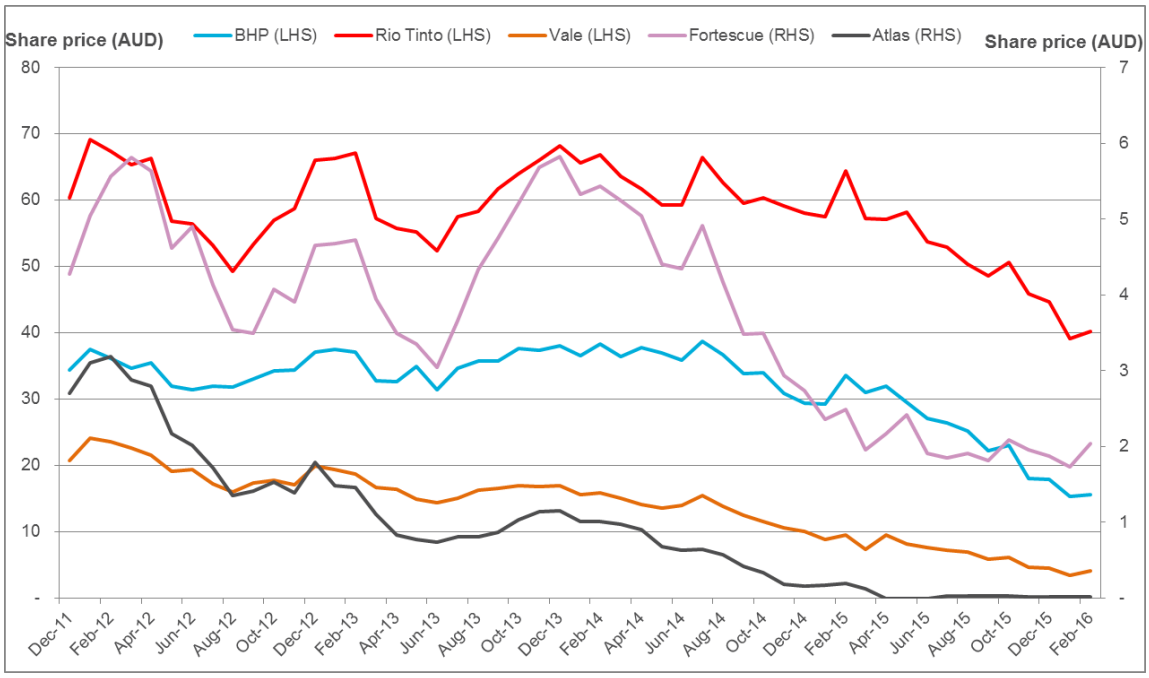
Shipping rates have also fallen significantly over the same period.

Australia's Department of Industry in its December 2015 report estimated global trade in iron ore increased by 1.8% in 2015 to 1.4Bt.

3.3. Competitors

Figure 8 shows the share price of Atlas and the major iron ore producers between December 2011 and February 2016. As noted from Figure 7 above, there is a correlation between the iron ore price the share prices below.

Figure 8 Graph of Atlas and the major iron ore producers' share price movements



Source: Capital IQ and Bloomberg

Rio Tinto and BHP Billiton are the lowest cost producers, followed by Fortescue and Vale.

3.4. China as a key influencer

In China, the industrial sector accounts for around 40% of gross domestic product, and represents a key source of demand for Australian resource commodities. Growth in Chinese industrial activity has weakened noticeably since late 2014, although it remains above the lows observed during the global financial crisis.

As has been the case for some time, there is considerable uncertainty regarding the outlook for growth in China. This has contributed to uncertainty surrounding the outlook for economic growth and trade in Asia more generally, and has implications for iron ore demand and prices.

Ongoing weakness in Chinese residential and non-residential construction activity has contributed to a deterioration of conditions in the Chinese industrial sector since late 2014, particularly in the mining and manufacturing industries.

Chinese policymakers have responded to concerns about lower economic growth by easing monetary policy and approving additional infrastructure investment projects, and they have scope to provide further support. However, investment growth is reportedly stagnant in response to the initiatives and there is uncertainty about how effective current policies will be in supporting growth in the near future.

3.5. Exchange rate impacts

The iron ore mining industry is export oriented and trades in USD in world markets. The value of the Australian dollar plays a key role in determining the earnings of iron ore producers.

A weaker Australian dollar reduces the price of Australian iron ore overseas, boosting its price competitiveness and demand. A weaker Australian dollar also increases industry revenue, as local miners receive more Australian dollars per tonne sold.

Forecast consensus data (comprising 71 brokers) published by Bloomberg on 29 February 2016 indicates that the Australian dollar is expected to remain at current levels during 2016 at a rate of AUD/USD 0.69 to 0.70

However, the longer term forecasts suggest an appreciation of the Australian dollar against the US dollar from 2017 to 2020. The forecast exchange rates are summarised in Table 15.

Table 15: Forecast consensus AUD/USD rates

Period	Number of brokers	Forecast AUD/USD rate		
		Mean	High	Low
Q1 2016	70	**0.70**	0.76	0.64
Q2 2016	71	**0.69**	0.79	0.64
Q3 2016	69	**0.69**	0.81	0.60
Q4 2016	70	**0.69**	0.83	0.58
2017	49	**0.73**	0.90	0.60
2018	18	**0.76**	0.86	0.67
2019	12	**0.79**	0.95	0.68
2020	10	**0.81**	1.05	0.72

Source: Bloomberg consensus data as at 29 February 2016

The spot rate at 29 February 2016 was AUD/USD 0.71.

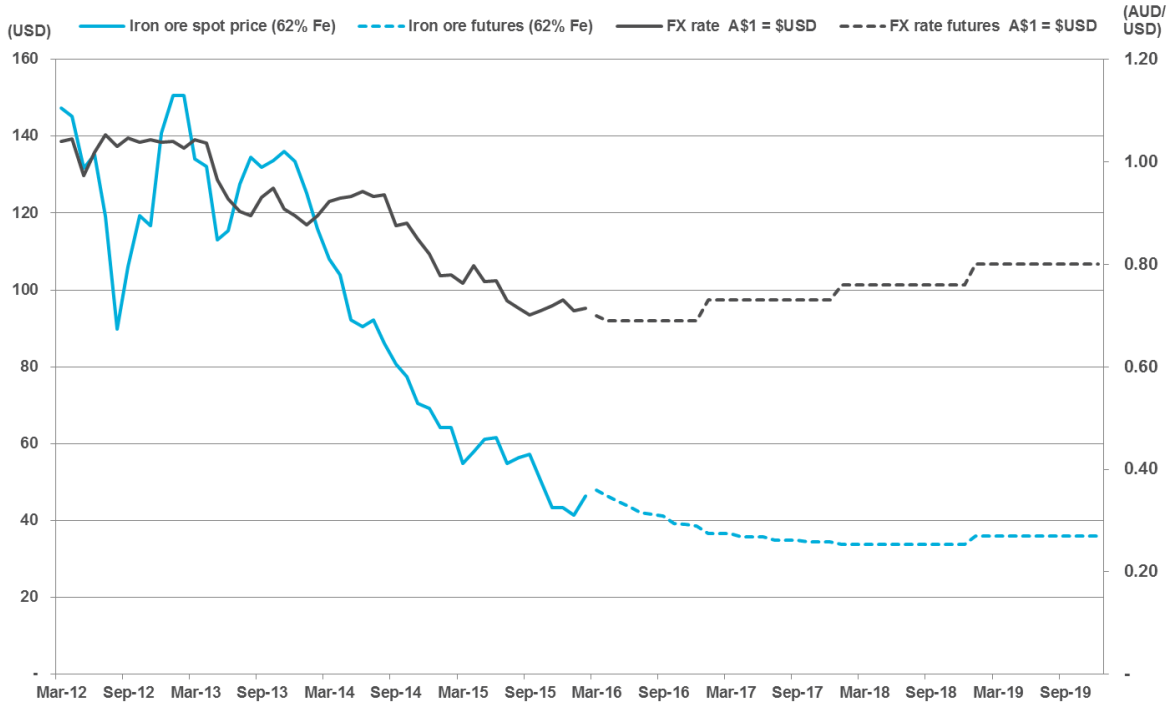
The above broker reports were dated between October 2015 and February 2016. The average forecast AUD/USD for Q1 2016 and Q2 2016 from the broker reports dated October 2015 (up to the Valuation Date) was AUD/USD 0.69.

3.6. Forecast iron ore prices

There are a number of sources that provide forecast iron ore prices including iron ore futures, brokers and independent forecasters.

The iron ore spot and futures prices (62% Fe) at the Valuation Date are shown in Figure 9.

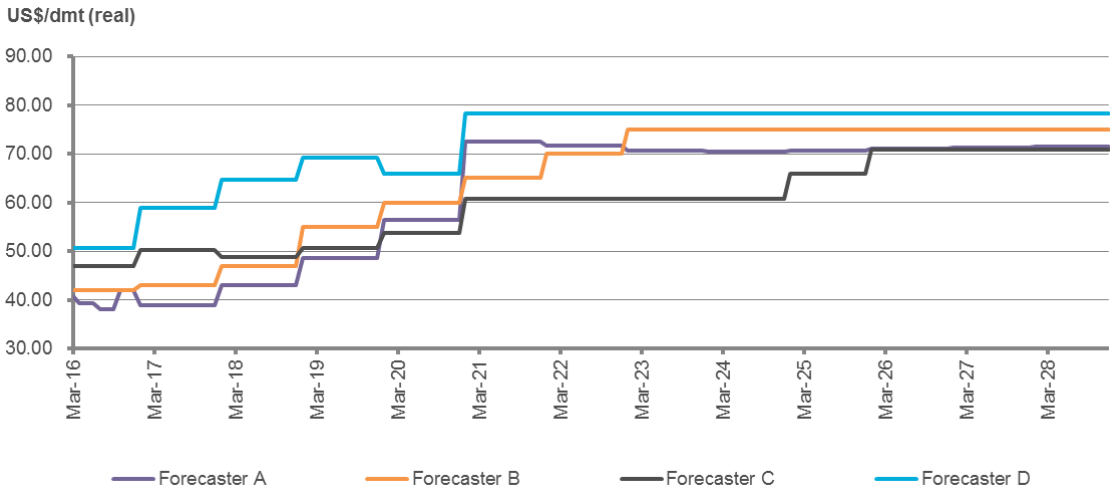
Figure 9 Graph of the Fe 62% spot and futures prices and the spot AUD/USD and futures exchange rates



Sources: RBA Website, Bloomberg

We have also obtained the forecast iron ore prices from four Independent Forecasters, whose forecast iron ore prices are summarised in Figure 10.

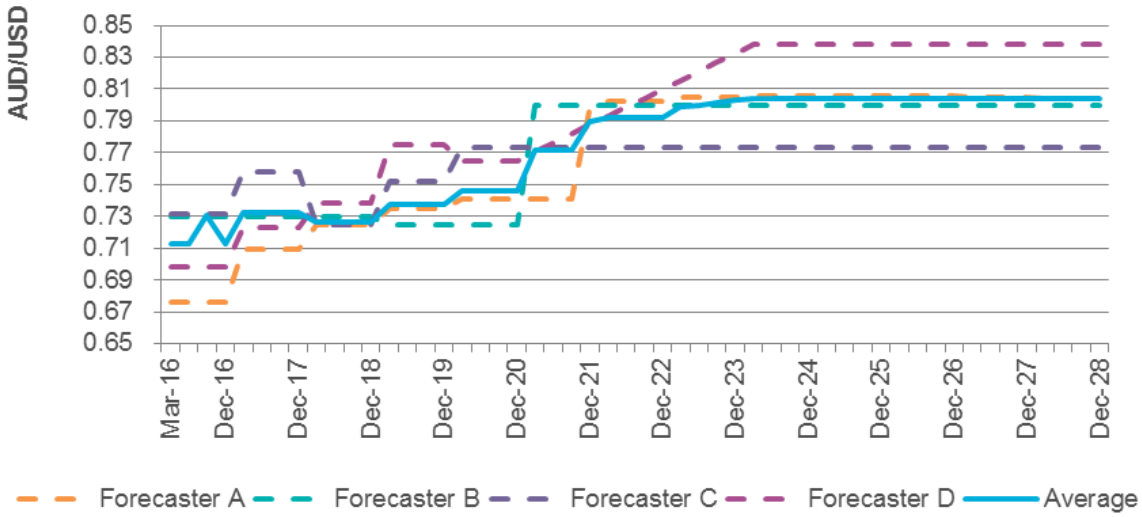
Figure 10 Graph of the movement in the Independent Forecasters iron ore (real) pricing



Source: Management, Independent Forecasters

The four Independent Forecasters also forecast AUD/USD exchange rates, as summarised in Figure 11 below.

Figure 11 Graph of the movement in the Independent Forecasters AUD/USD exchange rates



The reports of the Independent Forecasters are all dated between December 2015 and the Valuation Date.

3.7. Conclusion

Like all Australian iron ore producers, Atlas operates in a competitive and increasingly sophisticated global market. That market has seen a dramatic fall in prices in recent years, which has reduced industry profitability and placed higher cost producers under significant pressure. The price fall has also significantly reduced the market value of Australian iron ore producers.

Iron ore prices are driven by the global balance of supply and demand. Depending on future demand levels, the exit of higher cost producers in China and elsewhere may improve the supply and demand balance for Australian producers in the short to medium term, supporting an increase in iron ore prices. However, such impacts are likely to be modest given the global competitiveness of supply, and the ability of large producers to significantly ramp-up output.

In 2016, there do not seem to be any compelling signs in the market that prices are likely to be sustainably re-set at much higher levels. Currently, prices are moving within a range that is the best indicator of price levels in the short term.

4. Historical financial information

4.1. Summary of historical income statements

The Company's earnings for the financial years ended 30 June 2014 ("FY14"), 30 June 2015 ("FY15") and 31 December 2015 ("HY16"), and the 8 months ended 29 February 2016 ("YTD16") are presented in Table 16 below.

There are minor differences between the management accounts and the statutory accounts due to classifications.

Table 16 Summary of Atlas' historical income statements

$ million Period ended	Note	FY14	FY15	HY16	YTD16
Revenue Net CFR	4.2.1	1,097.6	740.8	382.7	510.6
Sales ocean freight		(139.1)	(133.9)	(66.7)	(84.6)
Revenue FOB		**958.6**	**606.9**	**316.0**	**426.0**
Cost of goods sold - production		(551.4)	(548.0)	(250.4)	(332.7)
Cost of goods sold - inventory		(13.6)	(14.5)	3.8	3.7
Cost of Goods Sold		**(565.0)**	**(562.5)**	**(246.6)**	**(329.0)**
Sales royalties/infrastructure		(92.0)	(55.8)	(29.1)	(39.5)
Other operating costs - operations		(17.0)	(12.1)	(3.4)	(4.7)
Mount Webber joint venture		-	5.7	-	-
Gross Margin		**284.6**	**(17.9)**	**36.9**	**52.8**
Development costs - EEA - expensed		(11.5)	(5.2)	(2.1)	(2.5)
Corporate and other expenses	4.2.2	(37.7)	(85.3)	(16.5)	(23.9)
Cash EBITDA		**235.4**	**(108.3)**	**18.3**	**26.5**
Other financial investments gain/(loss)		(3.0)	(3.7)	(0.3)	(5.8)
Onerous lease and employee stock ownership plan		-	-	(4.8)	-
EBITDA		**232.4**	**(112.0)**	**13.2**	**20.6**
Depreciation and amortisation – operations, mine and port	4.2.3	(196.7)	(112.8)	(45.5)	(61.0)
Depreciation and amortisation – corporate, administration and other		(5.3)	(4.9)	(1.8)	(2.2)
EBIT		**30.5**	**(229.8)**	**(34.2)**	**(42.5)**
Net finance income/expense		(24.8)	(31.5)	(19.1)	(25.2)
Net foreign exchange gain/(loss)		-	(39.3)	(17.1)	(23.5)
Profit/(Loss) before Tax		**5.7**	**(300.7)**	**(70.4)**	**(91.3)**
Impairment		(18.8)	(1,010.1)	(43.8)	(43.9)
Net Profit/(Loss) before Tax		**(13.1)**	**(1,310.8)**	**(114.3)**	**(135.1)**
Growth/(decrease) in revenue		*57.90%*	*(32.51%)*	*nm*	*nm*
Gross margin%	4.2.4	*25.93%*	*(2.41%)*	*11.67%*	*10.35%*
EBITDA margin %	4.2.4	*21.18%*	*(15.12%)*	*4.18%*	*4.04%*
EBIT margin %	4.2.4	*2.78%*	*(31.02%)*	*(10.82%)*	*(8.33%)*

Source: Management accounts, statutory accounts, 31 December 2015 half year accounts, 31 December 2015 and 29 February 2016 board reports
Note: EBIT is defined as Earnings Before Interest and Tax
EBITDA is defined as Earnings Before Interest, Tax, Depreciation and Amortisation
May not add due to rounding, nm – not meaningful

4.2. Comments on historical income statement

Our comments on the historical income statement are as follows:

4.2.1. Revenue

A summary of revenue is as follows:

Table 17 Summary of Atlas' revenue

Period ended	FY14	FY15	HY16	YTD16
Revenue				
Tonnes sold ('000 wmt)	10,921	12,175	6,884	9,356
Revenue ($000)	1,097,617	718,474	382,657	510,627
Average price per tonne including fines ($/wmt) CFR	**100.51**	**59.96**	**55.59**	**54.57**
Atlas fines (million wmt)	9.6	11.6	5.7	7.4
Atlas lump (million wmt)	0	0.5	1.1	1.9
Value fines (million wmt)	1.3	0	0	0
Total (million wmt)	**10.9**	**12.1**	**6.9**	**9.4**

Source: Management accounts, statutory accounts, February 2016 board report

Table 16 has been extracted from the statutory accounts (FY14 and FY15), half year accounts (HY16) and management accounts (YTD16), whereas Table 17 has been extracted from the management accounts. The difference in revenue in FY15 was as a result of a gross up in revenue/freight for FOB shipments sold that was not included in the statutory accounts.

The Company generally sells all of its production that can be transported to the port. Sales volumes therefore depend on mine performance and the logistics of haulage and shipping.

The increase in FY15 tonnes is a result of Mount Webber commencing production in mid-2014.

Revenue in FY15 decreased significantly due to the decreases in the market prices for iron ore. As noted in Table 17 above, the average price per tonne decreased in FY15, despite tonnes sold increasing by 11%.

4.2.2. Corporate costs and other expenses

Corporate and other expenses in FY15 include:

- restructuring costs comprising onerous lease of $19.5 million and other costs of $8.6 million
- suspension costs of $24.7 million.

4.2.3. EBITDA

EBITDA for YTD16 has been adversely impacted by the sublease arrangement for the head office in Perth, due to a shortfall between the lease obligation and the sublease rent (totalling $4.9 million until the end of the lease in FY24).

4.2.4. Margins

The Company's margins are reliant on commodity prices and exchange rates. As noted in FY15, the iron ore price decreased significantly by approximately 40.3%. The Company has been pursuing cost reductions and achieved a 37.5% reduction in its full cash cost per tonne.

The Company's full cash cost per tonne (before contractor profit share arrangements) has steadily reduced since FY14, as detailed below:

- $89.93 per tonne in FY14
- $68.95 per tonne in FY15
- $53.18 per tonne in YTD16.

The full cash cost includes the all-in cash cost, interest expense and capital expenditure (excluding development spend principally relating to Corunna and Mount Webber and contractor profit share).

4.3. Summary of historical balance sheets

The balance sheet of Atlas as at 30 June 2014, 30 June 2015 and 31 December 2015, and 29 February 2016 are presented in Table 18 below.

Table 18 Summary of Atlas' historical balance sheets

$ million As at	Note	30-Jun-14	30-Jun-15	31-Dec-15	29-Feb-16
Current Assets					
Cash		264.2	73.3	107.9	75.1
Accounts receivable		78.2	24.0	35.9	46.7
Inventory		53.4	15.6	18.0	17.8
Financial assets		3.4	0.6	0.3	0.3
Prepayments		20.1	15.2	19.9	18.2
Assets held for sale		29.9	-	-	-
Total Current Assets		**449.2**	**128.7**	**182.0**	**157.9**
Non-Current Assets					
Other receivables		41.5	12.0	10.4	10.5
Prepayments		17.4	6.9	1.7	-
Investment in equity accounted investees	4.4.1	30.6	0.4	-	-
Property, plant and equipment	4.4.2	143.8	129.1	106.8	101.6
Intangible assets	4.4.3	135.3	1.6	1.0	0.9
Mine development costs	4.4.4	515.2	338.2	331.2	309.5
Evaluation expenditure - reserve development	4.4.5	49.6	17.1	21.5	20.9
Mining tenements capitalised	4.4.6	716.9	141.4	141.2	119.4
Deferred tax asset		67.0	-	-	-
Total Non-Current Assets		**1,717.4**	**646.7**	**614.0**	**562.8**
Total Assets		**2,166.6**	**775.4**	**796.0**	**720.7**
Current Liabilities					
Trade and other payables		(187.8)	(110.3)	(113.0)	(83.1)
Employee benefits		(4.4)	(1.8)	(1.3)	(1.2)
Interest bearing liabilities		(17.3)	(3.6)	(5.3)	(5.1)
Provisions		(3.9)	(7.2)	(7.4)	(7.4)
Liabilities held for sale		(7.5)	-	-	-
Total Current Liabilities		**(220.9)**	**(122.9)**	**(127.0)**	**(96.7)**
Non-Current Liabilities					
Trade and other payables		-	(4.0)	(9.2)	(12.4)
Employee benefits		(0.7)	(0.6)	(0.5)	(0.6)
Interest bearing liabilities		(271.1)	(335.9)	(350.2)	(359.0)
Provisions		(66.8)	(91.4)	(95.2)	(94.8)
Total Non-Current Liabilities		**(338.6)**	**(431.9)**	**(455.1)**	**(466.7)**
Net Assets		**1,607.2**	**220.7**	**176.9**	**157.3**

Source: Management accounts, statutory accounts, 31 December 2015 half year accounts, 31 December 2015 and 29 February 2016 board reports
May not add due to rounding

4.4. Comments on the historical balance sheet:

There were significant impairment charges during FY15 which impacted on the carrying values of a number of assets. Atlas identified the following two impairment indicators during the year ended 30 June 2015:

- a significant reduction in the iron ore price (in USD), partially offset by the weakening Australian dollar exchange rate during the year, which impacts the cash flows capable of being generated by the Company's mining assets
- the widening gap between the Company's net asset carrying values and its market capitalisation until when Atlas' shares were suspended on 7 April 2015.

Additional impairment charges were incurred for HY16 of $40.2 million relating mostly to the Producing Projects of $13 million and the Development Projects of $25 million.

4.4.1. Investment in equity accounted investees

Investments in equity accounted investees comprise:

- Investment of 63% in NWI Pty Ltd ("NWI"), a port development joint venture. NWI (formerly the North West Iron Ore Alliance) is an incorporated joint venture company which represents the interests of its two shareholder companies: Atlas (and FerrAus acquired by Atlas); and Brockman Mining Limited.

  NWI has been conferred the right to develop a port facility capable of exporting 50 Mtpa of iron ore from the Southwest Creek location in the Inner Harbour at Port Hedland. The Western Australian State Government made this conferral to support the development plans of emerging iron ore miners in the Pilbara region.

  Atlas has written its interest in NWI to nil.

- Atlas has 60,320,264 shares or 11.567% interest in Centaurus Metals Limited ("Centaurus") at 29 February 2016. The last traded share price was $0.004 as at 29 February 2016.

  Centaurus is an Australia-based company engaged in the exploration and pre-development activities related to iron ore Mineral Resources. Centaurus' projects include Candonga, Conquista, Jambreiro and other projects.

  - The Candonga iron ore project is located in the State of Minas Gerais, Brazil, approximately 33kms south of the Centaurus' Jambreiro iron ore project, for which a sale process was concluded during 2015.
  - The Conquista DSO project is located approximately 5kms from the Centaurus' Candonga Project.
  - The Jambreiro iron ore project is located in the State of Minas Gerais, Brazil, approximately 130kms from Ipatinga.
  - Centaurus also has other projects, including the Passabem project, which is located approximately 100kms northeast of Belo Horizonte, and the Itambe project, which is located in the State of Minas Gerais in southeast Brazil.

  Atlas has written down the carrying value of its investment to nil at HY16.

  During FY15, Atlas disposed of its investment in Shaw River Manganese Limited ("Shaw") at net book value and in December 2015 made provision for the write down of funds owing to Atlas under a loan agreement as Shaw entered voluntary administration.

4.4.2. Property, plant and equipment

Property, plant and equipment decreased by $14.7 million during FY15. Additions in buildings of $11.1 million and plant and equipment of $3.7 million were largely offset by:

- disposals in property of $3.0 million and plant and equipment of $0.3 million
- impairment losses in property of $3.1 million and plant and equipment of $6.2 million.

The decrease of $27.5 million between 30 June 2015 and 29 February 2016 was due to $8.1 million of acquisitions of buildings, plant and equipment at Mount Webber, less depreciation and impairment charges.

Property plant and equipment by location is summarised as follows:

Table 19 Summary of property plant and equipment

$000	Corporate	Other	Wodgina	Pardoo	Mount Webber	Port	Abydos	Mount Dove	Total
Property, plant and equipment (cost)	**15,333.0**	**26.2**	**8,461.8**	**10,166.9**	**45,041.8**	**79,220.8**	**3,049.6**	**4,143.0**	**165,443.0**
Accumulated depreciation	10,467.4	8.8	7,105.6	9,732.9	6,001.1	26,085.2	2,816.8	1,814.9	64,032.8
Property, plant and equipment (NBV)	**4,865.6**	**17.4**	**1,356.2**	**434.0**	**39,040.6**	**53,135.6**	**232.7**	**2,328.1**	**101,410.3**

Source: Management accounts, statutory accounts and fixed asset register

4.4.3. Intangible assets

Intangible assets relate to port access rights of $11.2 million and IT software $9.5 million. Port access rights have been written off and IT software has been written down to $0.9 million at HY16.

4.4.4. Mine development costs

Mine development costs by location are summarised as follows:

Table 20 Summary of mine development costs

$000	Corporate	Wodgina	Pardoo	Mount Webber	Port	Abydos	Mount Dove	Total
Mine development (cost)	**(2.2)**	**186,572.0**	**127,085.7**	**318,919.0**	**13,291.4**	**82,779.2**	**46,501.6**	**775,146.7**
Accumulated depreciation	0.0	175,913.5	127,085.7	39,586.8	5,979.8	82,681.9	34,357.8	465,605.5
Mine development (NBV)	**(2.2)**	**10,658.5**	**0.0**	**279,332.2**	**7,311.6**	**97.3**	**12,143.8**	**309,541.2**

Source: Management accounts, statutory accounts and fixed asset register

4.4.5. Evaluation expenditure - reserve development

Reserve development costs are summarised as follows:

Table 21 Summary of evaluation expenditure - reserve development costs

Project	Net Book Value $000
Corunna	16,794.0
McPhee	4,038.4
Mount Webber	0
Davidson Creek (including Jigalong)	44.8
Total evaluation expenditure - reserve developments	**20,877.1**

Source: Management accounts, statutory accounts and fixed asset register

4.4.6. Mining tenements costs capitalised

Capitalised mining tenement carrying values are summarised as follows:

Table 22 Summary of mining tenement project carrying values

Tenement	Carrying value $000
Western Shaw	744.3
McPhee	40,729.8
Jimblebar	1,691.7
Anthiby Well	6,648.1
Corktree	527.6
Blue Rose	949.7
Warrawanda	498.5
Jigalong	65,677.0
Western Creek	1,777.6
Total	**119,244.4**

Source: Management accounts, statutory accounts and fixed asset register

5. Forecast financial information

Management has provided a financial model ("Corporate Model") with forecast monthly cash flows from 1 March 2016 to 30 June 2029 for the following projects including:

- Pardoo - completed project, therefore no revenue cash flows in the valuation period
- Mount Dove - completed project, therefore no revenue cash flows in the valuation period
- Wodgina - revenue cash flows to October 2018
- Abydos - revenue cash flows to April 2017
- Mount Webber - revenue cash flows to August 2023
- McPhee - revenue cash flows from November 2018 to October 2028.

Management provided a separate financial model for Corunna ("Corunna Model") with forecast quarterly cash flows from January 2017 to December 2023.

The Corporate Model and the Corunna Model (together referred to as the "Financial Models") include forecast cash flows.

The Corporate Model includes income statements, balance sheets and cash flow statements on a consolidated basis, excluding Corunna and including corporate costs. There is no balance sheet in the Corunna Model.

5.1. Management's key assumptions

Management's key assumptions in the Financial Models are summarised in Table 23.

Table 23 Summary of Management's key assumptions

General	▪ Projections are in nominal terms, assuming an inflation rate of 2.5% pa from FY19 onwards ▪ Projections commence 1 March 2016 ▪ Royalties payable: • 10.5% at Wodgina • 8.0%-8.5% at Corunna • 8.0% at Mount Webber • 8.0%-10.5% at Abydos ▪ Working capital assumption based on current Contractor Collaboration Deed terms. ▪ Assumes improved payable terms post refinancing such that $10 million of payables are deferred for one month from May 2016 ▪ Working capital unwind assumption upon completion of mining at Abydos, Wodgina and Mount Webber as follows: • Abydos – 0% • Wodgina – 0% • Mount Webber – 50%
Pricing / foreign exchange	▪ Commodity price: Forward curve to 31 August 2016 increasing on a straight line basis over three months to 30 November 2016, following which the average price of three Independent Forecasters futures has been assumed ▪ Foreign exchange: Has been based on the same logic used under the commodity price assumption
Physicals / operational	▪ Costs based on nominal production run-rate of 15Mtpa, assuming: • Abydos – 230-300kt/mth • Wodgina – 480-550kt/mth • Mount Webber – 450-580kt/mth • Corunna – 333kt/mth • McPhee - 333kt/mth ▪ Assumes average expected moisture over the next 24 months: • Abydos – 3.8% • Wodgina – 5.7% • Mount Webber – 4.5% • Corunna – 4.5% • McPhee– 4.5% ▪ Average assumed grade of Atlas ore of approximately 57% Fe, compared with benchmark grade of 62% Fe ▪ Average assumed lump premium of USD 6.50/dmt, with lump contributing 66% of Abydos and 50% of Mount Webber, 57% of Corunna and 50% of McPhee product. No lump product assumed to be produced at Wodgina ▪ Average 'Other' contractual penalties of USD 0.30/dmt assumed to provide for impurities not specified in contracts
General / other	▪ Collaboration Agreement Profit Share included for Wodgina and Abydos ▪ No Contractor Collaboration Deed cost savings assumed for Mount Webber, however 10-12% mining cost savings are being realised (via the BGC Agreement) and haulage savings provided by McAleese subject to cost uplift tied to received iron ore prices ▪ No Contractor Collaboration Deed cost savings assumed for Corunna and McPhee ▪ Corporate, administration, exploration and evaluation costs of approximately $2.0 million per month

Source: Management and Financial Models

5.2. Forecast income statement

The forecast financial results for the period ending 30 June 2020, using Management's key assumptions (Section 5.1), are presented in the table below.

Table 24 Summary of forecast financial information

		Actual			Forecast			
Year ended/ending 30 June	**Unit**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Iron ore shipped	kwmt	10,921	12,175	14,307	12,774	12,672	14,633	15,011
Full cash costs (Expenditure/iron shipped)	$/wmt	80.9	60.4	52.1	52.2	52.0	54.8	57.9
Revenue	**$ million**	**1,110**	**718**	**793**	**669**	**698**	**882**	**974**
Expenditure	$ million	884	735	793	668	650	790	864
EBITDA	**$ million**	**255**	**(142)**	**38**	**18**	**63**	**109**	**126**
EBIT	**$ million**	**59**	**(259)**	**(55)**	**(57)**	**(24)**	**23**	**58**

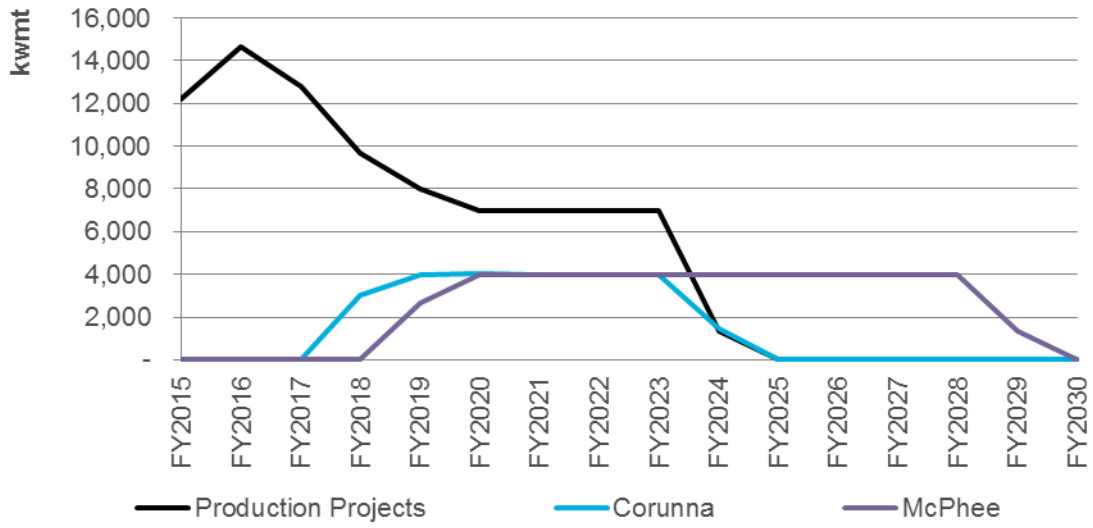
Source: Stautory financial statements, Corporate Model and Corunna Model
Note: May not add due to rounding

5.3. Comments on the forecast income statement

5.3.1. Revenue

The Financial Models assume the following volumes of iron ore, lump and fines are shipped for each project over their mine lives.

Figure 12 Forecast ore shipments



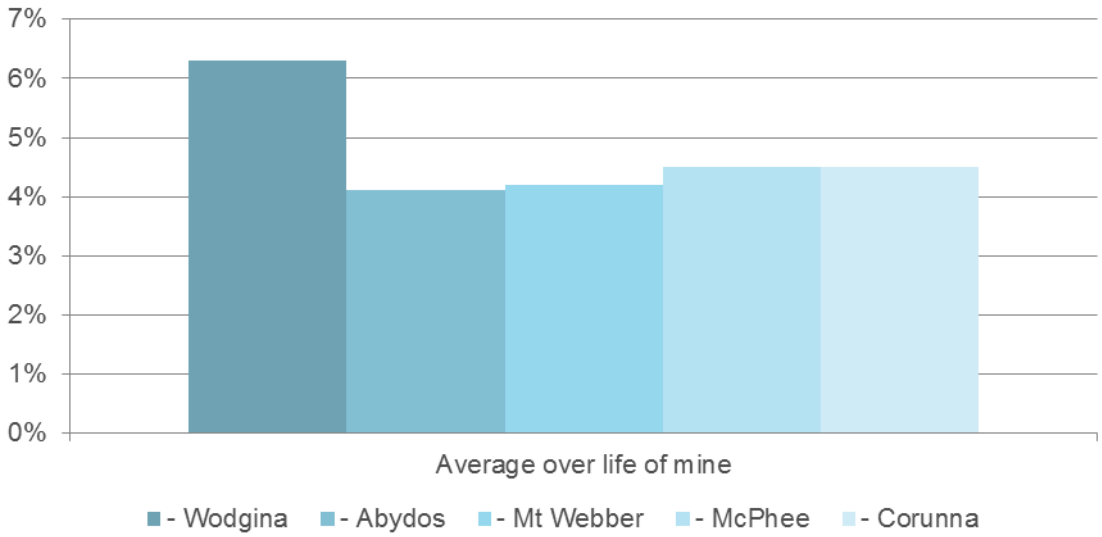
Source: Financial Models

Total ore shipped in tonnes is relatively stable at between 12 Mwmt and 15 Mwmt.

Management is of the view that lump premiums have been unseasonably weak in January 2016 and this has reduced the uplift received by Atlas. Industry forecasters, however, expect this to be a temporary change and strong premiums should return to be at least equal to the cost savings at the mills from not having to sinter the ore.

The moisture content has been assumed as follows over the life of the mines.

Figure 13 Forecast moisture content



Source: Financial Models

Revenue and profitability is impacted almost entirely by iron ore prices, exchange rates and shipping costs

5.4. Forecast balance sheet

The forecast balance sheet as extracted from the Corporate Model for the Production Projects including McPhee, using Management's key assumptions (Section 5.1), is summarised in Table 25. The Corporate Model excludes the balance sheet for Corunna because there is no balance sheet for Corunna in the Corunna Model.

Table 25 Summary forecast balance sheets

$ million	Actual YTD Feb-16	Forecast Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Cash and cash equivalents	75.1	67.2	50.7	27.2	59.3	75.0
Trade receivables	46.7	46.8	45.6	44.9	46.0	46.4
Inventories	18.2	14.5	10.0	14.0	22.8	23.2
Other	18.0	18.4	18.4	18.4	18.4	18.4
Total Current Assets	**157.9**	**146.9**	**124.7**	**104.5**	**146.5**	**163.0**
Fixed assets	530.5	525.1	452.8	424.1	373.8	321.4
Intangible assets	0.9	0.9	0.9	0.9	0.9	0.9
Other	133.0	10.5	10.5	10.5	10.5	10.5
Total Non-Current Assets	**562.8**	**536.5**	**464.2**	**435.4**	**385.2**	**332.8**
Total Assets	**720.7**	**683.4**	**588.9**	**539.9**	**531.7**	**495.8**
Trade payables	(95.5)	85.4	74.6	73.2	75.3	76.2
Other provisions	(103.9)	102.5	97.1	95.9	90.2	87.8
Payables non-cash	0	5.8	5.8	5.8	5.8	5.8
Provisional pricing payable	0	0.1	0.1	0.1	0.1	0.1
Current portion of royalty payable	0	9.1	3.0	–	–	–
Total debt	(364.0)	197.4	200.4	203.4	206.5	146.0
Total Liabilities	**(466.7)**	**400.3**	**380.9**	**378.4**	**377.7**	**315.9**
Net Assets	**157.3**	**283.1**	**208.0**	**161.6**	**153.9**	**180.0**

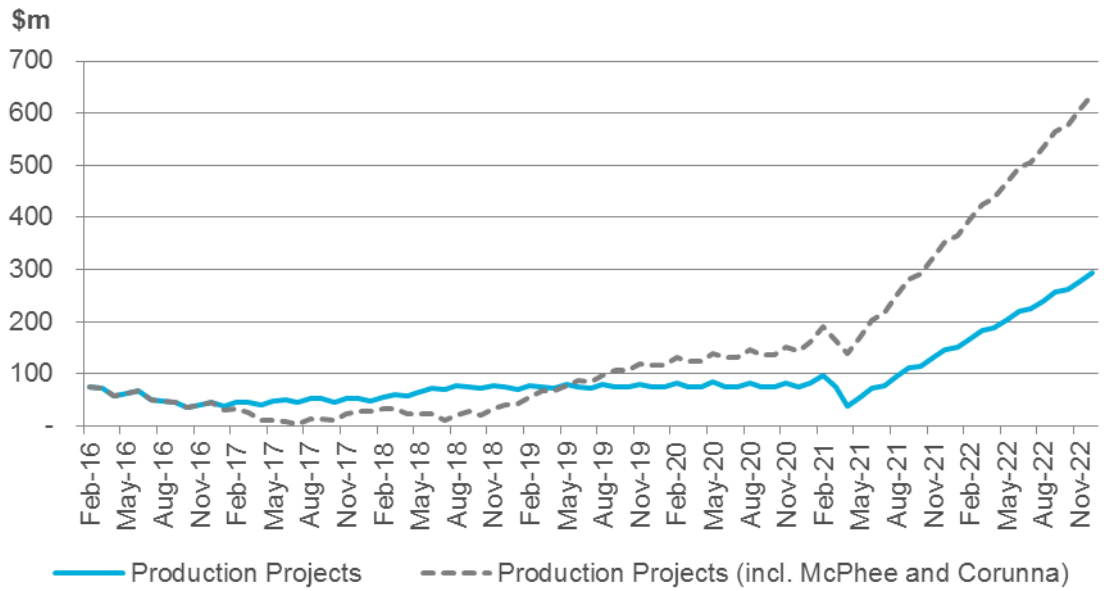
Source: Corporate Model, management accounts
May not add due to rounding

5.5. Comments to the forecast balance sheet

5.5.1. Cash and cash equivalents

Forecast cash at bank to 30 November 2022, using Management's key assumptions is forecast and summarised in Figure 14.

Figure 14 Graph of forecast bank balance



Source: Corporate Model, management accounts

Management has assumed that the costs of commencing production at Corunna and McPhee will be funded from operating cash flows.

5.5.2. Fixed assets

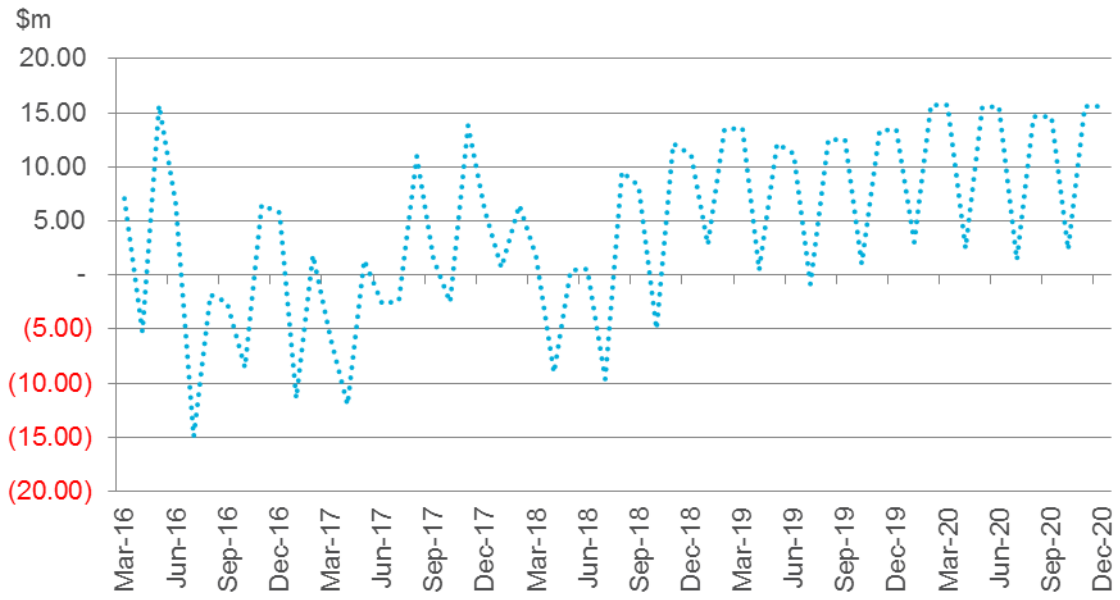
Fixed assets comprise:

- property, plant and equipment
- mine development costs
- evaluation expenditure - reserve development
- mining tenements capitalised.

5.6. Forecast cash flows:

Based on Management's assumptions summarised in Section 5.1 above, the forecast monthly cash flows to 31 December 2020 are summarised in Figure 15.

Figure 15 Graph of forecast cash flows



Source: Corporate Model

6. Valuation methodology

6.1. Overview

There are a number of approaches available to assess the value of a business which we have considered in the preparation of this report. These approaches are summarised below:

- market approach, including comparable transaction and farm-in transaction data
- income approach, including discounted cash flow ("DCF") and expected monetary value analysis
- cost approach, including amounts spent to date.

Appendix B sets out the common valuation approaches and methodologies which have been considered for the valuation of Atlas.

The valuation has been based on the sum of the parts due to the nature of the operations of Atlas including Production Projects, Development Projects, Exploration Projects, Pre-Development Projects, investments, cash balances and other assets and liabilities.

6.2. Selection of primary valuation methodologies

The Company's key assets are a combination of Production Projects, Development Projects, Exploration Projects and Pre-Development Projects.

In selecting the appropriate methodology with which to assess the value of the assets of Atlas, we have considered the various valuation methodologies available, the nature of the assets and the nature of the financial information available.

6.2.1. Valuation of Production Projects and Development Projects

Management has prepared the Corporate Model with long term financial projections for the Production Projects including Wodgina, Abydos and Mount Webber as well as the McPhee Development Project. There is a separate Corunna Model prepared for the PFS announced 23 December 2015, which is in a similar format to the Corporate Model, except the projections are quarterly and it does not include a balance sheet.

The Financial Models include cash flows for the remaining life of each mine/project. For the valuation of the Production Projects and the Development Projects, we have used the income approach, specifically the DCF method, because it explicitly considers the timing and amount of the cash flows for each of the projects which have finite lives and they have significant capital costs and variable production and cost profiles.

6.2.2. Valuation of Exploration Projects

We have not used the DCF to value the Exploration Projects because of the early stage of development of these assets and the high level of risk and uncertainty of the development plans. Management has not prepared long term financial projections for the Exploration Projects.

A number of significant risks and uncertainties need to be mitigated prior to the development of the Exploration Projects including building the necessary infrastructure, further exploration analysis and preparation of the site for mining activities.

The selection of the appropriate valuation method is primarily dependent on the availability and reliability of relevant information. The available information is usually related to the classification or development status of the mineral asset. Early stage projects typically have less information available compared to later stage projects because projects tend to advance as more work is carried out and therefore more information is generated.

Based on the VALMIN Code classification for the exploration assets, we have used the cost approach, specifically the Multiple of Exploration Expenditure ("MEE"). This approach considers the costs incurred in connection with the exploration and development of a project and applies a Prospectivity Enhancement Multiplier ("PEM") which adjusts the exploration expenditure base depending on the degree to which the past exploration expenditure has improved (or diminished) the prospectivity of the asset.

We have reviewed the feasibility studies and scoping studies for these assets. Some of the scoping studies include net present value calculations. These do not necessarily represent fair market value because they are de-risked financial projections that assume the commencement of the project development after the resolution of the key risks and uncertainties. They do, however, provide useful information of the potential value of the asset on a stand-alone basis against which we bench marked our fair market value assessments using our valuation approach.

Since Corrunna and McPhee are expected to become Production Projects in October 2017 and August 2018 respectively, and require funding beyond the operating cash flows of the Production Projects, we have also valued them using the MEE and the Geoscience Matrix method. We have used these values as a cross check to our values derived using the DCF.

6.2.3. Valuation of Pre-Development Projects

In valuing the Pre Development Projects, we have used a combination of the cost approach (as per the Exploration Projects) and the market approach, specifically, we have used the comparable trading methodology, which estimates the value of the subject asset or project based on a comparison of the market value of publicly traded companies and the contained Fe in their Mineral Resources.

6.2.4. Valuation of Investments and other assets

Atlas has investments in the port development joint venture and a listed exploration company.

The fair market value of the shares in the listed company has been based on the current market prices of the shares having regard to the marketability of the level of interest held.

The fair market value of the port development joint venture has been based on our analysis of its net assets in its recent financial statements because the port development joint venture is loss-making with negative earnings.

6.3. Selection of cross checks

We have cross-checked the reasonableness of the valuation of Atlas using our primary methodology by:

- calculating the implied EBITDA multiples of Atlas and comparing them to potentially comparable listed companies
- calculating the net asset values of the Company
- considering the prices at which the Company's shares have traded on ASX.

The prices at which a company's shares trade on a securities market are typically at a discount to the fair market value of a company as a whole. The difference in value is commonly referred to as the "premium for control". Our valuation of Atlas as a whole therefore includes a control premium.

6.4. Definition of fair market value

For the purpose of our opinion, fair market value is defined as:

> *"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."*

Fair market value, as defined above, is a concept of value which may or may not equal the "purchase/sale price" that could be obtained if the shares were sold to a special purchaser in an actual transaction in the open market.

Special purchasers may be willing to pay higher prices to gain control or obtain the capacity to reduce or eliminate competition, ensure a source of material supply or sales, achieve cost savings arising on business combinations following acquisitions or other synergies which could be enjoyed by the purchaser. Special value is typically defined as:

> *"The additional value that a purchaser is prepared to pay, which reflects such factors as a potential economies of scale, reduction in competition, the securing of a source of supply or outlet for products, and which additional value is unique to that purchaser."*

Our valuation will not be premised on the existence of a special purchaser.

7. Valuation of the Production Projects and the Development Projects

7.1. Introduction

In determining the fair market value of Atlas using the sum of the parts, we have valued the Production Projects and the Development Projects using the income approach, specifically the DCF method.

7.2. DCF method

The DCF method estimates the fair market value by discounting future cash flows to their present value.

To value the Production Projects and the Development Projects using the DCF method requires the determination of the following:

- forecast after tax free cash flows
- an appropriate discount rate to be applied to the cash flows.

Our considerations on each of these factors are presented below.

7.3. Forecast cash flows

Management has prepared the Financial Models (Corporate Model and the Corunna Model) for the Production Projects and the Development Projects. The Financial Models include projections of nominal after tax cash flows. These forecast cash flows, which formed the basis of our valuation, are summarised in Appendix F and Appendix G.

There are a number of key assumptions adopted by Management in the preparation of their financial projections in the Financial Models. These key assumptions are summarised in Section 5.1. We have adopted most of Management's assumptions other than the assumptions in relation to:

- forecast iron ore pricing. Management used the forecast iron ore price based on the futures price for 6 months to 31 August 2016, progressively stepped up to the forecast ore prices provided by three of the Independent Forecasters.

  We have forecast iron ore price based on the Bloomberg futures prices for 6 months to 31 August 2016, then progressively stepped up to the average[1] of the four Independent Forecasters at December 2016. Thereafter, we have used the average[1] of four of the Independent Forecasters
- forecast exchange rates. Management used the AUD/USD forward curve for the first 6 months, before stepping up to the forecast exchange rates provided by three of the Independent Forecasters.

  We have used the current rate (as at the Valuation Date) of AUD/USD 0.71 until 31 August 2016, then progressively stepped up to the average[1] of the four of the Independent Forecasters at December 2016. Thereafter, we have used the average[1] of four of the Independent Forecasters
- forecast lump premium. Management used $6.50/dmt over the forecast period. We have used a forecast lump premium based on 12.5% of the assumed iron ore price

We have included adjustments for working capital, capital expenditure and taxation based on the data in the Financial Models.

These key assumptions are discussed below.

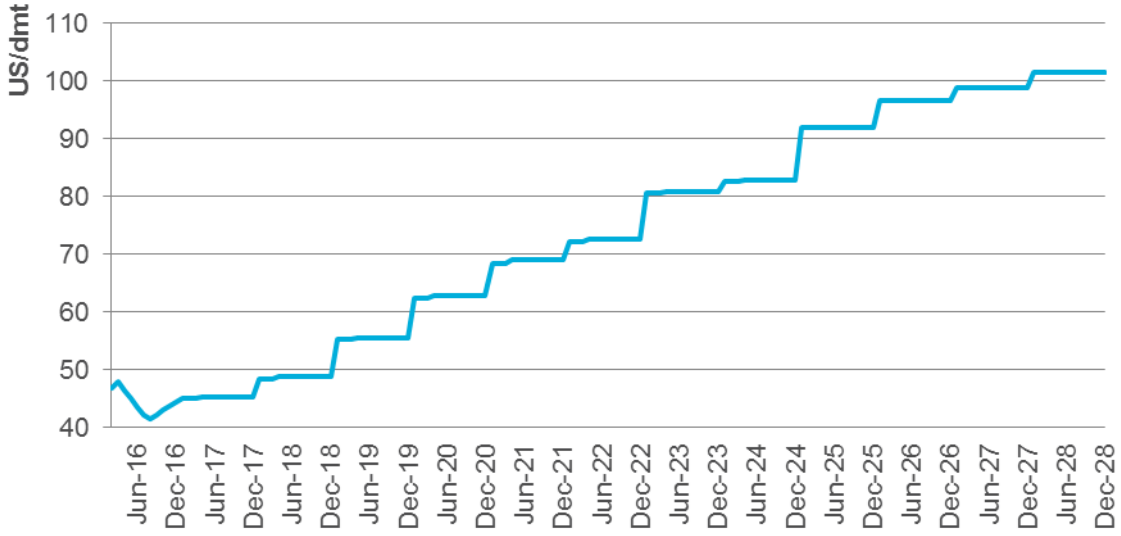
---

[1] *Excluding outliers using an 80% confidence interval*

7.3.1. Forecast iron ore pricing

We have used a forecast of the iron ore prices based on the futures prices for 6 months to 31 August 2016 and then progressively increased the iron ore price to the average[2] of the forecasts of the Independent Forecasters from December 2016. The Independent Forecasters have stated that the forecast commodity prices are in nominal terms. Typically commodity prices move independently of inflation. Our assumption on the forecast iron ore pricing is summarised in Figure 16.

Figure 16 Forecast iron ore prices (nominal)



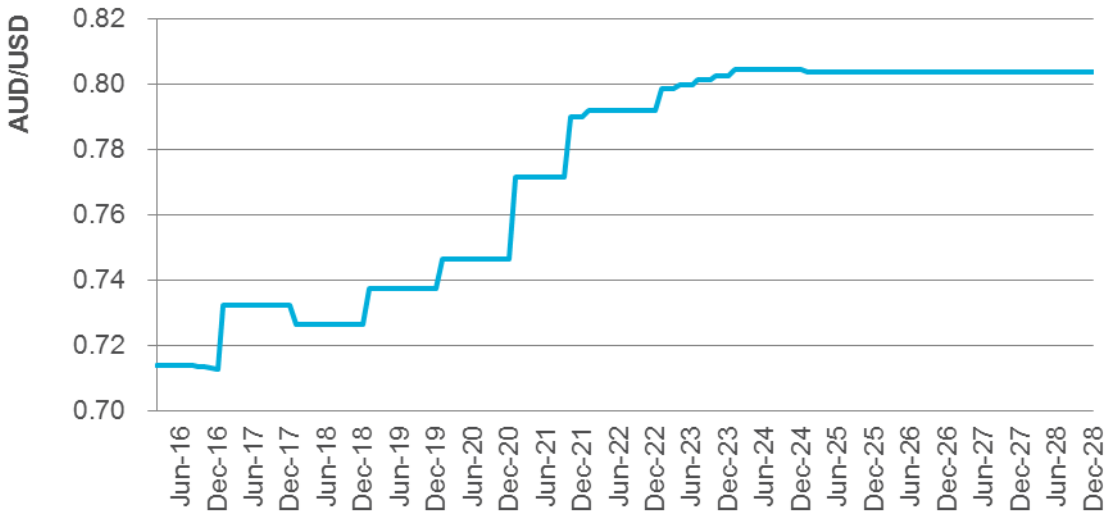
Source: PPB Advisory analysis and Independent Forecasters data, Atlas Management

7.3.2. Forecast exchange rates

We have used the current rate (as at the Valuation Date) of AUD/USD 0.71 until 31 August 2016, then progressively stepped up to the average[2] of four of the Independent Forecasters from December 2016.

Our assumption on the forecast exchange rates is summarised in Figure 17.

Figure 17 Forecast exchange rates



Source: PPB Advisory analysis and Bloomberg

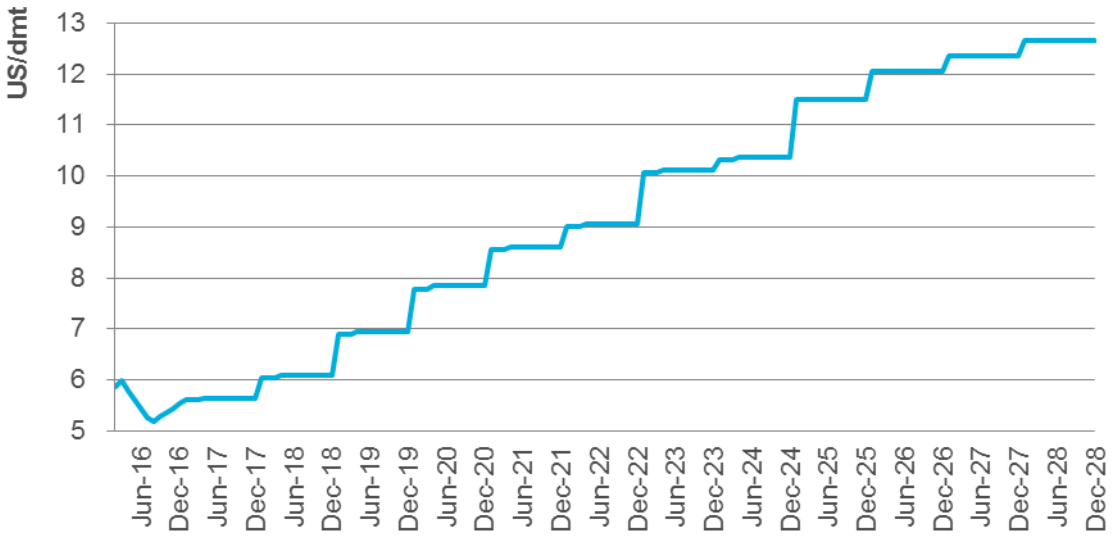
[2] *Excluding outliers using an 80% confidence interval*

7.3.3. Forecast lump premium

Atlas commenced producing lump in 2015 and has achieved attractive premiums to date. Based on our review of premiums achieved for lump by Atlas and its competitors, we note that the premium has been approximately 12.5% of the iron ore price at the time. We have therefore assumed a lump premium of 12.5% of the forecast iron ore price in our valuation of Atlas.

Our assumption on the forecast lump premium is summarised in the following chart Figure 18.

Figure 18 Forecast lump premium

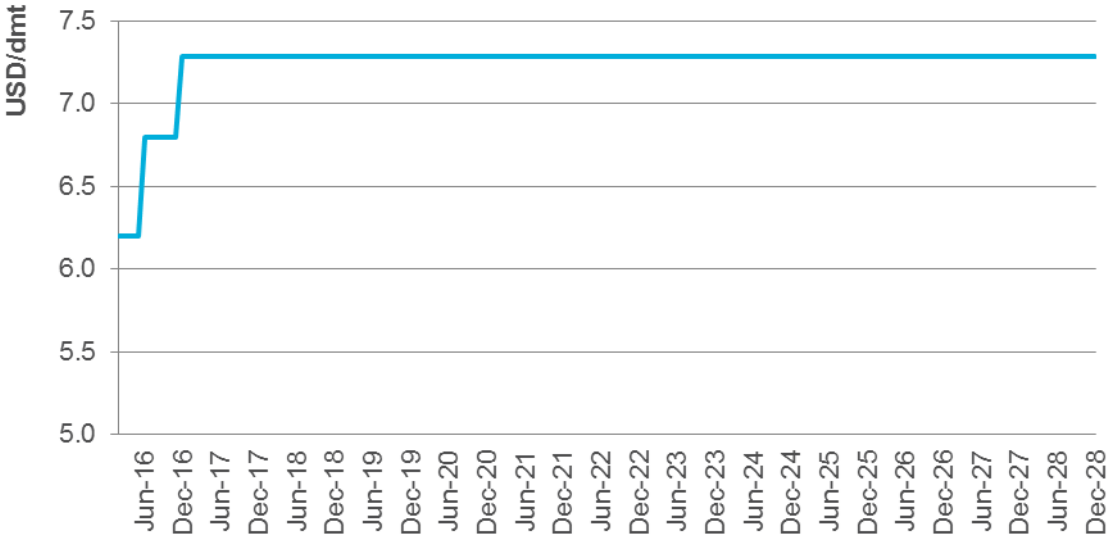


Source: Financial Models, PPB Advisory analysis and research

7.3.4. Forecast shipping rates

We have assumed shipping rates to be as shown in Figure 19. These are in accordance with the assumptions in the Financial Models.

Figure 19 Forecast shipping rates



Source: Financial Models, PPB Advisory analysis and research

7.3.5. Other assumptions

Working capital

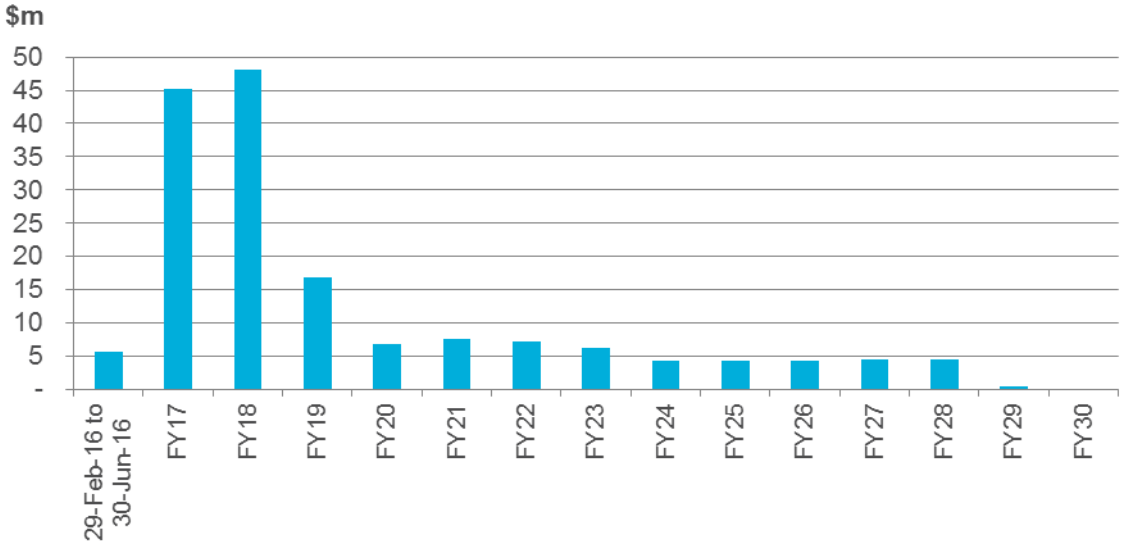
We have calculated working capital based on data in the Financial Models, specifically:

- **Receivables**: 95% of revenue to be received in month of shipment, with remaining 5% received 2 months following month of shipment
- **Inventory:** reflect the timing differences between forecast production and sale (shipping) volumes, and
- **Payables:** expenses paid in the month they are incurred. Following the refinancing, it is assumed that on average, approximately.$10 million of expenses are paid in the month following the month they are incurred.

Capital expenditure

Based on information in the Financial Models, capital expenditure is forecast to peak in FY18 at $45.2 million (relating to Corunna and McPhee construction capital expenditure) and then reduce to between $4 million and $7 million per annum during the period 1 July 2019 to 30 June 2030 (as shown in Figure 20). Total capital expenditure between 1 March 2016 and 30 June 2030 is $166 million, with the majority of the expenditure ($116 million) being incurred by 30 June 2019. We have accepted Management's forecast capital expenditure. Based on the assumptions in the Financial Models capital expenditure is forecast as follows:

Figure 20 Forecast capital expenditure



Source: Financial Models, PPB Advisory analysis

Taxation

We have assumed the Company's carried forward tax losses of $1.39 billion as at June 2015[3] will be sufficient to absorb any tax payable during the forecast period. Under our assumptions, the tax losses will decrease to approximately $1.3 billion by 2030.

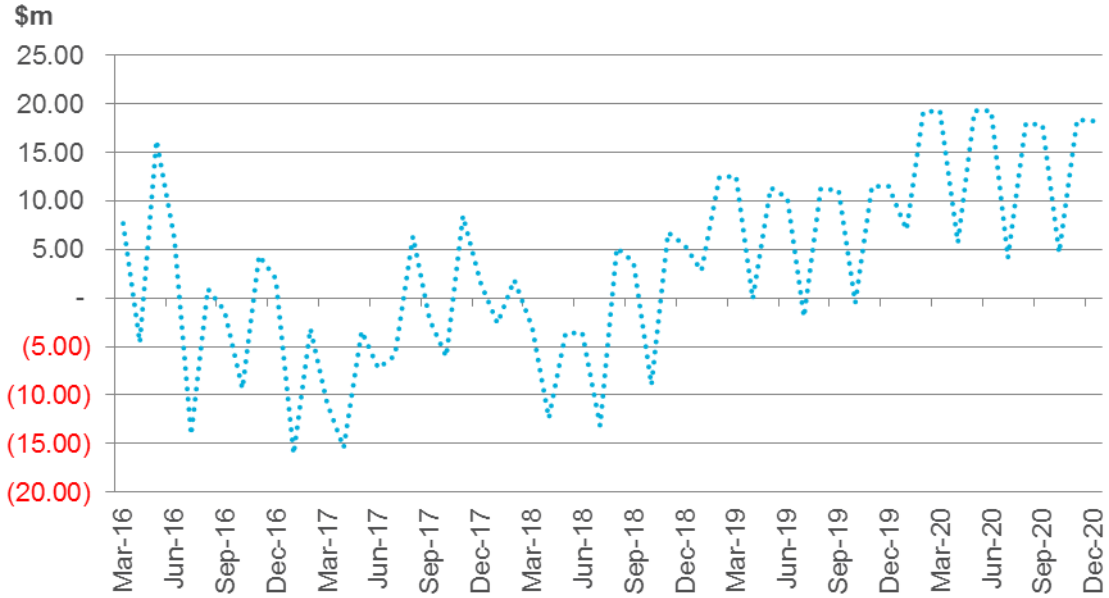
[3] *Per 30 June 2015 annual financial statements*

7.3.6. Summary of forecast cash flows

Detailed forecast cash flows are presented in Appendix F and Appendix G.

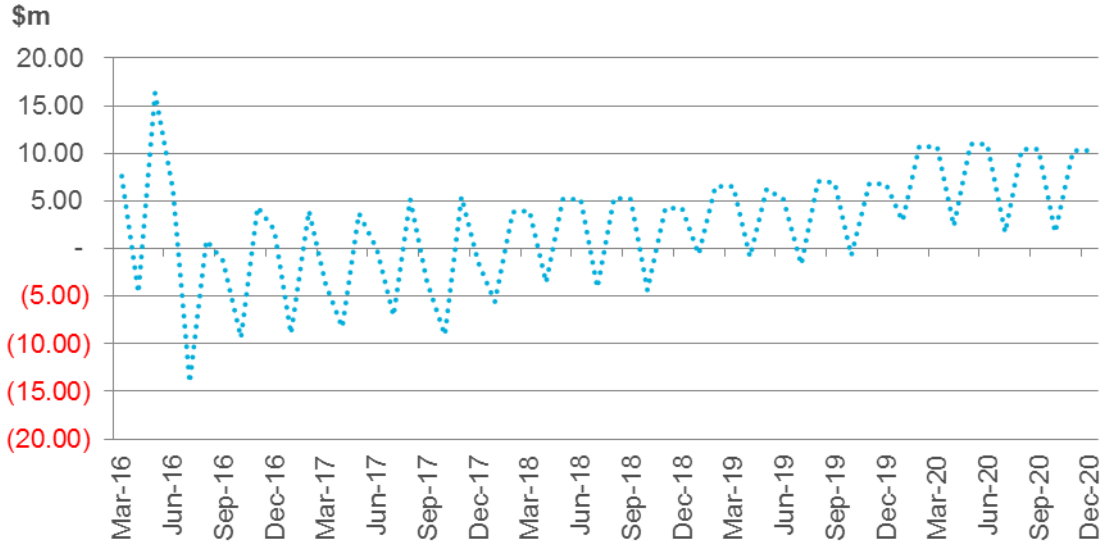
Based on our assumptions the forecast cash flows for the Production Projects including and excluding the Development Projects between 1 March 2016 and 31 December 2020 are summarised in Figure 21 and Figure 22.

Figure 21 Graph of the forecast monthly cash flows including Corunna and McPhee



Source: Financial Models

Figure 22 Graph of the forecast monthly cash flows excluding Corunna and McPhee



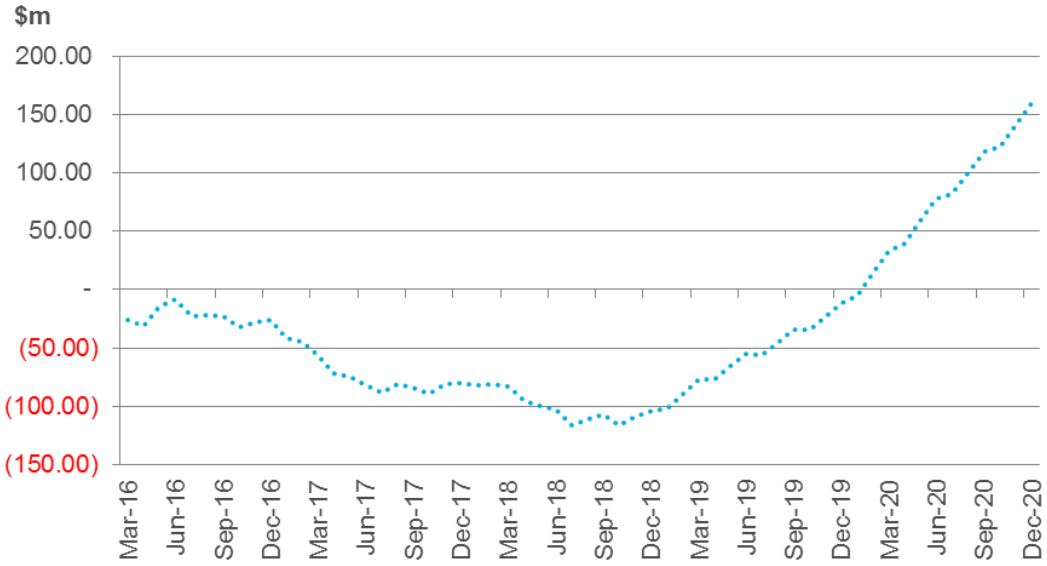
Source: Financial Models

The forecast monthly cash flows are reasonably stable, however, increase as Corunna and McPhee commence and increase production.

The negative peaks in cash flows are generally as a result of the royalty payments which are approximately $10 million to $16 million per quarter as well as expenditure required to bring Corunna and McPhee into production around September 2017 and August 2018 respectively.

Based on our assumptions the forecast cumulative cash flows for the Production Projects including the Development Projects are summarised in Figure 23.

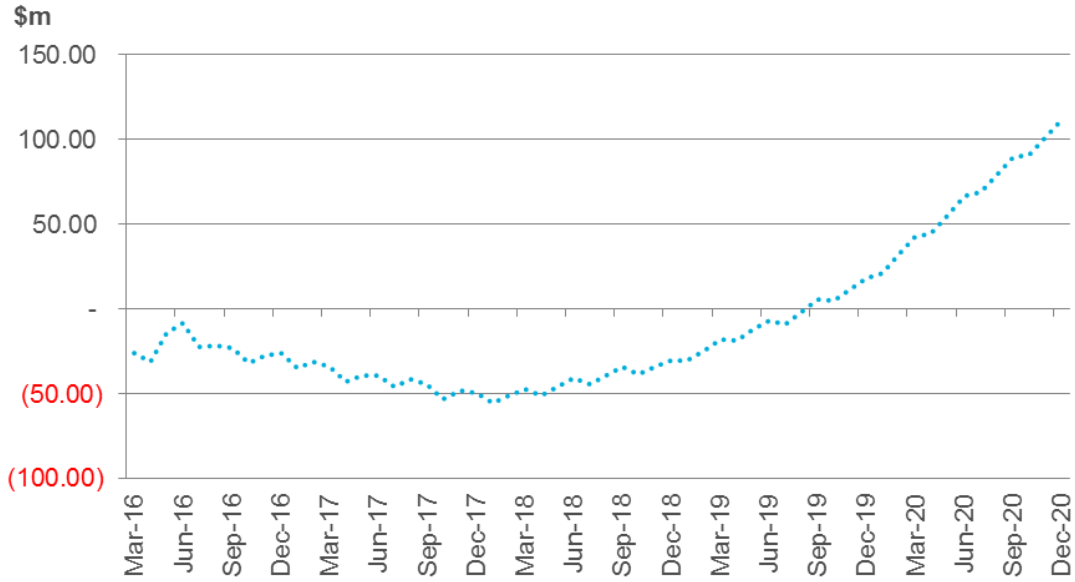
Figure 23 Graph of the cumulative cash flows including Corunna and McPhee



Source: Financial Models

Based on our assumptions the forecast cumulative cash flows for the Production Projects excluding the Development Projects are summarised in Figure 24.

Figure 24 Graph of the cumulative cash flows excluding Corunna and McPhee

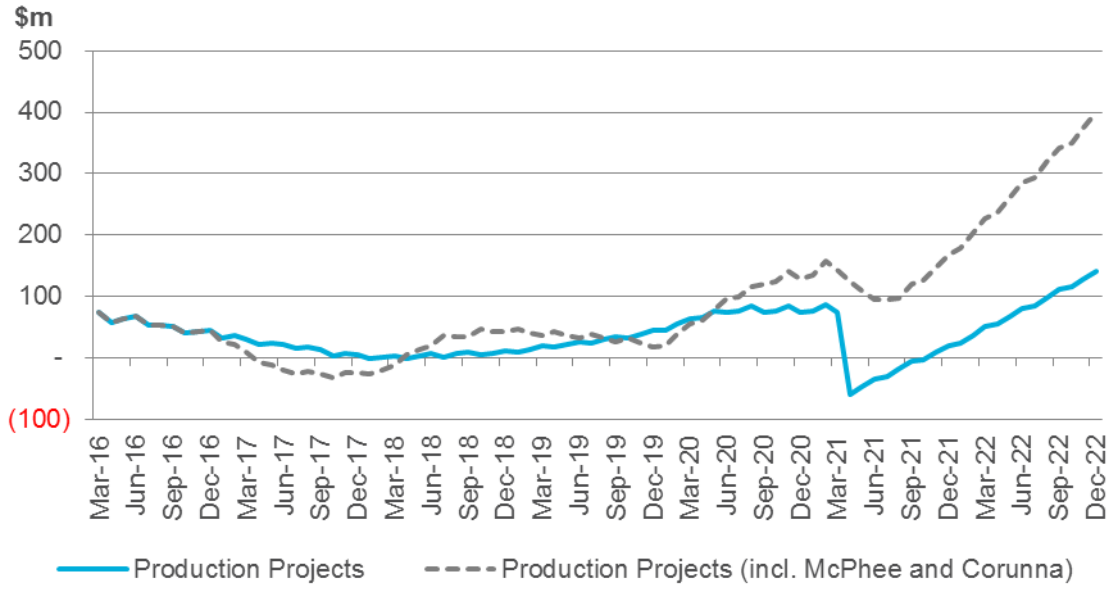


Source: Financial Models

From Figure 23 and Figure 24, it appears that the Production Projects will require external funding from March 2017 as operating cash flows will not be sufficient to support their funding requirements.

In addition to the above forecast cash flows, on the Valuation date, Atlas has a cash balance of $75 million. With this balance it also appears that there will be insufficient funding to sustain the negative operating cash flows of the Development Projects between March 2017 and March 2018 and around March 2021 (refer Figure 25).

Figure 25 Graph of the forecast bank balance



Source: Financial Models

The above figures have been prepared using on PPB Advisory's assumptions as summarised in Section 7.3 above.

We note that based on Management's assumptions, Management is forecasting to have sufficient cash flows to commence operations at Corunna and McPhee (refer section 5.5.1).

Based on our analysis, the Company will need to seek additional funding, for ongoing operations of the Production Projects (in March 2021) and to commence production at Corunna and McPhee.

Management believes that there are a number of options available to them to generate sufficient cash flows to cover the funding deficiencies, including:

- hedging of iron ore sales
- profit/development cost sharing arrangement with the mining contractors
- equity funding at a project or a corporate level
- short term debt funding including prepayments
- short delay in production commencement at Corunna.

7.4. Discount rates

The discount rate used to equate the forecast cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected a nominal after tax discount rate in the range of 12% to 13% to discount the forecast cash flows of the Production Projects and the Development Projects to their present value.

We note that the Company used an after tax nominal discount rate of 11% (and 13.5% for Corunna) in its impairment testing model for accounting purposes at 31 December 2015.

In selecting this range of discount rates, we considered:

- the required rate of return of listed companies in a similar business
- the specific business and financing risks of Atlas and the Production Projects and the Development Projects.

The detailed discussions on these matters are provided in Appendix E.

7.5. Terminal value

Since the Financial Models represents the cash flows for the Production Projects and the Development Projects over their estimated useful lives that are finite, there is no terminal value.

7.6. Valuation summary - Production Projects and Development Projects

The values for the Production Projects and the Development Projects derived using the DCF method are summarised below. Our calculations are included in Appendix H and Appendix I.

Table 26: Valuation summary - Production Projects and Development Projects

Present value of forecast cash flows	Appendix	Low Value $ million	High Value $ million
Production Projects	H	235.97	247.10
Development Project - Corunna	I	93.96	99.05
Development Project - McPhee	H	187.83	204.19
Net present value of forecast cash flows		**517.75**	**550.34**

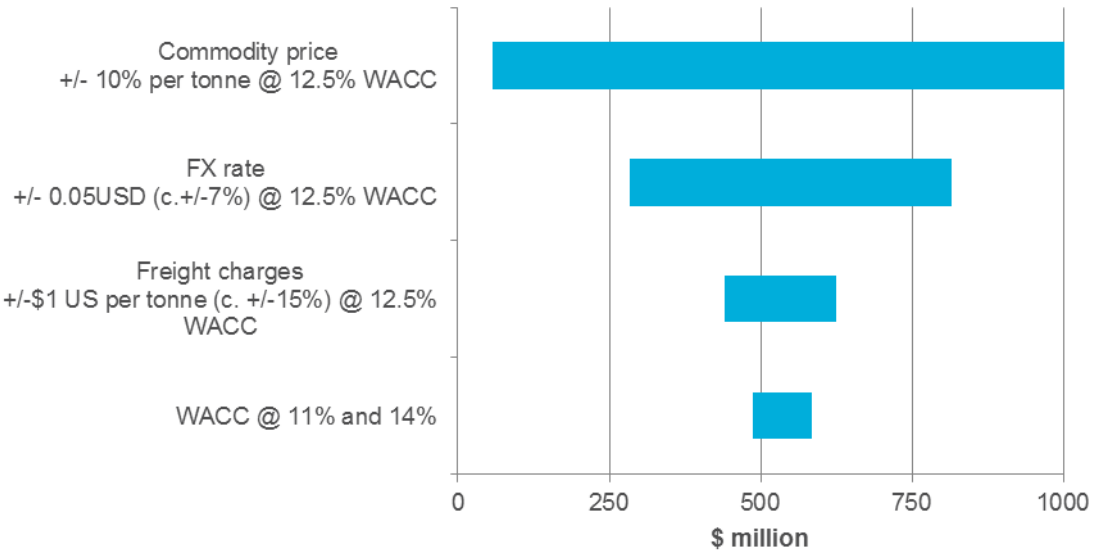
Source: PPB Advisory analysis

The above values are highly sensitive to changes in iron ore prices, assumed in the forecast cashflows. This sensitivity arises because Atlas' revenue is highly dependent on iron ore prices. Our assumed forecast iron ore prices as summarised in Figure 16 increase from approximately USD 47.9/dmt to USD 101/dmt (110%) between Valuation Date and December 2028.

The present value calculated for the Production Projects is inclusive of the cash flows for corporate overheads.

Our sensitivity analysis based on the midpoint of our discount rate range is summarised in Figure 26.

Figure 26 Summary of sensitivity analysis



Source: PPB Advisory analysis

The valuation is also sensitive to exchange rates as indicated in Figure 26, which demonstrates the effect of applying a (+/-) USD 0.05 to the forecast exchange rates. The valuation assumes the current rate (as at the Valuation Date) of AUD/USD 0.71 until 31 August 2016, then progressively stepped up to the average[4] of the four of the Independent Forecasters at December 2016. Thereafter, we have used the average[4] of four of the Independent Forecasters of approximately AUD/USD 0.80 from December 2023 to December 2028. Refer Figure 11.

[4] *Excluding outliers using an 80% confidence interval*

Our valuation is not particularly sensitive to changes in the discount rate due to the relatively short (albeit varying) lives of Production Projects and the Development Projects and relatively stable annual cash flows, with minimal growth (Refer Figure 22).

8. Valuation of Pre-Development Projects, Exploration Projects and Investments

8.1. Introduction

In determining the fair market value of Atlas using the sum of the parts, we have assessed the value of the Pre-Development Projects and Exploration Projects based on:

- historical acquisition and expenditure information provided by Management
- report prepared by Golder & Associates on McPhee Hub and Davidson Creek Hub Iron ore Projects dated July 2015
- report prepared by Ravensgate on the technical review and independent valuation of Giralia Resources dated 5 January 2011
- report prepared by Agricola Mining Consultants on the independent valuation of the exploration assets held by Warwick Resources dated 22 September 2009
- comparable company information sourced from Capital IQ and public reports
- our own experience and knowledge of exploration, mining and valuation of mineral projects.

Selected Methodology

For the reasons outlined in the previous section of this report, we consider the most appropriate methodology to value the Exploration Projects (ie those early stage projects where no resources have been defined) is the MEE methodology (Cost Approach).

For the Pre-Development Projects (ie those projects where resources have been defined but no feasibility study has been completed and/or a decision to mine has not been made) we consider a combination of the MEE methodology and comparable trading methodology (Market Approach) to be most appropriate.

8.2. Cost Approach – Multiple of Exploration Expenditure

Exploration expenditure

The MEE methodology considers the costs incurred in connection with the exploration and development of an exploration tenement or mining licence. The costs can be generally categorised as acquisition costs (ie the cost of acquiring the tenement from a third party) and expenditure costs (ie the cost of undertaking exploration, evaluation and development activities). Together, these costs and expenditures comprise the expenditure base.

It is widely accepted that only relevant and effective past exploration expenditure should be considered in a MEE valuation assessment.

In order for exploration to be considered relevant and effective, the expenditure must:

- relate specifically to the tenement being assessed
- enhance or contribute to the value of the relevant tenement which is consistent with the prospectivity for which it is currently being evaluated.

Set out below are the criteria which should be met in order for exploration expenditure to be considered relevant and effective:

- **Relevant** – past exploration is related to the perceived exploration potential of the tenement or project at the date of the valuation.
- **Effective** – past exploration adequately fulfilled its intended purpose to identify and test relevant targets.

Below are examples of when expenditure may not be considered relevant and effective. In these circumstances the expenditure may be reduced or excluded entirely from the Expenditure Base.

- Exploration which is not undertaken correctly/efficiently or properly reported.
- Historic exploration which has been superseded, become redundant, or can now be undertaken more efficiently due to technological advances.
- Historical exploration which related to a mineral which is not the current focus of the tenement should be excluded.
- Expenditure associated with travel and administration may be excluded or limited (together with other overhead expenditure) to 10% - 15% of total expenditure.

We have assumed all expenditure undertaken in the past five years to be relevant and effective.

In our opinion, any activities undertaken prior to this period are not likely to be relevant to our assessment on the basis that it is outdated and no longer considered effective. This is in line with generally accepted valuation practice.

There are instances where budgeted expenditure may also be included in the exploration base. However, in our experience it is more common to consider budgeted expenditure when there is limited historical exploration. As at the Valuation Date, there had been no exploration expenditure attributable to Atlas on the following tenements:

- EL5129 (Atlas is a minority JV partner)
- E52/3306 (still under application)
- E36/1040.

Accordingly, we have assumed that the budgeted expenditure will be equivalent to the annual expenditure commitment and we have included this amount for 2015 in the expenditure for these three tenements.

We have ignored any potential future expenditure for the remaining tenements on the basis there was no committed expenditure on the Valuation Date and the outcome of any exploration is likely to be uncertain.

Expenditure base

We have relied on historical cost information provided to us by Management for the purposes of our valuation assessment.

The acquisition costs represent the carrying value of each tenement at the next applicable reporting date following the acquisition.

The exploration expenditure represents total expenditure by Atlas from the date that Atlas acquired the tenement or where Atlas applied for the tenement, from the date the tenement was granted.

A summary of the expenditure base comprising acquisition costs and exploration expenditure (in real terms) for each of the Pre-Development Projects and Exploration Projects is set out in Table 27. Further details in relation to the date of acquisition and cost for individual tenements comprising each project area are provided at Appendix J.

Table 27: Summary of expenditure base by Pre-Development Projects and Exploration Projects (in AUD)

Project	Acquisition Cost $	Expenditure Cost $	Expenditure Base $
Anthiby Well	6,301,000	168,317	**6,469,317**
Blue Rose (joint venture PacMag)	904,000	-	**904,000**
Corktree	500,000	504,730	**1,004,730**
Farrell's Well	1,125,000	2,871,260	**3,996,260**
Hickman	-	4,606,534	**4,606,534**
Jigalong	63,899,000	19,867,915	**83,766,915**
Jimblebar	8,340,000	3,975,958	**12,315,958**
Mount Gould	7,105,545	649,903	**7,755,448**
Upper Ashburton	3,840,000	2,993,541	**6,833,541**
Warrawanda	3,770,000	1,950,702	**5,720,702**
Watershed	600,000	571,800	**1,171,800**
Weld Range	9,302,391	546,130	**9,848,521**
Western Creek	53,240,000	3,728,901	**56,968,901**
Western Shaw	575,000	422,650	**997,650**
Yuinmery	-	1,833,812	**1,833,812**
Total	**159,501,936**	**44,692,152**	**204,194,088**

Source: PPB Advisory analysis, Management
Note Atlas is in the process of selling Weld Range

Prospectivity Enhancement Multiplier

We have multiplied the expenditure base by the Prospectivity Enhancement Multiplier ("PEM"). The PEM adjusts the expenditure base depending on the degree to which the past exploration expenditure has improved (or diminished) the prospectivity of the tenement as a whole for each prospect within the tenement.

The valuation methodology is based on the economic principal of replacement cost whereby the purchaser of a non-cash generating asset will pay a price equivalent to the cost of securing the tenement plus the value of any exploration carried out on that tenement (which the buyer would also have had to expend in order to advance the project to the same stage as at the valuation date) plus or minus a premium/discount to account for the increased or decreased prospectivity of that project as a result of the work carried out.

We note that the assessment as to whether or not there is increased prospectivity is subjective and there is no standard guideline which correlates the prospectivity of a project to a particular PEM. However, the methodology itself is widely adopted, for example as described by the VALMIN code and the Australian Taxation Office ("ATO").

We note that the assessment as to whether or not there is increased prospectivity is subjective and there is no standard guideline which correlates the prospectivity of a project to a particular PEM. However, the methodology itself is widely adopted, for example as described by the VALMIN code and the ATO.

M.J. Lawrence (past President of the Australasian Institute of Mining and Metallurgy) has published a set of widely accepted guidelines to assist with the selection of an appropriate PEM. These generally accepted PEM schemas are set out in Table 28 below and we have adopted them in our valuation.

Table 28 Generally accepted PEM schemas

PEM	Description
0	No further exploration is justified. The tenement should be relinquished.
0 - 0.5	Exploration has significantly downgraded the tenement's prospectivity. The tenement remains at the grass roots stage in spite of considerable past and current exploration expenditure. Further exploration is not justified and a JV based upon a future royalty, or disposal (by sale or relinquishment) are the best options.
0.5 - 1.0	Past and recent exploration has maintained (rather than enhanced) or slightly downgraded the prospectivity of the tenement. Further field exploration is not justified without deposit model and geological reassessment. A non-contributory JV would be the best alternative.
1.0 - 1.3	Further exploration is justified, based on previous exploration results and the potential prospectivity of the deposit, which is based upon the geological model adopted. Recent exploration has maintained or slightly enhanced (but not downgraded) the prospectivity of the tenement. Contributory JVs should be considered.
1.3 - 1.5	The available data has considerably increased the prospectivity of the tenement by identifying and defining geochemical or geophysical anomalies and other exploration targets. Further exploration is justified. Contributory JVs could still be considered, but it may be worth taking it to the next stage alone, if the results are so encouraging.
1.5 - 2.0	Recent exploration has enhanced the prospectivity of the tenement. The results from the target area(s) due to past expenditure have identified some drill target(s); and reconnaissance drilling has found some interesting intersections of mineralisation. Further exploration is definitely justified to evaluate the target area(s). The PEM rises with the number of targets now involved and economic interest of any intersections.
2.0 - 2.5	Exploration has defined a target(s) with some drill intersections of economic interest and infill drilling is justified to attempt to define a Resource. Continue exploration alone or negotiate a very favourable JV deal.
2.5 - 3.0	A small Resource is very likely to be defined by the current drilling with potential for extension down dip or along strike by further infill drilling and other exploration. Evaluation does not yet include a prefeasibility study. Any JV should include being free-carried to the bankable feasibility study stage.
3.0 - 5.0	A Resource of variable significance has been defined with economic features (indicated by prefeasibility study) that make early conversion to Reserves probable. Additional Resources are also likely to be found by more drilling. Consider preparation of a feasibility study before selling any equity.

Source: Lawrence, M J, 2007. Valuation Methodology for Iron Ore Mineral Properties —Thoughts of an Old Valuer; Iron ore Conference, Perth WA, 20 – 22 August 2007

Asset Specific Factors

In order to select an appropriate PEM, we have considered project specific factors in addition to the exploration results. Project specific factors which may enhance or diminish the prospectivity of the Exploration Projects include:

- proximity of project area to available infrastructure
- occurrence of prospective geological units, which contain potentially economic concentrations of iron ore
- relative depth of occurrence of prospective geological units
- primary grade of identified resources and potential to concentrate iron ore through beneficiation.

Generally accepted valuation principles dictate that project specific factors do not include corporate strategic factors or synergies available to individual parties. For example, the owner of a project adjacent to one of the Exploration Projects may value them higher than other potential acquirers due to the proximity of the projects to their own projects. This company specific strategic value should not be taken into account when valuing an asset on a fair market value basis.

Section 2.3 provides a brief summary of the geology and location of each project.

PEM Ranges

Based on a detailed evaluation of exploration results and taking into account project specific factors, we have selected PEM ranges for each of the tenements comprising the Exploration Projects. A summary of our selected PEM ranges for each project area is set out in Table 29. Further details on a tenement by tenement basis are set out in Appendix K.

Table 29: Selected PEM Ranges by Project

Project	PEM Low	PEM High
Anthiby Well	0.75	1.25
Blue Rose (JV PacMag)	0.75	1.25
Corktree	0.25	0.75
Farrell's Well	0.50	1.75
Hickman	1.00	1.75
Jigalong	0.25	1.75
Jimblebar	0.25	1.75
Mount Gould	0.75	1.25
Upper Ashburton	0.25	0.75
Warrawanda	0.50	1.00
Watershed	0.25	0.75
Weld Range	0.75	1.25
Western Creek	0.75	1.25
Western Shaw	0.25	1.00
Yuinmery	0.25	0.75

Source: Management
Note: No value was attributed to Tenement E52/3306 from the Jimblebar project on the basis it is still in application.

Market adjustments

The product of the base value and PEM provides an underlying value, but not necessarily a fair market value. It is generally accepted that the value of an asset on one date may be different to the value of the same asset on another date due to a number of reasons, including:

- the time value of money
- information or demand relating to the asset or asset class
- prevailing economic conditions
- market sentiment.

In order to account for the above factors, we have adjusted the Underlying Value in accordance with the change in iron ore prices between the time of acquisition/expenditure and the Valuation Date.

Historically, the market value or fair market value of iron ore assets is strongly correlated to the prevailing iron ore price.

The prevailing iron ore price and hence market sentiment towards iron ore assets, as at the Valuation Date, is very low in comparison to the prevailing iron ore price over at least the past 5 years. This is evidenced in Figure 6 above which shows the iron ore price has declined by significantly between March 2012 and the Valuation Date.

Valuation summary

The fair market values we have assessed based on the MEE methodology for the Pre-Development and Exploration Projects are summarised as:

Table 30: Fair market value based on MEE Methodology

Project	Low	High	Midpoint
Anthiby Well	1,679,562	2,799,270	2,239,416
Blue Rose (JV PacMag)	233,687	389,479	311,583
Corktree	100,065	300,194	200,129
Farrell's Well	2,983,745	4,481,014	3,732,380
Hickman	1,837,390	2,654,533	2,245,961
Jigalong	28,376,168	41,995,574	35,185,871
Jimblebar	4,215,482	6,223,752	5,219,617
Mount Gould	4,243,185	7,071,974	5,657,579
Upper Ashburton	638,213	1,914,640	1,276,427
Warrawanda	944,279	1,888,557	1,416,418
Watershed	103,333	309,998	206,665
Weld Range	4,687,819	7,813,031	6,250,425
Western Creek	14,734,584	24,557,639	19,646,112
Western Shaw	134,877	395,285	265,081
Yuinmery	164,610	493,830	329,220
Total	**65,076,998**	**103,288,771**	**84,182,884**

Source: PPB Advisory analysis

8.3. Market Approach – Comparable Trading Analysis

In order to value the Pre-Development Projects, we have also considered the comparable trading analysis methodology.

Comparable trading analysis estimates the value of the subject asset or project based on the current market value of publicly traded companies which hold similar assets or projects. The value of publicly traded companies is determined based on the trading of shares in the company by multiple buyers and sellers on an organised exchange, such as the ASX. On this basis, the comparable company trading values are assumed to reflect the fair market value of the underlying assets and projects on a minority interest basis.

We have identified nine ASX listed companies (refer Table 31) that have iron ore projects at similar stages of development to the Pre-Development Projects. Accordingly, we have applied a standard 30% premium to the market capitalisation of these companies to reflect their equity value on a control basis.

Table 31 : Comparable pre-development companies at Valuation Date

Ticker	Company	Market Capitalisation $'000	Net Debt $'000	EV $'000
ASX:BCK	Brockman Mining Limited	159,711	(11,475)	148,236
ASX:CTM	Centaurus Metals Limited	2,096	(277)	1,818
ASX:FMS	Flinders Mines Limited.	19,388	(1,943)	17,445
ASX:IRD	Iron Road Limited	44,809	1,496	46,305
ASX:MDX	Mindax Limited	1,947	(14)	1,934
ASX:RAD	Radar Iron Limited	12,712	(282)	12,430
ASX:RHI	Red Hill Iron Limited	12,845	(177)	12,668
ASX:WFE	Winmar Resources Limited	852	(111)	741

** Ascot Resources Limited delisted on 24 December 2015*
Source: Capital IQ, PPB Advisory analysis

We have analysed the enterprise value ("EV") per tonne of iron contained in the total Mineral Resource of each identified comparable company as at the Valuation Date ("Resource Multiple"). The Resource Multiple for the comparable companies as at the Valuation Date range from 0.0035 to 0.1613 with an average of 0.0512, as set out in Table 32 below. Further information on each comparable company is contained in Appendix L.

Table 32: Comparable pre-development companies at Valuation Date

Company	EV $	Total Resource (Mt)	Grade (Fe %)	Resource Multiple (EV/Contained Fe)
Brockman Mining Limited	148,236	1,988.9	46.2	0.1613
Centaurus Metals Limited	1,818	214.5	30.0	0.0283
Flinders Mines Limited.	17,445	1,218.8	50.5	0.0284
Iron Road Limited	46,305	4,510.0	15.9	0.0646
Mindax Limited	1,934	1,737.8	31.9	0.0035
Radar Iron Limited	12,430	742.9	27.5	0.0610
Red Hill Iron Limited	12,668	388.0	55.9	0.0584
Winmar Resources Limited	741	343.2	54.7	0.0040
Average				**0.0512**

Source: CapitalIQ, Comparable Pre-Development companies' annual reports and ASX announcements, PPB Advisory analysis

In our opinion, Red Hill Iron Limited is the most comparable Pre-Development and Exploration company based on the maturity, size and grade of its projects. Accordingly, we have placed a greater weighting on the Resource Multiple of Red Hill Iron Limited when selecting an appropriate Resource Multiple in the range of 0.1 to 0.2 to apply to the Pre-Development Projects.

The fair market value of the Pre-Development Projects, based on our comparable trading analysis, is summarised in Table 33 below. We note that the resource estimates used reflect estimates as at 30 June 2015.

Table 33: Fair Market Value range of Pre-Development Projects based on comparable trading analysis

	Total Resources		Resource Multiple			Value		
Project	Mt	Grade Fe %	Low	High	Preferred	Low	High	Preferred
Anthiby Well	38.00	53.60	0.10	0.20	0.15	2,036,800	4,073,600	3,055,200
Farrell's Well	4.00	57.60	0.10	0.20	0.15	230,400	460,800	345,600
Hickman	70.00	55.40	0.10	0.20	0.15	3,878,000	7,756,000	5,817,000
Jimblebar	69.10	57.10	0.10	0.20	0.15	3,944,710	7,889,420	5,917,065
Jigalong	476.30	56.06	0.10	0.20	0.15	26,702,170	53,404,340	40,053,255
Warrawanda	24.00	56.80	0.10	0.20	0.15	1,363,200	2,726,400	2,044,800
Weld Range	12.00	60.00	0.10	0.20	0.15	720,000	1,440,000	1,080,000
Western Creek	79.00	56.00	0.10	0.20	0.15	4,424,000	8,848,000	6,636,000

Source: CapitalIQ, Comparable Pre-Development companies' annual reports and ASX announcements, PPB Advisory analysis

Valuation Summary

The values we have assessed for both the Exploration Projects and Pre-Development Projects are summarised in Table 34 below.

Table 34: Fair Market Value of Exploration Projects and Pre-Development Projects

Project	Low $	High $	Midpoint $
Anthiby Well	1,679,562	4,073,600	**2,876,581**
Blue Rose (JV PacMag)	233,687	389,479	**311,583**
Corktree	100,065	300,194	**200,129**
Farrell's Well	230,400	4,481,014	**2,355,707**
Hickman	1,837,390	7,756,000	**4,796,695**
Jigalong	28,376,168	53,404,340	**40,890,254**
Jimblebar	4,215,482	7,889,420	**6,052,451**
Mount Gould	4,243,185	7,071,974	**5,657,579**
Upper Ashburton	638,213	1,914,640	**1,276,427**
Warrawanda	944,279	2,726,400	**1,835,339**
Watershed	103,333	309,998	**206,665**
Weld Range	720,000	7,813,031	**4,266,516**
Western Creek	4,424,000	24,557,639	**14,490,820**
Western Shaw	134,877	395,285	**265,081**
Yuinmery	164,610	493,830	**329,220**
Total	48,045,250	123,576,845	**85,811,048**

Source: CapitalIQ, Comparable Pre-Development companies' annual reports and announcements

Using the comparable trading analysis methodology, we have calculated a fair market value for Corunna between $3.7 million and $7.4 million and a fair market value for McPhee between $13.9 million and $27.8 million.

We note that these ranges of values are significantly lower that the values derived for Corunna and McPhee using the DCF methodology because the DCF methodology is based on long term cash flows of over the life of the mines of 5-6 years for Corunna and 10 years for McPhee to extract the total resource compared to the resource multiples applied of between 0.1 and 0.2.

8.4. Valuation of the investments

In determining the fair market value of Atlas using the sum of the parts, we have valued the Investments using the market approach, current market prices and analysis of financial statements.

Based on the share prices of Centaurus as at Valuation Date, the value of the Company's interest in Centaurus is approximately $241,281.

9. Valuation cross checks and conclusion

We have determined the fair market value of Atlas using the sum of the parts. Our range of values of the sum of the parts and the enterprise value of Atlas is summarised in Table 35.

9.1. Summary of enterprise value

Table 35: Summary of valuation

	Section	Low Value $ million	High Value $ million
Present value of forecast cash flows – Production Projects	7.6	235.97	247.10
Present value of forecast cash flows – McPhee	7.6	187.83	204.19
Present value of forecast cash flows – Corunna	7.6	93.96	99.05
Present value of forecast cash flows – Total	7.6	**517.75**	**550.34**
Pre-Development Projects and Exploration Projects	8.3	48.04	123.60
Investments	8.4	0.20	0.20
Enterprise value		**565.99**	**674.14**

Source: PPB Advisory analysis, Management

Atlas has significant tax losses carried forward. Over the period of the forecasts, the Company will not utilise all of its tax losses.

Since the tax losses carried forward could continue to be applied to taxable income beyond the forecast cash flows, we have not attributed any value to the tax losses carried forward beyond the period of the cash flows.

9.2. Cross checks

We have cross-checked the reasonableness of our valuation of Atlas using our primary methodology, by:

- calculating the implied EBITDA multiples of Atlas and comparing them to potentially comparable listed companies
- calculating the net asset value of Atlas
- considering the prices at which the Company's shares have traded on ASX.

9.2.1. Cross check - implied EBITDA multiples

The enterprise value of Atlas as summarised in Section 9.1 assumes the following implied multiples set out in Table 36.

Table 36: Summary – implied multiples

$ million	Low value	High value
Enterprise value	**565.99**	**674.14**
EBITDA – FY14	232.4	232.4
Implied EBITDA multiple	2.44	2.90
EBITDA – FY15	(142.0)	(142.0)
Implied EBITDA multiple	nm	nm
EBITDA – HY16	(36.0)	(36.0)
Implied EBITDA multiple	nm	nm

Source: Financial Model, Management accounts and PPB Advisory analysis
Nm – not meaningful

Since the EBITDA for FY15 and HY16 are negative, the implied multiples are meaningless.

We have compared the FY14 implied EBITDA multiples for Atlas to the trading multiples for the potentially comparable listed companies. Refer below.

Share market trading multiples

The share market valuation of listed companies provides evidence on an appropriate earnings multiple for Atlas. The share price of listed companies represents the value of a minority interest in a company.

We compiled share market trading multiples for listed companies comparable to Atlas. These companies, together with their earnings multiples, are summarised in the following table.

Table 37: Earnings multiples - share market trading

Company Name As at	Market Cap 29 Feb 16 AUDm	Enterprise Value 29 Feb 16 AUDm	EBIT Multiple LTM Actual	EBIT Multiple NTM Forecast	EBITDA Multiple LTM Actual	EBITDA Multiple NTM Forecast
Arrium Limited	53	2,137	nmf	17.38	nmf	6.46
BC Iron Limited	21	(15)	nmf	nmf	nmf	nmf
Fortescue Metals Group Limited	6,352	14,787	11.47	10.15	4.66	4.83
Grange Resources Limited	105	23	nmf	0.53	0.20	0.45
Mount Gibson Iron Limited	196	141	nmf	nmf	0.19	Nmf
Atlas Iron Limited	*37*	*285*	*nmf*	*nmf*	*0.50*	*7.50*
Average (all)			**11.47**	**9.35**	**1.68**	**3.91**
Median			**11.47**	**10.15**	**0.20**	**4.83**
Average excluding outliers			**11.47**	**9.35**	**1.68**	**3.91**

Source: Capital IQ
Average and median do not include Atlas, LTM = last 12 months, NTM = next 12 months
Nmf = not meaningful

Details regarding the above companies and the calculation of the earnings multiples are provided at Appendix C and Appendix D.

General comments regarding the multiples, together with the historic growth, margins and operations of the above companies, are summarised below:

- enterprise values were calculated by summing the total of the net borrowings at the company's most recent reporting date and the market capitalisation at 29 February 2016. Earnings were extracted from the last available annual reports
- many of the above companies are considerably larger than Atlas. In general, larger companies have higher earnings multiples than smaller companies
- some of the companies are loss making at some point in time
- some of the above companies are more diversified than Atlas. Despite these differences, their trading multiples do provide some evidence for our selection of an appropriate range of EBITDA multiples for the valuation of Atlas
- the trading multiples, above have been adjusted to reflect a 30% premium for control
- the historical FY15 EBITDA multiples range between 5.6 times and 9.0 times, and average 7.3 times (including above control premium)
- the forecast FY16 EBITDA multiples range between 4.8 times and 14.7 times, and average 8.2 times excluding outliers (including above control premium)
- Fortescue and Grange's EBITDA margin for FY16 of 38.2% and 41.5 % are higher than the average EBITDA margin of 20.3% of the selected comparable listed companies and the Company's of 11.3%
- The Company's historical and forecast revenue growth is in line with the selected comparable listed companies which have all been negative. This is attributable to the declining iron ore prices

Based on our analysis, the selected comparable listed companies are broadly comparable to Atlas, for the purpose of the implied multiple cross check.

Our search for recent transactions did not reveal any meaningful results with most of the transactions being dated and occurring when the iron ore price was favourable and hence we considered that they were not relevant for the purposes of our valuation.

Conclusion on EBITDA multiple cross check

Based on our analysis of the trading multiples of potentially comparable listed companies, our enterprise value for Atlas is not unreasonable.

9.2.2. Cross check - net asset value

We have calculated the net asset value of Atlas on an ungeared basis by adjusting the balance sheet as set out in Section 4.3 for net debt. The net asset value of Atlas, on an ungeared basis as at 29 February 2016, is summarised as follows:

Table 38: Summary net asset value

$ million	Section	29-Feb-16
Net assets at book value	4.3	**157.3**
Less Cash	4.3	(75.1)
Less Financial assets	4.3	(0.3)
Less Intangible assets	4.3	(0.9)
Add Current interest bearing liabilities	4.3	5.1
Add Non-current interest bearing liabilities	4.3	359.0
Total ungeared net assets		**445.1**
PPB Advisory calculated enterprise value (mid-point)	9.1	**620.07**
Difference (%)		*39.31%*

Source: PPB Advisory analysis, Management

The net asset value generally provides the minimum value for an asset. The difference between the value obtained using a DCF methodology or Market Approach compared to the net asset value using the cost approach generally reflects potential of the development projects, Corunna and McPhee. The fair market value of Atlas comprises a combination of Production, Development, Pre Development and Exploration Projects that could contribute to profits, synergies or efficiencies rather than standalone assets as assumed in a net asset valuation.

Conclusion on net asset value cross check

Based on our analysis in Table 38, above, our enterprise value for Atlas is not unreasonable.

9.2.3. Cross check - recent share price trading

As a further cross check of the fair market value of Atlas, we have considered the:

- 15 day VWAP for the Company's shares as at 29 February 2016
- last traded price of the Company's shares as at 29 February 2016.

Table 39: Summary recent share trading

Share price cross check		Low	High
Enterprise value	$ million	**565.99**	**674.14**
15 day VWAP as at 29 February 2016	$	0.0136	
Average shares outstanding (million)	#	2,670	
Implied market capitalisation	$ million	36	
Add control premium	*30.0%*	11	
Add net debt	$ million	289	
Implied enterprise value	$ million	**300**	
Difference		*265.99*	*374.14*
Difference %		*47.0%*	*55.5%*
Last traded price at 29 February 2016	$	0.0140	
Average shares outstanding	#	2,670	
Implied market capitalisation	$ million	37	
Add control premium	*30.0%*	11	
Add net debt	$ million	289	
Implied enterprise value	$ million	**326**	
Difference		*239.99*	*348.14*
Difference %		*42.4%*	*51.6%*

Source: PPB Advisory analysis, Management, Capital IQ

We would expect the implied enterprise value derived using the market capitalisation to be lower than the enterprise value calculated using the discounted cash flow method for the following reasons:

- the share prices incorporate financial information as announced by the Company, which is generally short term, whereas we have used long term forecast cash flows in our valuation of up to 27 years
- we have included a value for the Exploration Projects, when it is highly likely that the share price does not incorporate any value for these assets. These attribute value of $48 million to $124 million in our Market Approach valuation
- the market value of Atlas is likely to be adversely affected by negative sentiment towards the iron ore market as well as concerns around the Company's levels of debt.

9.2.4. Summary of cross checks

As summarised above, we have cross-checked the reasonableness of the valuation of Atlas using our primary methodologies by considering:

- calculating the implied EBITDA multiples of Atlas and comparing them to potentially comparable listed companies
- calculating the net asset value of Atlas
- considering the prices at which the Company's shares have traded on ASX.

Based on our cross checks as summarised above, our valuation Atlas does not appear unreasonable.

9.3. Valuation conclusion

Based on our analysis, we have determined that the fair market value of the business of Atlas, on an ungeared basis, is in the range of $565.99 million to $674.14 million as at 29 February 2016.

No value within the range is any more or less appropriate than any other value in the range. In the event that a single value is required, we would recommend the adoption of the mid-point of our valuation range of $620.07 million.

10. Qualifications and declarations

10.1. Qualifications

PPB Advisory provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities.

Campbell Jaski, BSc (Hons) Geology, MBA, FAusIMM (CP), is a Partner of PPB Advisory. Campbell is the Partner responsible for this report.

Campbell has in excess of 20 years of mining and corporate advisory experience and has undertaken numerous corporate finance assignments such as infrastructure valuations, independent expert reports, other type of valuations, due diligences and financial modelling.

Fiona Hansen, CA, has a B.Com and Hons in Accounting Science, and is a Director of PPB Advisory. Fiona is the Director responsible for the preparation of this report.

Fiona has in excess of 20 years' experience in corporate finance and has undertaken numerous corporate finance assignments involving acquisitions, divestments, infrastructure valuations, independent expert reports and financial due diligence.

10.2. Limitations

By its very nature, the formulation of a valuation opinion necessarily contains significant uncertainties and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgement. Therefore, there is no indisputable value, and we normally express our opinion as falling within a likely range.

We have not considered special value in forming our opinion. Special value is the amount that a potential acquirer may be prepared to pay for an asset in excess of the fair market value. This premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the asset not available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchases.

10.3. Valuation Date

Our opinion is based on economic, market and other conditions prevailing at the Valuation Date. Such conditions can change significantly over relatively short periods of time.

Accordingly, changes in those conditions may result in the valuation becoming quickly out-dated and in need of revision. PPB Advisory reserves the right to revise any valuation, or other opinion, in the light of material information existing at the Valuation Date that subsequently becomes known to PPB Advisory.

10.4. Use of report

Our report is prepared solely for the purpose set out in the letters of engagement in the Independent Expert's Report.

PPB Advisory does not accept any responsibility for its use outside this purpose or by any other parties. Except in accordance with the stated purpose, no extract, quote, or copy of our report, in whole or in part, should be reproduced without the prior written consent of PPB Advisory, as to the form and context in which it may appear.

10.5. Sources of information

Information used in the preparation of this valuation included historical and prospective financial information for Atlas, discussions with the Management of Atlas regarding the nature of Atlas, its operations, financial performances and prospects, and a number of external sources, such as Capital IQ.

Appendix A to this report sets out sources of information referred to and relied upon by PPB Advisory during the course of preparing this report and forming our opinion.

10.6. Prospective financial information

The information provided to PPB Advisory includes prospective financial information prepared by Management.

PPB Advisory has not been engaged to undertake an independent review of the budgets prepared by Management, and has not undertaken such a review. Accordingly, we do not express an opinion on the reasonableness of the assumptions underlying the budgets, or their achievability.

PPB Advisory has assumed that any prospective financial information provided by Atlas has been prepared fairly and honestly based on the information available to Management at the time and within the practical constraints and limitations of such prospective financial information. We have assumed that the prospective financial information does not reflect any material bias, either positive or negative. The achievability of the prospective financial information is not warranted or guaranteed by Atlas or PPB Advisory.

Prospective financial information is dependent on the outcome of many assumptions, some of which are outside the control of Atlas. Assumptions relating to prospective financial information can be reasonable at the time of their preparation, but can change materially over a relatively short time. If there is a change in any of the assumptions, our valuation opinion will change, perhaps materially.

10.7. No verification

PPB Advisory's procedures, in the preparation of this report, may involve an analysis of financial information and accounting records. As set out in this report, the work undertaken does not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards issued by the Australian Auditing and Assurance Standards Board. Accordingly, PPB Advisory does not warrant that its inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

10.8. Reliance on information

In preparing this report, we have relied on information provided by the Management. We have not undertaken any verification of the financial or other information provided by them, or other parties, as set out in this report. PPB Advisory's believes the information provided to be reliable, complete and not misleading and has no reason to believe that any material facts have been withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of satisfying ourselves that there were reasonable grounds for believing that the information was appropriate for use by us in forming our opinion. Where PPB Advisory's has relied on the views and judgement of the Management, the information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

10.9. APES 225

Our valuation report has been prepared in accordance with the requirements of APES 225 issued by the Accounting Professional & Ethical Standards Board. As required under APES 225, we confirm that we are independent of Atlas for the purpose of this valuation and our fee is not contingent on the conclusion, content or future use of this report.

Appendix A. Sources of information

In preparing this report, we have used the following information:

- Corporate Model
- Corunna Model
- Statutory financial statements and half year accounts for Atlas Iron Limited
- ASX announcements
- Capital IQ, Bloomberg, IBISWorld
- RBA website for exchange rates, inflation rates and 10 year Commonwealth Government Bond
- Company announcements and investor presentations for BHP Billiton, Vale, Fortescue, Rio Tinto
- Draft Explanatory Statement for the creditors scheme of arrangement and draft scheme of arrangement
- Project feasibility studies as announced to ASX by Atlas
- NMI JV Management accounts 31 December 2015
- Independent expert's reports and target statements for the acquisition of Giralia and Ferraus
- Atlas prospectus and supplementary prospectus dated 11 June 2015
- Annual report for Centaurus 31 December 2014
- BHP investor presentation October 2014
- Various broker equity research reports on the mining, iron ore sector
- Atlas board reports
- Syndicated facility agreement
- Atlas website

We have also had discussions with Management of Atlas and the financial advisor to Atlas, Lazard Ltd.

Appendix B. Valuation methodologies

To estimate the fair market value of the Company, we have considered the common market practice and the valuation methodologies recommended by Australian Securities and Investments Commission ("ASIC") Regulatory Guide 111, that provide guidance in respect of the content of independent expert's reports. The common valuation methods are as follows:

- market based methods
- income based methods
- asset based methods.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the company or asset being valued, the methodology most commonly adopted in valuing such companies or assets and the availability of appropriate information.

These methodologies are summarised below:

Market based methods

Market based methods estimate a company fair market value by considering the market price of transactions in its shares or the market value of comparable companies. The market based methods include:

- capitalisation of earnings
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of earnings method estimate the fair market value based on a company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings is appropriate where a company's earnings are relatively stable and it is assumed that the business will continue trading as a going concern indefinitely.

The most recent share trading history provides evidence of the market value of the shares of the company where they are publicly traded in an informed market.

Industry specific methods estimate the market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods, because they do not account for company specific factors. Industry specific methods are typically used as cross checks in specific industries.

Income based methods

DCF methods estimate the fair market value by discounting a company's future cash flows to a net present value using an appropriate discount rate. The DCF method is appropriate where there are long term projections of future cash flows of at least five to ten years and the projections can be made with a reasonable level of confidence.

DCF methods are appropriate where:

- the business' earnings are capable of being forecast for a reasonable period (preferably five to 10 years) with reasonable accuracy
- earnings or cash flows are expected to fluctuate significantly from year to year
- the business or asset has a finite life
- the business is in a 'start up' or in early stages of development
- the business has irregular capital expenditure requirements
- the business involves infrastructure projects with major capital expenditure requirements
- the business is currently making losses but is expected to recover.

Asset based methods

Asset based methods estimate the fair market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets
- liquidation of assets
- net assets on a going concern basis.

The orderly realisation of assets method estimates the fair market value of the net assets by estimating the amount that would be distributed to its shareholders after the payment of all liabilities are satisfied including realisation costs and taxation, assuming that the company is wound up in an orderly manner.

The liquidation of assets method is similar to the orderly realisation of assets method except that the liquidation method assumes that the assets are sold in a shorter timeframe. Since wind up or liquidation of the company may or may not be contemplated, this method in its strictest form may not necessarily appropriate.

The net assets on a going concern basis estimates the fair market value of the net assets of the company but does not take into account realisation costs.

The net asset value of a trading will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The assets based methods are relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business.

The net realisable assets methodology is also used as a cross check for the values derived using other methods.

For exploration assets, the VALMIN Code classifies mineral assets into five categories:

- Exploration Areas - properties where mineralisation may or may not have been identified, but where a Resource has not been identified.
- Advanced Exploration Areas - properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation. A Resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect.
- Pre-Development Projects - properties where Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made.
- Development Projects - properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels.
- Operating Mines - mineral properties, particularly mines and processing plants that have been commissioned and are in production.

Appendix C. Comparable listed companies - descriptions

An initial search identified five Australian companies which operate in the same industry as Atlas. These companies are listed below:

Company Name	Business Description
Arrium Limited	Arrium Limited engages in the mining and supply of iron ore and other steelmaking raw materials to steel mills in Australia and internationally. The company operates through Mining, Mining Consumables, Steel, and Recycling segments. The Mining segment owns and operates the Middleback Ranges and Southern Iron projects located in South Australia; and exports hematite iron ore. The Mining Consumables segment manufactures and supplies consumables, such as grinding media, grinding rods, grinding media feed, rebar and chemicals, and wire ropes, as well as rail wheels, axles, and wheel sets for the rail transport and mining sectors. The Steel segment manufactures and distributes steel long products, billets, and rail and structural steel products; and distributes steel and metal products, including structural steel sections, steel plates, angles, channels, reinforcing steel, and carbon products to the construction, manufacturing, and resource markets. The Recycling segment supplies steelmaking raw materials to foundries, smelters, and steel mills; and recycles ferrous and non-ferrous scrap metal. The company was formerly known as OneSteel Limited and changed its name to Arrium Limited in July 2012. Arrium Limited is headquartered in Sydney, NSW.
BC Iron Limited	BC Iron Limited primarily explores for, develops, and produces iron ore deposits in the Pilbara region of Western Australia. The company also explores for hematite and magnetite ores. Its principal projects include the Nullagine iron ore project located to the north of Newman; the Iron Valley project situated in the Central Pilbara; and the Buckland project located in the West Pilbara region. The company was founded in 2006 and is based in West Perth, WA.
Fortescue Metals Group Limited	Fortescue Metals Group Limited produces and sells iron ore in Australia, China, and internationally. It owns and operates the Chichester Hub that consists of the Cloudbreak and Christmas Creek mines located in the Chichester Ranges in the Pilbara, Western Australia; and the Solomon Hub comprising the Firetail and Kings Valley mines located in the Hamersley Ranges in the Pilbara, Western Australia. The company was founded in 2003 and is headquartered in East Perth, WA.
Grange Resources Limited	Grange Resources Limited owns and operates integrated iron ore mining and pellet production business in the north-west region of Tasmania. It is involved in the mining, processing, and sale of iron ore deposits. The company primarily owns interests in the Savage River magnetite iron ore mine located to the southwest of the city of Burnie. It is also involved in the exploration, evaluation, and development of the Southdown Magnetite project located near Albany, Western Australia; and associated Pellet Plant projects in Port Latta located to the northwest of Burnie. In addition, the company explores for copper and gold deposits. Grange Resources Limited is based in Burnie, TAS.
Mount Gibson Iron Limited	Mount Gibson Iron Limited, together with its subsidiaries, engages in the mining, exploration, development, transportation, and sale of hematite iron ore deposits in Australia. The company primarily operates the Koolan Island hematite mine situated in the northern Kimberley coast of Western Australia; and the Extension Hill hematite project located in the Mount Gibson range, southeast of Geraldton. Mount Gibson Iron Limited was founded in 1996 and is based in West Perth, WA.

Source: Capital IQ

Appendix D. Comparable listed companies – multiples and betas

The EBIT and EBITDA of the selected comparable listed companies with other relevant metrics are summarised below:

Company Name	Latest Financial Year End	Market Cap as at 29/02/16 AUDm	Enterprise Value as at 29/02/16 AUDm	EBIT Multiple LTM Actual	EBIT Multiple NTM Forecast	EBITDA Multiple LTM Actual	EBITDA Multiple NTM Forecast	EBITDA Margin LTM Actual	EBITDA Margin NTM Forecast
Arrium Limited	30/06/2015	53	2,137	nmf	17.38	nmf	6.46	-7.7%	6.0%
BC Iron Limited	30/06/2015	21	(15)	nmf	nmf	nmf	nmf	25.5%	nmf
Fortescue Metals Group Limited	30/06/2015	6,352	14,787	11.47	10.15	4.66	4.83	32.8%	36.5%
Grange Resources Limited	31/12/2014	105	23	nmf	0.53	0.20	0.45	55.2%	23.9%
Mount Gibson Iron Limited	30/06/2015	196	141	nmf	nmf	0.19	nmf	279.3%	-2.6%
Atlas Iron Limited	*30/06/2015*	*37*	*285*	*nmf*	*Nmf*	*0.50*	*7.50*	*89.4%*	*4.9%*
Average (all)				**11.47**	**9.35**	**1.68**	**3.91**	**77.0%**	**16.0%**
Median (all)				**11.47**	**10.15**	**0.20**	**4.83**	**32.8%**	**15.0%**
Average excluding outliers				**11.47**	**9.35**	**1.68**	**3.91**	**26.4%**	**16.0%**

Company Name	Revenue LTM Actual	Revenue NTM Forecast	EBITDA LTM Actual	EBITDA NTM Forecast	Revenue Growth FY Actual	Revenue Growth FY + 1 Forecast	Revenue Growth FY +2 Forecast	EBITDA Growth FY Actual	EBITDA Growth FY + 1 Forecast
Arrium Limited	5,896.30	5,987.08	(64.80)	389.54	(9.3%)	(10.2%)	(0.5%)	(108.0%)	19.2%
BC Iron Limited	278.59	284.67	3.87	(13.66)	(40.3%)	(9.4%)	7.0%	(96.6%)	(217.2%)
Fortescue Metals Group Limited	11,140.63	9,035.25	3088.55	2518.46	(27.0%)	(20.6%)	(0.9%)	(57.1%)	7.8%
Grange Resources Limited	205.56	226.29	113.80	62.77	5.7%	(23.3%)	5.5%	102.7%	(56.4%)
Mount Gibson Iron Limited	315.64	200.66	(0.26)	(3.25)	(52.2%)	(19.0%)	(37.0%)	(100.0%)	(67.6%)
Atlas Iron Limited	*718.47*	*819.02*	*(113.05)*	*(3.96)*	*(34.5%)*	*3.5%*	*(13.9%)*	*(148.9%)*	*(308.9%)*
Average	**3,567.35**	**3,146.79**	**504.69**	**491.65**	**(22.4%)**	**(16.5%)**	**(5.2%)**	**(57.5%)**	**(62.9%)**
Median	**315.64**	**284.67**	**1.81**	**29.76**	**(19.0%)**	**(19.0%)**	**(0.5%)**	**(91.2%)**	**(56.4%)**

Source: Capital IQ and PPB Advisory analysis *Nmf – not meaningful* *LTM – Last twelve months* *NTM – Next twelve months* *Atlas is not included in the average and median calculations*

Comparable listed companies – betas

Beta Type	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly
Time Period	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**5 Year**	**5 Year**
Average Gearing	**Equity Beta**	**Equity Beta**	**Equity Beta**	**Equity Beta**	**Equity Beta**	**Asset Beta**	**Asset Beta**	**Asset Beta**	**Asset Beta**	**Asset Beta**	**R-Squared**	**T-Test**
End Date	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**
Arrium Limited	0.28	0.94	1.18	1.48	1.51	0.06	0.40	0.53	0.68	0.80	0.11	Positive
BC Iron Limited	1.54	1.78	1.66	1.59	1.34	1.54	1.78	1.66	1.59	1.34	0.10	Positive
Fortescue Metals Group Limited	1.44	1.50	1.45	1.42	1.41	0.86	1.00	0.96	1.00	1.06	0.22	Positive
Grange Resources Limited	0.72	1.05	0.84	0.96	1.22	0.72	1.05	0.84	0.96	1.22	0.11	Positive
Mount Gibson Iron Limited	0.56	0.64	0.82	1.03	1.32	0.56	0.64	0.82	1.03	1.32	0.15	Positive
Atlas Iron Limited	0.28	0.82	0.95	1.13	1.22	0.12	0.69	0.91	1.13	1.22	0.07	Positive
Median	**0.72**	**1.05**	**1.18**	**1.42**	**1.34**	**0.72**	**1.00**	**0.84**	**1.00**	**1.22**	**0.11**	
Mean	**0.91**	**1.18**	**1.19**	**1.30**	**1.36**	**0.75**	**0.97**	**0.96**	**1.05**	**1.15**	**0.14**	
Time Period	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**5 Year**	**5 Year**
Average Gearing	**Debt-to-Equity**	**Debt-to-Equity**	**Debt-to-Equity**	**Debt-to-Equity**	**Debt-to-Equity**	**Debt-to-Value**	**Debt-to-Value**	**Debt-to-Value**	**Debt-to-Value**	**Debt-to-Value**	**R-Squared**	**T-Test**
End Date	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**	**29-Feb-16**
Arrium Limited	4.95	1.97	1.75	1.70	1.26	0.83	0.66	0.64	0.63	0.56	0.11	Positive
BC Iron Limited	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	Positive
Fortescue Metals Group Limited	0.96	0.72	0.72	0.59	0.47	0.49	0.42	0.42	0.37	0.32	0.22	Positive
Grange Resources Limited	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	Positive
Mount Gibson Iron Limited	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	Positive
Atlas Iron Limited	*1.91*	*0.28*	*0.06*	*0.00*	*0.00*	*0.66*	*0.22*	*0.06*	*0.00*	*0.00*	*0.07*	*Positive*
Median	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.11**	
Mean	**1.18**	**0.54**	**0.49**	**0.46**	**0.34**	**0.26**	**0.22**	**0.21**	**0.20**	**0.17**	**0.14**	

Source: Capital IQ & PPBA Analysis. Outliers shaded in grey are based on 80% deviation confidence level, R-Squared < 0.05, and negative T-tests with 95.0% confidence

Appendix E. Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor. Discount rates are determined based on the cost of its debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the Weighted Average Cost of Capital ("WACC"). The WACC can be derived using the following formula:

WACC = ((E/V) * Ke) + (((D/V) * Kd)*(1-tc))

The components of the formula are:

Ke	=	cost of equity capital
Kd	=	cost of debt
tc	=	corporate tax rate
E/V	=	proportion of company funded by equity
D/V	=	proportion of company funded by debt

The adjustment of Kd by (1-tc) reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 30%.

Cost of equity capital

The cost of equity ("Ke") is the rate of return that investors require to make an equity investment in a firm.

We have used the Capital Asset Pricing Model ("CAPM") to estimate the Ke for Atlas. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

Under the "classical" system of double taxation of dividends which existed in Australia until the introduction of dividend imputation in 1987 (and which still applies in many countries), the cost of equity capital under CAPM is determined using the following formula:

Ke = Rf + β (Rm – Rf) + a

The components of the formula are:

Ke	=	required return on equity
Rf	=	the risk-free rate of return
Rm	=	the expected return on the market portfolio
β	=	beta, the systematic risk of a stock which can be objectively measured by the responsiveness of company returns to movements in returns earned on the market portfolio
a	=	specific company risk premium

Each of the components is discussed below.

Risk-free rate

The risk-free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk-free rate is the long-term government bond rate.

Australian CGB is typically used as a proxy for the risk-free asset.

The increased level of global market uncertainty over recent years has led to investors seeking lower risk investments. As such, government securities have experienced increased funds inflow, which has depressed the yields being returned. The falling risk-free (government securities) rates currently observed are the result of market factors and equity prices, and do not necessarily mean that investors are seeking lower rates of return for longer term investments.

As such, it is necessary to review the risk-free rate over a longer period, rather than select a spot or current observed rate, to reflect longer term expectations.

Specifically, we have had regard to inflation adjusted Australian government bonds over short and long-term periods.

In determining Rf we have used the 10 year CGB yield of 4.5% (which represents the average rate over a 10 year period to the valuation date). The CGB is generally used and is an accepted benchmark for the risk-free rate. This rate represents a nominal rate and therefore includes inflation.

Specifically, we have considered:

- The yield on inflation adjusted CGB over a 10-year period, which is a proxy for the real risk free rate. We then applied forecast inflation, based on the financial model, to determine the nominal risk free rate.
- The nominal yield on CGB over a 10 year period, ie. including inflation, and therefore providing a proxy for the nominal risk-free rate.

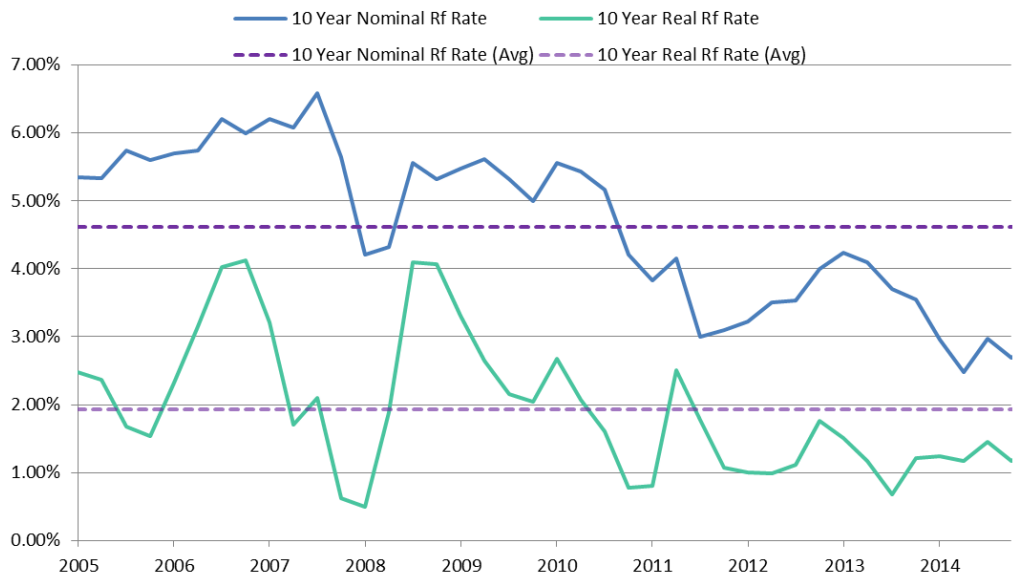
Based on our analysis, we have used a risk free rate of 4.5% as summarised below:

CGB	Average real yield	Forecast Inflation (CPI)	Adjusted nominal yield
10-year	2.07%	2.5%	4.57% (rounded 4.5%)

Source: Bloomberg, RBA, Capital IQ, PPB Advisory analysis
Notes:
1. *The average real yield is calculated using the monthly annualised yield over the term of the CGB to 29 February 2016.*
2. *CPI is based on the long term assumptions in the financial models*
3. *The adjusted nominal yield is calculated using the Fischer equation, being (1 + real yield) x (1 + inflation) - 1*

The risk-free rate has been considered in conjunction with the other inputs as discussed below and the overall discount rate that we have calculated.

Table 40: Australian 10 Year Commonwealth Government Bond rates



Source: Reserve Bank of Australia's (RBA) website

Corporate tax rate

There is some contention as to whether the statutory corporate tax rate or an effective tax rate should be used when calculating the discount rate.

In practice, the statutory corporate tax rate is often used given the difficulties of estimating an effective rate of tax, particularly in future years.

Market risk premium

The Market Risk Premium ("MRP") (Rm – Rf) represents the risk associated with holding a market portfolio of investments, that is, the difference between the expected return on holding the market portfolio and the risk free rate. It represents the additional return above the risk free rate that investors seek to invest in the equity securities.

Whilst in the short term, MRPs are known to change as investors seek to price the overall equity market, based on the perceived risks associated with it at the time, the long term MRP has generally been found to be quite stable.

We have used a MRP of 6.0%.

Equity Beta

The beta coefficient is a measure of the expected volatility, and is therefore the risk of a company's stock relative to the market portfolio. The expected beta cannot be observed, therefore the historical beta is usually used as a proxy for the expected beta. A beta can be estimated by regressing the excess returns of the stock against the excess returns of the index representing the market portfolio.

There are significant measurement issues with beta, which means that only limited reliance can be placed on such statistics. Even measurement of historical betas is subject to considerable variation and requires a considerable degree of judgement.

Unlevered and Re-levered Beta

The beta is measured on the cash flows returned to equity holders and is therefore after interest. Accordingly, a firm's beta also reflects its capital structure. Since financial leverage is likely to alter between firms it is generally erroneous to make comparison of betas between firms without regard to each firm's leverage.

The betas can all be de-geared (or 'de-levered') to remove the impact of leverage. The method is set out below:

$$\beta\ (ungeared) = \beta\ (geared)/(1 + (D/E) \times (1-t))$$

The un-levered or 'asset' betas can then be analysed to determine an appropriate asset beta for the subject of the valuation, and it can be re-geared (or 're-levered') to reflect the appropriate capital structure. The re-levered betas are also known as 'equity' betas.

The following formula calculates the equity beta:

$$\beta\ (geared) = \beta\ (ungeared)(1 + D/E(1-t))$$

As limited reliance can be placed on the historical betas measured for comparable companies, at best the data may be regarded as relevant and informative, but not determinate.

Comparable Company Betas

To estimate an appropriate beta for Atlas, we have observed the historical equity betas and capital structures for the selected companies with broadly comparable operations to Atlas over a five year period prior to the Valuation Date.

Limited reliance can be placed on the observed betas as there are few listed comparable companies with reliable data available in the valuation period.

In addition, as the operations, products and risks of the selected companies may differ significantly to Atlas, we have:

- selected an asset beta range based on the observed data
- considered the betas for iron ore mining companies generally and, where appropriate, given greater weighting to the companies we considered most comparable to Atlas
- considered the differences between the broadly comparable companies and Atlas when calculating a specific risk premium (discussed below).

The selected asset beta range for Atlas is provided in the following tables. We have provided further detail on the broadly comparable companies and the historic betas at Appendix C and Appendix D.

Specific company risk premium (a or alpha)

The specific company risk premium adjusts the cost of equity for company specific factors. The CAPM assumes, amongst other things, that rational investors seek to hold efficient portfolios, that is, portfolios that are fully diversified. One of the major conclusions of the CAPM is that investors do not have regard to specific company risks (often referred to as unsystematic risk).

We have included an alpha range for Atlas primarily based on my high level review and assessment of the associated risks relating to relative size and perceived operating risks, geographic risks, and product offerings of Atlas compared to the potentially comparable listed companies.

The alpha does not consider any potential risk associated with the projected cash flows and any potential of them not being achieved.

The major considerations in identifying the specific operational and financial risks for Atlas are:

- **Short term mines:** the Company's production and development mines are projected to operate for a relatively short time period. The longest projected mine, McPhee is expected to be complete within 13 years (August 2028).
- **Transportation cost:** All transportation is by road. This is primarily because of the short mine lives, making rail transportation uneconomic.
- **Number of mines in production:** Atlas is reasonably small with a total of 8 mines, only 3 of which are currently in production.

Summary

Based on the above factors the WACC is calculated as follows:

Table 41: Weighted Average Cost of Capital (WACC)

	Low	High
Cost of Equity (CAPM)		
Risk Free Rate of Return	4.5%	4.5%
Market Risk Premium	6.0%	6.0%
Geared Beta Estimate	1.43	1.56
Asset Beta	1.10	1.20
CAPM based Cost of Equity	**13.1%**	**13.9%**
Small Company Premium	0.0%	0.0%
Specific Risk Premium	2.0%	3.0%
Cost of Equity	**15.1%**	**16.9%**
Cost of Debt		
Risk Free Rate of Return	4.5%	4.5%
Country Credit Spread	0.0%	0.0%
Company Credit Spread	2.5%	2.5%
Cost of Debt	**7.0%**	**7.0%**
Capital Structure		
Debt / Value	30.0%	30.0%
Equity / Value	70.0%	70.0%
Debt-to-Equity Ratio	**42.9%**	**42.9%**
WACC		
Local Corporate Tax Rate	30.0%	30.0%
Weighted Post Tax Cost of Equity	10.6%	11.8%
Weighted Post Tax Cost of Debt	1.5%	1.5%
$WACC_{Post\ Tax}$ (Nominal)	**12.0%**	**13.3%**
Nominal WACC (rounded)	**12.0%**	**13.0%**

Source: Capital IQ, Bloomberg and PPB Advisory analysis

Appendix F. Forecast cash flows – Corporate Model

Forecast cash flows (excluding Corunna)

$m	29 Feb 16 to 30 Jun 16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Profit and loss															
Revenue	409.5	525.6	402.3	531.3	641.2	708.9	740.7	803.4	415.2	332.1	333.9	346.8	350.5	122.6	-
EBITDA	24.1	(10.3)	7.7	52.1	107.6	158.2	175.6	220.5	105.6	90.4	86.7	93.1	90.9	31.9	-
EBIT	(29.9)	(85.5)	(66.5)	(12.3)	51.1	104.2	123.0	168.7	91.4	85.6	82.0	88.5	86.3	29.6	(1.0)
Cash flow															
Receipts from customers	460.2	638.3	496.1	634.0	749.6	817.8	848.6	912.2	473.5	373.0	376.2	390.1	394.9	141.0	-
Payments to suppliers	(390.5)	(602.5)	(457.1)	(553.5)	(593.6)	(608.7)	(617.1)	(629.7)	(344.4)	(256.0)	(263.1)	(269.8)	(283.7)	(93.0)	(2.6)
Royalty payments	(36.2)	(64.0)	(38.6)	(41.0)	(50.1)	(56.3)	(59.5)	(63.7)	(45.5)	(27.4)	(28.5)	(29.4)	(29.7)	(18.0)	-
Notional Tax (30% of EBIT)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex	(5.6)	(2.5)	(46.9)	(14.7)	(4.2)	(4.3)	(4.4)	(4.5)	(4.2)	(4.2)	(4.3)	(4.4)	(4.6)	(0.4)	-
Free cash flow	**27.8**	**(30.7)**	**(46.4)**	**24.8**	**101.7**	**148.6**	**167.7**	**214.3**	**79.4**	**85.4**	**80.2**	**86.5**	**76.9**	**29.7**	**(2.6)**

Source: Corporate Model

Appendix G. Forecast cash flows – Corunna Model

$'m	29 Feb 16 to 30 Jun 16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Profit and loss															
Revenue	-	-	145.3	212.4	239.5	261.8	274.2	296.8	111.5	-	-	-	-	-	-
EBITDA	-	-	5.9	24.9	31.0	46.9	54.9	67.8	28.5	(4.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)
EBIT	-	-	(7.1)	2.6	19.3	42.3	51.9	66.0	28.5	(4.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)
Cash flow															
Receipts from customers	-	-	143.7	212.2	239.2	261.7	274.2	296.6	114.1	-	-	-	-	-	-
Payments (suppliers/royalties)	-	-	(117.2)	(186.4)	(205.5)	(214.9)	(218.6)	(228.3)	(109.7)	(5.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)
Notional Tax (30% of EBIT)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex	-	(42.7)	(1.3)	(2.2)	(2.6)	(3.2)	(2.7)	(1.7)	-	-	-	-	-	-	-
Free cash flow	-	(42.7)	25.2	23.6	31.1	43.6	52.9	66.6	4.3	(5.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)

Source: Corunna Model

Appendix H. DCF – Corporate Model

Production Projects

	Discount rate	29 Feb 16 to 30 Jun 16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	Total
Free cash flow		27.82	(30.74)	(1.39)	33.48	74.03	102.49	116.27	145.55	7.36	(1.05)	(1.84)	(2.03)	(9.27)	(6.80)	(2.56)	(3.14)	(1.23)	(1.32)	**445.63**
NPV low	13.00%	24.88	(28.45)	(1.88)	23.23	45.69	56.35	56.72	62.65	3.19	(0.36)	(0.56)	(0.53)	(2.18)	(1.42)	(0.47)	(0.52)	(0.18)	(0.17)	**235.97**
NPV high	12.00%	24.92	(28.61)	(1.86)	23.86	47.32	58.85	59.76	66.61	3.39	(0.39)	(0.61)	(0.59)	(2.42)	(1.60)	(0.53)	(0.59)	(0.21)	(0.20)	**247.10**
NPV (mid point)	**12.50%**	**24.90**	**(28.53)**	**(1.87)**	**23.54**	**46.50**	**57.60**	**58.24**	**64.63**	**3.29**	**(0.37)**	**(0.58)**	**(0.56)**	**(2.30)**	**(1.51)**	**(0.50)**	**(0.55)**	**(0.19)**	**(0.19)**	**241.54**

Development Project - McPhee

	Discount rate	29 Feb 16 to 30 Jun 16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	Total
Free cash flow		-	-	(45.00)	(8.67)	27.62	46.08	51.41	68.71	72.01	86.49	82.08	88.49	86.15	36.48	-	-	-	-	**591.85**
NPV low	13.00%	-	-	(34.63)	(6.96)	16.92	25.29	25.05	29.51	27.55	29.11	24.50	23.43	20.19	7.88	-	-	-	-	**187.83**
NPV high	12.00%	-	-	(35.29)	(7.08)	17.53	26.41	26.39	31.38	29.54	31.51	26.76	25.80	22.43	8.81	-	-	-	-	**204.19**
NPV (mid point)	**12.50%**	**-**	**-**	**(34.96)**	**(7.02)**	**17.22**	**25.85**	**25.72**	**30.44**	**28.54**	**30.31**	**25.63**	**24.62**	**21.31**	**8.35**	**-**	**-**	**-**	**-**	**196.01**

Source: Corporate Model

Appendix I. DCF – Corunna Model

$'m	Discount rate	29 Feb 16 to 30 Jun 16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total
Free cash flow		-	(42.7)	25.2	23.6	31.1	43.6	52.9	66.6	4.3	(5.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)	(0.7)	**188.9**
NPV low	13.00%	-	(36.8)	19.9	16.3	19.0	23.6	25.5	28.2	2.1	(2.0)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	**94.0**
NPV high	12.00%	-	(37.2)	20.2	16.7	19.7	24.7	26.9	30.1	2.2	(2.2)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	**99.1**
NPV (mid point)	**12.50%**	**-**	**(37.0)**	**20.0**	**16.5**	**19.3**	**24.2**	**26.2**	**29.2**	**2.1**	**(2.1)**	**(0.3)**	**(0.3)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.1)**	**(0.1)**	**(0.1)**	**96.5**

Source: Corunna Model

Appendix J. Date of acquisition and cost for individual tenements comprising each project area

Project	Tenement	Acquisition date	Acquisition cost (A$)
Anthiby Well	E08/1712	5/04/2011	6,301,000
Blue Rose (JV PacMag)	EL5129	5/04/2011	904,000
Corktree	E52/2056	5/04/2011	200,000
Corktree	E52/2057	5/04/2011	300,000
Farrell's Well	E45/3511	n/a	-
Farrell's Well	E45/3601	n/a	-
Farrell's Well	E45/3858	20/11/2006	1,125,000
Farrell's Well	E45/4351	n/a	-
Farrell's Well	P45/2775	n/a	-
Farrell's Well	P45/2776	n/a	-
Hickman	E47/2052	n/a	-
Hickman	E47/2053	n/a	-
Hickman	E47/2054	n/a	-
Jigalong	M52/1043	18/12/2009	25,539,000
Jigalong	E52/1658	18/12/2009	17,571,000
Jigalong	E52/1630	18/12/2009	3,035,000
Jigalong	M52/1034	18/12/2009	16,657,000
Jigalong	E52/1812	18/12/2009	346,000
Jigalong	E52/1813	18/12/2009	751,000
Jimblebar	E52/1772	18/12/2009	6,240,000
Jimblebar	E52/2303	18/12/2009	150,000
Jimblebar	E52/3306	18/12/2009	-
Jimblebar	M52/0211	18/12/2009	360,000
Jimblebar	M52/0790	18/12/2009	1,010,000
Jimblebar	M52/0799	18/12/2009	580,000
Mount Gould	M52/0236	28/08/2007	7,105,545
Upper Ashburton	E52/2317	18/12/2009	410,000
Upper Ashburton	E52/2327	18/12/2009	410,000
Upper Ashburton	E52/2328	18/12/2009	450,000
Upper Ashburton	E52/2329	18/12/2009	450,000
Upper Ashburton	E52/2330	18/12/2009	340,000
Upper Ashburton	E52/2337	18/12/2009	450,000
Upper Ashburton	E52/2351	18/12/2009	430,000
Upper Ashburton	E52/2429	18/12/2009	900,000
Upper Ashburton	E52/2803	n/a	-
Warrawanda	E52/1771	18/12/2009	2,730,000
Warrawanda	E52/1815	18/12/2009	1,040,000
Watershed	E52/2283	18/12/2009	600,000
Weld Range	E51/0933	5/04/2011	2,500,000
Weld Range	M20/0118	28/08/2007	6,802,391
Western Creek	E52/1483	5/04/2011	42,000,000
Western Creek	E52/1604	5/04/2011	11,000,000
Western Creek	E52/1912	5/04/2011	-
Western Creek	E52/2160	18/12/2009	210,000
Western Creek	E52/2300	18/12/2009	30,000
Western Shaw	E45/2768	14/11/2008	575,000
Western Shaw	P45/2733	n/a	-
Yuinmery	E57/0681	5/04/2011	-
Yuinmery	P57/1130	5/04/2011	-
Yuinmery	P57/1131	5/04/2011	-

Appendix K. Selected PEM ranges for individual tenements comprising each project area

Project	Tenement	PEM low	PEM high	Preferred PEM
Anthiby Well	E08/1712	0.75	1.25	1.00
Blue Rose (JV PacMag)	EL5129	0.75	1.25	1.00
Corktree	E52/2056	0.25	0.75	0.50
Corktree	E52/2057	0.25	0.75	0.50
Farrell's Well	E45/3511	1.00	1.50	1.25
Farrell's Well	E45/3601	1.25	1.75	1.50
Farrell's Well	E45/3858	0.75	1.25	1.00
Farrell's Well	E45/4351	0.50	1.00	0.75
Farrell's Well	P45/2775	0.75	1.25	1.00
Farrell's Well	P45/2776	0.75	1.25	1.00
Hickman	E47/2052	1.25	1.75	1.50
Hickman	E47/2053	1.00	1.50	1.25
Hickman	E47/2054	1.00	1.50	1.25
Jigalong	M52/1043	1.25	1.75	1.50
Jigalong	E52/1658	1.00	1.50	1.25
Jigalong	E52/1630	0.25	0.75	0.50
Jigalong	M52/1034	1.00	1.50	1.25
Jigalong	E52/1812	1.00	1.50	1.25
Jigalong	E52/1813	1.00	1.50	1.25
Jimblebar	E52/1772	1.25	1.75	1.50
Jimblebar	E52/2303	1.25	1.75	1.50
Jimblebar	E52/3306	1.00	1.50	1.25
Jimblebar	M52/0211	0.25	0.75	0.50
Jimblebar	M52/0790	0.25	0.75	0.50
Jimblebar	M52/0799	0.25	0.75	0.50
Mount Gould	M52/0236	0.75	1.25	1.00
Upper Ashburton	E52/2317	0.25	0.75	0.50
Upper Ashburton	E52/2327	0.25	0.75	0.50
Upper Ashburton	E52/2328	0.25	0.75	0.50
Upper Ashburton	E52/2329	0.25	0.75	0.50
Upper Ashburton	E52/2330	0.25	0.75	0.50
Upper Ashburton	E52/2337	0.25	0.75	0.50
Upper Ashburton	E52/2351	0.25	0.75	0.50
Upper Ashburton	E52/2429	0.25	0.75	0.50
Upper Ashburton	E52/2803	0.25	0.75	0.50
Warrawanda	E52/1771	0.50	1.00	0.75
Warrawanda	E52/1815	0.50	1.00	0.75
Watershed	E52/2283	0.25	0.75	0.50

Project	Tenement	PEM low	PEM high	Preferred PEM
Weld Range	E51/0933	0.75	1.25	1.00
Weld Range	M20/0118	0.75	1.25	1.00
Western Creek	E52/1483	0.75	1.25	1.00
Western Creek	E52/1604	0.75	1.25	1.00
Western Creek	E52/1912	0.75	1.25	1.00
Western Creek	E52/2160	0.75	1.25	1.00
Western Creek	E52/2300	0.75	1.25	1.00
Western Shaw	E45/2768	0.25	0.75	0.50
Western Shaw	P45/2733	0.50	1.00	0.75
Yuinmery	E57/0681	0.25	0.75	0.50
Yuinmery	P57/1130	0.25	0.75	0.50
Yuinmery	P57/1131	0.25	0.75	0.50

Appendix L. Comparable Pre-Development companies

CIQ Ticker	Company Name	Business Description
ASX:BCK	Brockman Mining Limited	Brockman Mining Limited, an investment holding company, engages in the acquisition, exploration, and development of iron ore tenements in Western Australia. It is also involved in the exploitation, processing, and sale of copper, silver, and other Mineral Resources in the Yunnan Province of the People's Republic of China. The company's flagship project is the Marillana iron ore project that covers 82 square kilometers located within the Pilbara region of Western Australia. It also engages in the rail and port infrastructure business. The company was formerly known as Wah Nam International Holdings Limited and changed its name to Brockman Mining Limited in September 2012. Brockman Mining Limited is based in Hong Kong.
ASX:CTM	Centaurus Metals Limited	Centaurus Metals Limited, an iron ore company, engages in the exploration and pre-development activities for iron ore Mineral Resources primarily in Brazil. It also explores for gold. The company's principal project is the Jambreiro iron ore project located in the State of Minas Gerais, Brazil. It also holds interests in Mombuca project, a gold and iron ore project located in Belo Horizonte. The company was formerly known as Glengarry Resources Limited and changed its name to Centaurus Metals Limited in April 2010. Centaurus Metals Limited is based in West Perth, Australia.
ASX:FMS	Flinders Mines Limited.	Flinders Mines Limited explores for and develops Mineral Resources properties in Australia. The company primarily explores for iron ore, gold, and base metals. It focuses on developing a 100% owned flagship project, the Pilbara Iron Ore Project, located in the Pilbara region of Western Australia. The company was formerly known as Flinders Diamonds Limited and changed its name to Flinders Mines Limited in July 2008. Flinders Mines Limited was incorporated in 2000 and is based in Rose Park, Australia.
ASX:IRD	Iron Road Limited	Iron Road Limited explores and evaluates iron ore properties in Australia. Its flagship project is the Central Eyre Iron project located on the Eyre Peninsula of South Australia. The company is based in Adelaide, Australia.
ASX:MDX	Mindax Limited	Mindax Limited explores for mineral properties in Western Australia. It operates through four segments: Uranium, Gold, Copper and Gold, and Iron Ore. The company's flagship project includes the Mount Forrest iron project located in the Yilgarn Province. It also has interests in a portfolio of uranium, gold, and copper projects located in the Yilgarn Avon, Meekatharra, and Mortlock regions. Mindax Limited is based in West Perth, Australia.
ASX:RAD	Radar Iron Limited	Radar Iron Ltd engages in the exploration and development of iron ore deposits in Western Australia and Para State, Brazil. It has three principal properties consisting of the Yerecoin Magnetite project that comprises five tenements covering an area of 320 square kilometers and is located to the north of Perth, Western Australia; the Uruara Hematite Project, which covers an area of 68,000 hectares located in Para State, Brazil; and the Central Yilgarn Project in Western Australia. The company was incorporated in 2010 and is based in Nedlands, Australia.
ASX:RHI	Red Hill Iron Limited	Red Hill Iron Limited engages in the iron ore exploration activities in Australia. The company's primary asset is the Pannawonica channel iron project located in West Pilbara, Western Australia. It also focuses on the development of rock quarrying opportunities in the Western Pilbara region of Western Australia. The company was founded in 2005 and is based in West Perth, Australia.
ASX:WFE	Winmar Resources Limited	Winmar Resources Limited, a junior Mineral Resources company, invests in, explores for, and develops mineral properties in Western Australia. It holds 70% interest in the Hamersley Iron project located in the Tom Price region of the Pilbara. The company is based in Sydney, Australia.

Source: Capital IQ

C. Summary output from the Updated Daily Working Capital Model

Appendix C. Summary output from the Updated Daily Working Capital Model

Cash Flow		September	October	November	December	January	February	March	April	May	June
USD Freight Payments (prov)		(9,125)	(9,053)	(8,438)	(6,809)	(8,303)	(6,596)	(7,675)	(8,693)	(7,981)	(7,981)
USD Freight Payments (Final)		(111)	(342)	(465)	(608)	(490)	(1,412)	(847)	(1,308)	(1,095)	(1,071)
USD Shipment Sale (prov)		72,155	62,380	62,671	58,346	65,471	53,630	76,808	68,894	71,150	69,072
USD Shipment Sale (Final)		(298)	(143)	(1,000)	(2,490)	(2,237)	2,189	2,789	3,066	5,320	3,143
Adjustment		0	0	0	0	0	0	0	(811)	0	0
Hedge mark to market (IO leg)		(273)	(473)	(640)	1,380	(366)	(534)	(544)	0	(267)	(288)
Hedge mark to market (FX leg - US$ out)		0	0	0	0	0	0	0	0	0	0
Hedge mark to market (FX leg - AU$ in)		0	0	0	0	0	0	0	0	0	0
Term Loan B Payment & Revolver Fee		(9,813)	0	0	(19,747)	41	0	(7,946)	(5,737)	0	(2,126)
Other Financing		0	0	0	0	0	0	0	0	0	0
BAS Refund		16,404	5,085	4,837	5,163	0	2,640	10,511	4,782	5,120	4,898
GST Refund		0	0	0	0	0	0	0	(2,800)	0	0
Payroll		(1,632)	(1,810)	(1,749)	(1,576)	(2,142)	(1,668)	(2,007)	(1,700)	(1,757)	(1,700)
Redundancy		(898)	0	0	(117)	0	0	0	0	0	0
C&M Capital		0	0	0	0	0	0	0	0	0	0
Other Investing		0	0	0	0	0	(1,769)	0	0	0	0
Royalty Rebate		3,201	0	5,676	0	0	0	0	0	(3,100)	(3,100)
Bonds and Deposits		0	0	0	0	6	0	2,393	0	0	0
Capital Raising		0	0	0	0	0	0	0	0	0	0
Capital Raising Costs		0	0	0	0	0	0	0	0	0	0
Refinancing costs		0	0	(243)	(1,206)	(1,042)	(176)	(1,245)	(630)	(10,033)	0
Bank Fees		(66)	(19)	(12)	(18)	(386)	(35)	(42)	0	0	0
Misc Income		216	580	194	320	351	218	234	0	0	0
AP Payments		0	0	0	0	0	0	0			
- Operations		(39,503)	(50,837)	(46,654)	(13,282)	(71,087)	(41,089)	(51,165)	(52,013)	(48,908)	(48,798)
- Royalties		(233)	(12,026)	(1,966)	(19)	(10,159)	(3,764)	(2,756)	(11,329)	(2,683)	(2,683)
- Profit Share		(3,662)	(2,652)	(2,170)	0	0	(846)	(3,667)	(4,827)	(4,774)	(4,954)
- Other		(3,764)	(7,563)	(3,664)	(4,887)	(3,903)	(1,876)	(3,933)	(3,711)	(3,817)	(5,835)
Foreign Currency		2,035	(1,543)	(945)	(890)	2,695	(178)	(5,218)	0	0	0
Movement		24,633	(18,416)	5,431	13,561	(31,551)	(1,265)	5,692	(16,817)	(2,826)	(1,424)
Opening Cash		82,695	107,328	88,912	94,343	107,905	76,353	75,088	80,780	63,963	61,137
Closing Cash		107,328	88,912	94,343	107,905	76,353	75,088	80,780	63,963	61,137	59,713

D. Summary Cash Flow Forecast from the February Valuation Scenario for the period 1 March 2016 to 30 April 2017

Appendix D. Summary Cash Flow Forecast from the February Valuation Scenario for the period 1 March 2016 to 30 April 2017

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
CASH FLOW SUMMARY														
Cash receipts from customers (incl freight)	72.6	72.5	69.8	67.9	56.5	55.6	55.9	58.5	58.4	57.6	53.9	48.3	45.2	48.0
Provisional pricing effects	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Hedge book effects settled in period	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Payments to suppliers	(63.2)	(60.2)	(49.4)	(57.9)	(53.9)	(54.2)	(53.7)	(55.1)	(53.7)	(52.3)	(50.1)	(44.3)	(45.0)	(45.9)
Contractor Profit Share	(0.7)	(0.7)	(0.7)	(0.4)	(0.1)	(0.1)	(0.2)	(0.2)	(0.1)	(0.1)	–	–	–	–
Royalty payments	–	(15.8)	–	–	(16.4)	–	–	(12.3)	–	–	(12.8)	–	–	(10.3)
Royalty relief received / repaid	–	–	(3.0)	(3.0)	–	–	(3.0)	–	–	(3.0)	–	–	(3.0)	–
GST	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest received	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Operating Cash Flow	**8.8**	**(4.3)**	**16.7**	**6.6**	**(13.9)**	**1.3**	**(0.9)**	**(9.0)**	**4.6**	**2.2**	**(8.9)**	**4.0**	**(2.9)**	**(8.1)**
Capital Expenditure	(1.1)	(0.3)	(0.3)	(0.4)	(0.1)	(0.3)	(0.3)	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)	(0.7)	(0.1)
Proceeds from bank guarantees	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Change in Financial Investments	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of Mining Tenements	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total Investing Cash Flow	**(1.1)**	**(0.3)**	**(0.3)**	**(0.4)**	**(0.1)**	**(0.3)**	**(0.3)**	**(0.2)**	**(0.1)**	**(0.2)**	**(0.1)**	**(0.1)**	**(0.7)**	**(0.1)**
Debt Draw dow n / Repayment - Term Loan / Revolver	(1.0)	(172.8)	–	(0.3)	–	–	(0.5)	–	–	(0.5)	–	–	(0.5)	–
Interest payments on debt	(8.0)	(2.6)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Pre export finance cash flow s	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Equity Issued	–	169.3	–	–	–	–	–	–	–	–	–	–	–	–
Other financing cash flow s	(0.1)	(5.0)	(9.9)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Financing Cash Flow	**(9.1)**	**(11.2)**	**(10.8)**	**(1.3)**	**(1.0)**	**(1.0)**	**(1.5)**	**(1.0)**	**(1.0)**	**(1.5)**	**(1.0)**	**(1.0)**	**(1.5)**	**(1.0)**
Net Cash Flow pre forex adjustment	**(1.4)**	**(15.7)**	**5.6**	**4.9**	**(15.1)**	**(0.0)**	**(2.7)**	**(10.3)**	**3.5**	**0.5**	**(10.0)**	**3.0**	**(5.1)**	**(9.3)**

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E. Copy of the IER

PPB ADVISORY

Atlas Iron Limited

Independent Expert Report in relation to the proposed Scheme of Arrangement

24 February 2016

Strictly Private and Confidential

24 February 2016

Mr James Marshall
Partner
Ashurst Australia
Level 11, 5 Martin Place
Sydney NSW 2000

Independent Expert Report in relation to the proposed Scheme of Arrangement (the Scheme) for Atlas Iron Limited

Dear Mr Marshall

In your engagement letter of 17 December 2015 (included in Appendix A, together with our confirmation of engagement letter (together: **Letters of Engagement**)), you confirmed your instructions in relation to Atlas Iron Limited (**Scheme Company**) and its subsidiaries (**Group**) and we are now pleased to provide this Independent Expert Report. Details of the scope and nature of our work are set out in the Letters of Engagement.

This Report addresses the matters which we were instructed to complete in your engagement letter.

Our comments and findings assume that the factual information provided to us by the Group is materially accurate. We have shown a draft of the Report to Mr Mark Hancock, Chief Financial Officer and Mr Tony Walsh, Company Secretary. They have confirmed that, to the best of their knowledge, the factual information in the Report does not contain any omissions or errors and the Report accurately sets out the recent results, state of affairs and prospects of the Group.

This Report has been prepared solely for the recipients and purposes stated in the Letters of Engagement and should not be used for any other purpose.

We look forward to discussing the contents of this Report with you. In the meantime, if you require any clarification or further information, please contact us on the contact details provided.

Thank you for your instructions on this matter.

Yours sincerely

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Contents and Appendix Listing

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Glossary

Term	Definition
APES	Australian Professional and Ethical Standards issued by the Australian Professional and Ethical Standards Board
Ashurst	Ashurst Australia, the Group's Australian legal advisors
ASIC	Australian Securities and Investments Commission
Asset Coverage Ratio	The total asset to total secured debt ratio covenant as set out in the SFA
ASX	ASX Limited or the financial market operated by ASX Limited, as the context requires
Atlas	Atlas Iron Limited
AUD / A$ / $	Australian Dollars
BGC	BGC Contracting Pty Ltd
Bn	Billion
Benchmark	The forecast or actual price USD price for 62% Fe iron ore
Borrowing Entities	Atlas and the US Borrower
Business Day	Any day (except Saturday, Sunday or a public holiday) that banks are open for business in Sydney
Calculation Date	The second Business Day after the Effective Date
Capex	Capital expenditure
Claim	Has the meaning given to the term in the Explanatory Statement
CFR	Cost plus freight
Closedown Scenario	The closedown insolvency scenario as described in section 6.1.3
Contractor Collaboration Deed	Deed dated 14 April 2015 between Atlas, MACA Mining Pty Ltd, McAleese Resources Pty Ltd and Qube Bulk Pty Ltd
Corporations Act or Act	*Corporations Act 2001 (Cth)*
Corporate Model	Financial model prepared by Management for the Production Projects and McPhee
Corunna	Corunna Downs Development Project, as described in the Valuation Report
Court	Supreme Court of NSW or such other court of competent jurisdiction
Court Orders	Orders of the Court approving the Scheme under section 411(4)(b) (and, if applicable, section 411(6) of the Corporations Act)
Daily Working Capital Model	The excel model incorporating the Group's short term cash flow forecast, dated 1 February 2016
DCF	Discounted Cash Flow
DCF Valuation	Valuation of the Group's assets prepared on a DCF basis
Development Projects	Projects currently in development phase - comprising Corunna and McPhee
DSO	Direct Shipping Ore
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
Effective	Means, when used in relation to the Scheme, the Court Orders coming into effect, pursuant to section 411(10) of the Corporations Act
Effective Date	The date on which the Scheme becomes Effective

Glossary

Enterprise Value / EV	Enterprise Value of the Group, calculated as equity plus debt minus cash
Explanatory Statement	Information booklet produced by Atlas, approved by the Court and including the Scheme and an explanatory statement in accordance with the Corporations Act
Exploration Projects	Early stage projects where no resources have been defined, as set out in the Valuation Report
External Administrators	Voluntary Administrators appointed to Atlas and its subsidiaries or Receivers and Managers appointed to the Obligors, as the context requires
Fe	Iron
Finance Leases	Secured liabilities of the Group in respect of leased equipment at the Mount Webber mine site
FOB	Free on Board. This refers to the price received for Atlas' iron ore product in a scenario where the purchaser pays for shipping, insurance and all other costs associated with the transportation of the goods to their destination
Forward Curve Case	The Daily Working Capital Model incorporating an assumed Benchmark iron ore price based on relevant iron ore futures prices as at the date of the forecast
FYXX	Financial Year ending 30 June 20XX
GAM	Global Advanced Metals Pty Ltd
Guarantors	Certain subsidiaries of Atlas as stated in the SFA, including but not limited to Atlas Operations Pty Ltd, Aurox Resources Pty Ltd, Australian Manganese Pty Ltd, Ferraus Pty Ltd, Ferro Metals Australia Pty Ltd, Giralia Resources Pty Ltd, Warwick Resources Pty Ltd, South East Pilbara Assets Pty Ltd
Group / The Group	Atlas and its subsidiaries
GST	Goods and Services Tax
Illustrative Mitigation Scenario	The output of the Corporate Model based on the Valuation Scenario, amended as described in section 5.1.5
Implementation Date	The fifth Business Day after the Effective Date or such other earlier date following the Effective Date as determined by the Scheme Administrator, being the date the Scheme is implemented
Independent Forecasters x 3	The Benchmark iron ore price forecasts of three independent forecasters, provided by Management
Independent Forecasters x 4	The Benchmark iron ore price forecasts of four independent forecasters, provided by Management
Interim Amendment	The deed of amendment to the SFA dated 22 December 2015
Letters of Engagement	The 'Engagement for Dividend and Solvency Analysis in relation to the Creditors Scheme of Arrangement of Atlas Iron Limited' between PPB Advisory and Ashurst on behalf of The Group dated 17 December 2015, the PPB Advisory 'Confirmation of Engagement' letter dated 21 December 2015 and the 'Supplementary instructions in relation to Creditors' Scheme of Arrangement of Atlas Iron Limited' letter dated 23 February 2016
Lump	Iron Ore product produced by Atlas containing approximately 58% Fe with a size generally in the range 6.3mm to 40mm
M	Million (AUD)
Management	The executives and senior management team of the Group
McPhee	The McPhee Creek project, part of Atlas' second growth program that targets the expansion of Atlas' production base, as described in the Valuation Report

Glossary

Minimum Cash Covenant	The requirement of the Group to maintain a cash balance of at least A$55m (less certain principal and interest payments), in accordance with the terms of the Interim Amendment. The covenant is forecast to reduce to approximately $46m on 29 March 2016 (following the payment of interest and principal)
Net Proceeds	The amount, if any, actually recovered by Atlas from any available policy of insurance under which Atlas is entitled to indemnity in respect of any Subordinate Claim, net of any expenses (including defence costs) incurred by Atlas and/or any relevant insurer in connection with the claim
Obligor	Has the meaning given to that term in the SFA
Operating Sale Scenario	The operating sale scenario as described in section 6.1.3
Production Projects	Projects currently in production – comprising Wodgina, Abydos and Mt Webber
Q3 2015 Forecast	The Group's third quarter 2015 forecast, reflected as output in Corporate Model. The forecast was finalised on 23 December 2015
Report	This PPB Advisory Independent Expert Report in relation to the proposed Creditors' Scheme of Arrangement for Atlas
Restructuring	The amendments to the SFA contemplated by the Scheme
RSA	Restructuring Support Agreement dated 22 December 2015 between, among others, the Obligors, and certain TLB Scheme Creditors
Pa	Per annum
Scheme	The scheme of arrangement between Atlas, the TLB Scheme Creditors and the Subordinate Claim Holders under Part 5.1 of the Corporations Act
Scheme Date	The assumed date of implementation of the Scheme, 30 April 2016
Scheme Documents	Means together the Explanatory Statement and the Scheme
Scheme Hearing Date	The date of the hearing of the application to the Court for orders under section 411(1) and (1A) of the Act, assumed to be 25 February 2016
Scheme Meeting	Meeting of the TLB Scheme Creditors ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to the Scheme, and includes any adjournment of that meeting
Secured Debt	The total amount owing by Atlas to the TLB Scheme Creditors under the SFA. Commonly referred to as the TLB. Note this excludes the Finance Leases, which are included in the calculation of the Asset Coverage Ratio
SFA	Syndicated Facility Agreement dated 10 December 2012 between, among others, Atlas, Credit Suisse AG, Cayman Islands Branch and Credit Suisse AG, Sydney Branch and the TLB Scheme Creditors
Shares	Fully paid ordinary shares in the capital of Atlas
State	State of Western Australia
Subordinate Claim	A subordinate claim within the meaning of subsection 563A(2) of the Corporations Act, against Atlas in respect of any fact, matter, circumstance or event which has arisen or occurred at any time prior to the compromise of those claims by the Scheme
Subordinate Claim Holders	Any person who has or, but for the scheme, would be entitled to make a Subordinate Claim

Glossary

Supplementary Instructions	Instructions set out in the 'Supplementary instructions in relation to Creditors' Scheme of Arrangement of Atlas Iron Limited' letter dated 23 February 2016
TLB	Term Loan B, Atlas' primary loan facility
TLB Scheme Creditors	The Lenders as defined in the SFA
USD / US$	US Dollars
US$40 Case	The Daily Working Capital Model incorporating an assumed US$40/t Benchmark iron ore price
Valuation Date	30 November 2015
Valuation Report	The report entitled "Valuation of Business" attached as Appendix D
Valuation Scenario	The output of the Corporate Model based on the key assumptions utilised in deriving the valuation of the Group in section 3
US Borrower	Atlas America, Inc

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1. Executive Summary
2. Background
3. Valuation of the Group's Assets
4. Solvency Approach and Assumptions
5. Solvency Analysis of the Group
6. Likely outcome for the Group should the Scheme not be implemented
7. Dividend Analysis - Impact of Insolvency on the TLB Scheme Creditors

1. Executive Summary *continued*

1.1 Executive summary

We have been engaged to address the following matters:

Scope		Section
a)	The solvency of the Group immediately following the implementation of the proposed Scheme	4-5
b)	The value of the assets of the Group generally, relative to the debt owing to the TLB Scheme Creditors under the SFA	3
c)	The expected dividend that would be available to the TLB Scheme Creditors if Atlas were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act (the Scheme Hearing Date)	7
d)	The expected dividend that would be available to the TLB Scheme Creditors if the Scheme was put into effect as proposed, immediately after implementation of the Scheme	7
e)	The likely outcome for the Group should the scheme not be implemented having regard to the Total Assets to Total Secured Debt Ratio covenant in clause 7.13 of the SFA (and any other provisions of the SFA that you consider are relevant)	6
	Scope items under the Supplementary Instructions:	
a)	The expected dividend that would be available to Subordinate Claim Holders, in addition to the Net Proceeds, if the Scheme Company were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act and the Scheme was not implemented	7
b)	The expected dividend that would be paid to the Subordinate Claim Holders, in addition to the Net Proceeds, if the Scheme were put into effect as proposed, immediately following implementation of the Scheme	
c)	The extent, if any, to which the expected dividend that would be paid to Subordinate Claim Holders, in addition to the Net Proceeds, differs between either of the above two scenarios	

In our opinion:

a) We consider that immediately after the Scheme implementation the Group is solvent but note that this remains dependent on the forecast improvement in the Benchmark iron ore price incorporated in the Valuation Scenario.

b) The estimated value of the Group's assets as at 30 November 2015 exceeds the debt owed to the TLB Scheme Creditors under the SFA, as illustrated in the below table:

Summary Valuation

$'m	Low	High
Present value of forecast cash flows - Production Projects	286.8	298.9
Present value of forecast cash flows - McPhee	120.6	130.2
Present value of forecast cash flows - Corunna	87.2	91.6
Present value of forecast cash flows - Total	**494.6**	**520.8**
Exploration assets	45.2	120.4
Investments	**0.2**	**0.2**
Enterprise Value	**540.0**	**641.4**

Source: PPBA Analysis, Management

1. Executive Summary *continued*

The TLB Scheme Creditors' debt was US$267m (A$371m) as at 30 November 2015.

As set out in Appendix D, in arriving at our estimate of the value of the Group's assets we have used the generally accepted definition of fair market value, being *"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length"*. This definition is based on a hypothetical transaction between a hypothetical willing buyer and a hypothetical willing seller and assumes that a transaction will occur, even if, for market or other reasons, a transaction will not, or is unlikely to, occur. Therefore, the valuation should not be regarded as indicative of a transaction that is currently capable of being consummated by the Group.

We also highlight our conclusions in e) below, which suggest that if the Scheme is not implemented then the hypothetical valuation of the Group's assets as set out above would no longer be relevant and the value achievable for the Group's assets would be as set out in c), below.

c) The expected dividend that would be available to the TLB Scheme Creditors if Atlas were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act is in the range of 20.3 to 65.1 cents in the dollar on the forecast $368m of Secured Debt as at 30 April 2016, as set out in the following table:

Estimated outcome statement - 30 April 2016

	Closedown		Operating Sale	
$'m	**Low**	**High**	**Low**	**High**
Net Receivership Realisations	74.9	103.2	108.4	239.9
Forecast TLB debt at 30 April 2016	(368.3)	(368.3)	(368.3)	(368.3)
Surplus / (Shortfall) to TLB Scheme Creditors	**(293.4)**	**(265.1)**	**(259.9)**	**(128.4)**
TLB Scheme Creditor Recovery (cents in the A$)	*20.3*	*28.0*	*29.4*	*65.1*
Unsecured creditors	(201.3)	(201.3)	(201.3)	(201.3)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders	**(494.7)**	**(466.4)**	**(461.2)**	**(329.7)**

PPBA Analysis

d) The expected dividend that would be available to the TLB Scheme Creditors if the Scheme was put into effect as proposed, immediately after implementation of the Scheme is in the range of 46.0 to 100 cents in the dollar on the forecast $196m of Secured Debt as at 30 April 2016, as set out in the following table:

Estimated outcome statement - 30 April 2016

	Closedown		Operating Sale	
$'m	**Low**	**High**	**Low**	**High**
Net Receivership Realisations	89.9	118.2	123.4	254.9
Forecast TLB debt at 30 April 2016	(195.7)	(195.7)	(195.7)	(195.7)
Surplus / (Shortfall) to TLB Scheme Creditors	**(105.8)**	**(77.5)**	**(72.3)**	**59.2**
TLB Scheme Creditor Recovery (cents in the A$)	*46.0*	*60.4*	*63.1*	*100.0*
Unsecured creditors	(201.3)	(201.3)	(201.3)	(201.3)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders	**(307.1)**	**(278.8)**	**(273.6)**	**(142.1)**

PPBA Analysis

e) If the Scheme is not implemented, we consider it likely that the Group will breach the Asset Coverage Ratio test either at 30 April 2016 (on which date a test would occur in the event of a breach of the covenant as at 31 December 2015) or 30 June 2016.

1. Executive Summary *continued*

This breach would allow the TLB Scheme Creditors to call for the immediate repayment of the Secured Debt. It is unlikely that the Group would have sufficient liquidity or be able to raise sufficient capital/external finance to repay the Secured Debt in such a short timeframe.

This would therefore be likely to result in the Group becoming insolvent and either the Group appointing Voluntary Administrators or the TLB Scheme Creditors appointing Receivers and Managers to the Obligors (or both). In this scenario the range of outcomes for the TLB Scheme Creditors would be as noted above in item c.

In respect of the Supplementary Instructions, in our opinion:

a) The expected dividend that would be available to Subordinate Claim Holders, in addition to the Net Proceeds, if the Scheme Company were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act and the Scheme was not implemented is nil, as set out in the following table:

Estimated outcome statement - 30 April 2016

	Closedown		Operating Sale	
$'m	**Low**	**High**	**Low**	**High**
Net Receivership Realisations	74.9	103.2	108.4	239.9
Forecast TLB debt at 30 April 2016	(368.3)	(368.3)	(368.3)	(368.3)
Surplus / (Shortfall) to TLB Scheme Creditors	**(293.4)**	**(265.1)**	**(259.9)**	**(128.4)**
TLB Scheme Creditor Recovery (cents in the A$)	*20.3*	*28.0*	*29.4*	*65.1*
Unsecured creditors	(201.3)	(201.3)	(201.3)	(201.3)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders	**(494.7)**	**(466.4)**	**(461.2)**	**(329.7)**

PPBA Analysis

b) The expected dividend that would be paid to the Subordinate Claim Holders, in addition to the Net Proceeds, if the Scheme were put into effect as proposed, immediately following implementation of the Scheme is nil, as set out in the following table:

Estimated outcome statement - 30 April 2016

	Closedown		Operating Sale	
$'m	**Low**	**High**	**Low**	**High**
Net Receivership Realisations	89.9	118.2	123.4	254.9
Forecast TLB debt at 30 April 2016	(195.7)	(195.7)	(195.7)	(195.7)
Surplus / (Shortfall) to TLB Scheme Creditors	**(105.8)**	**(77.5)**	**(72.3)**	**59.2**
TLB Scheme Creditor Recovery (cents in the A$)	*46.0*	*60.4*	*63.1*	*100.0*
Unsecured creditors	(201.3)	(201.3)	(201.3)	(201.3)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders	**(307.1)**	**(278.8)**	**(273.6)**	**(142.1)**

PPBA Analysis

c) The expected dividend that would be paid to the Subordinate Claim Holders does not differ between the above two scenarios.

We have made all the inquiries that we believe are desirable and appropriate and that no matters of significance that we regard as relevant have, to our knowledge, been withheld from the Court.

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2. Background

It is proposed that Atlas enters into a creditors' scheme of arrangementunder Part 5.1 of the Corporations Act for the purpose of reducing the debt owing to the TLB Scheme Creditors (the Scheme).

This will be effected via:

- A US$7.5m cash payment to the TLB Scheme Creditors, which was made by Atlas following execution of the RSA;
- A further US$2.5m cash payment to the TLB Scheme Creditors on the Implementation Date;
- Payment of all accrued and unpaid interest owing in respect of the Secured Debt as at the Implementation Date;
- The retirement of approximately US$122m of principal Secured Debt and reduction of the TLB to a principal amount of US$135m per an amendment to the SFA, with a maturity five years from the Implementation Date (replacing existing TLB maturity of 31 December 2017);
- The issue of Shares, and options to acquire Shares, to the TLB Scheme Creditors equivalent to 70% of Atlas' Shares and options on issue immediately following the Implementation Date. Options will carry an exercise price of 7.5 cents per share. The options expire on 30 June 2017; and
- The limiting of the rights and entitlements of Subordinate Claim Holders to enforce Subordinate Claims against Atlas to an amount equivalent to the Net Proceeds and the release of Atlas from any obligation to pay any amount in respect of any Subordinate Claim (including interest and costs) in excess of the Net Proceeds referrable to that claim.

The proposed Scheme will have no effect on any other secured or unsecured creditors of Atlas. It will also have no effect on Atlas' employees.

The Scheme will impact Atlas' shareholders by way of:

- Dilution of their existing shareholding as a result of the granting of Shares and options equivalent to 70% of Atlas' Shares and options on issue immediately following the Implementation Date; and
- The compromise of their rights to bring a Subordinate Claim against Atlas to the extent that they are also Subordinate Claim Holders.

The details of the proposed Scheme are included in the Explanatory Statement.

The proposed restructure is conditional on and subject to the approvals set out in the Explanatory Statement.

The details of the Scheme and the implementation steps are set out in the Explanatory Statement and the Scheme (annexed to the Explanatory Statement), together known as the Scheme Documents.

Unless otherwise stated, all amounts referenced in this Report are in Australian dollars.

2.1 Scope of Work and relevant experience

Attached as Appendix A are the Letters of Engagement. We have been instructed by Ashurst on behalf of the Group to address the matters set out in section 1.1. A summary of the scope items is set out in section 1.1.

Our relevant experience for carrying out this type of engagement is outlined in the Curriculum Vitae of our signatory partners, attached in AppendixB.

2.2 Limitations, Restrictions and Reliance

The scope of work we are instructed to conduct does not contain any specific restrictions or limitations. However, we note that this Report is based on information sourced from the books, records and other information provided by the Group (as set out in Appendix C). Whilst we have

reviewed the information provided, we have not audited it and there has been no independent verification of the information.

The statements and opinions given in this Report are wholly based on our own knowledge, given in good faith and in the belief that such statements are not false or misleading. Except where otherwise stated, we reserve the right to alter any conclusions reached on the basis of any changed or additional information which may be provided to us between the date of this Report and the date of the Scheme Meeting.

In particular, we highlight that the following material issues remain outstanding:

- The TLB Scheme Creditors and Atlas have agreed to negotiate a new financial maintenance covenant, as contemplated in the debt term sheet (set out in schedule 4 to the RSA), after the signing of the RSA and before the Scheme Date. This primarily impacts our assessment under scope item a (sections 4 and 5 of this Report);
- Atlas is yet to finalise its audited December 2015 balance sheet and, accordingly, the outcome of the 31 December 2015 Asset Coverage Ratio test is not yet known. This primarily impacts our assessment under scope item e (section 6 of this Report); and
- The Scheme Documents have not yet been finalised.

The resolution of these issues could have a material impact on our findings and alter the conclusions set out in this Report. We reserve the right, but are under no obligation, to revise our Report if further material information becomes available in respect of these issues.

We note that our statements and opinions are based on a number of assumptions detailed throughout the Report, along with the rationale for these assumptions. In considering the options available to TLB Scheme Creditors and formulating our opinions, we have necessarily relied on forecast financial statements provided by Atlas.

Neither we, PPB Advisory, nor any member of the firm or employee of ours is responsible in any way whatsoever to any person in respect of any errors in this Report arising from incorrect information supplied to us. Furthermore, we note that:

- This Report has been prepared, and may be relied upon, solely for the purpose contemplated in our Letters of Engagement set out in Appendix A;
- This Report is not for general circulation, publication, reproduction and must only be published or disclosed in accordance with the Letters of Engagement set out in Appendix A or otherwise required by law or by order of the Court;
- We do not assume or accept any responsibility for any liability or loss sustained by any Scheme Creditor or any other party as a result of the circulation, publication, reproduction or any use beyond that permitted above; and
- TLB Scheme Creditors should seek their own independent legal advice as to their rights and the options available to them at the Scheme Meeting.

2.3 Independence

We have reviewed ASIC Regulatory Guide 112 regarding the independence of experts and ASIC Regulatory Guide 111 on the content of expert reports (where relevant) and are of the opinion that:

- We are not aware of any actual, or perceived, conflict of interest;
- We are not aware of any actual, or perceived, threat to our independence; and
- There is no other reason why this engagement should not be accepted.

In accordance with ASIC Regulatory Guide 112.23 to 112.27 and 112.28 to 112.37, below is a summary of our prior and current engagements relating to the Group in the two years immediately preceding the date of this Report:

Date	Engaging and Invoicing Party	Notes
17 December 2015	Ashurst	Engaged to act as Independent

	Experts to prepare Independent Expert Report for Scheme of Arrangement

2.4 Assistance by PPB Advisory staff

In order to complete this engagement and to arrive at our opinions in this Report, we have used a number of appropriately qualified PPB Advisory staff members to provide assistance.

We have reviewed the work performed by them and the original source documents to the extent that we considered necessary to form our opinions. The opinions expressed in this Report are ours.

2.5 Statement Regarding Expert Witness code

We have read the Expert Witness Code of Conduct contained in *Uniform Civil Procedure Rules 2005* (NSW) for use in proceedings in the Supreme Court of New South Wales (AppendixF), and agree to be bound by it.

We have complied with the requirements of both APES 215 – Forensic Accounting Services and APES 225 – Valuation Services, the professional code of practice of CPA Australia and Chartered Accountants Australia and New Zealand.

We have also considered APES 110 – Code of Ethics for Professional Accountants, and confirm that our previous and existing relationships with the Group (as detailed in section 2.3) do not create a threat or perceived threat to our obligations to comply with the fundamental principles of this code or our duties to the Court.

As expert witnesses, we acknowledge and have complied with our general duties to the Court, which include:

- We have a duty to the Court which overrides any duty to any party to the proceedings, including our client;
- We have an overriding duty to assist the Court on matters relevant to our area of expertise in an objective and unbiased manner;
- We have a duty not to be an advocate for any party to the proceedings including our clients;
- We have a duty to make it clear to the Court when a particular question or issue falls outside of our area of expertise.

2.6 Overview of the Group

The Group has an extensive portfolio of projects in Western Australia, primarily in the north and south-east Pilbara area and the Midwest regions. These include three established operating mines, near-term ore reserves and exploration projects ranging from green fields to advanced resources.

In relation to its three operating mines, the Group utilises a conventional drill and blast mining model with key mining logistics functions carried out by a number of contractors, some of which are common across the operating mines.

After implementation of the Scheme, the Group's operations and remaining projects are proposed to remain unchanged.

The Group's key projects are summarised in the Valuation Report at Appendix D.

The corporate structure of the Group is set out in the Valuation Report. The Scheme will have no impact on the Group's corporate structure. The Scheme may have an impact on Atlas' board of directors in that the Scheme provides for the TLB Scheme Creditors, following the Implementation Date, to:

- Nominate three directors for appointment to Atlas' board of directors; or
- Appoint an observer to attend Atlas' board meetings.

2. Background *continued*

The composition of Atlas' board could therefore change if the TLB Scheme Creditors utilise these rights. Additionally, following implementation of the Scheme, the TLB Scheme Creditors will collectively hold enough Shares to request a meeting of shareholders to appoint (and remove) directors to the Atlas board of directors.

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3. Valuation of the Group's Assets

3.1 Valuation of the Group's Assets

The scope of this engagement (in scope item b) requires us to assess the value of the assets of the Group generally, relative to the debt owing to the TLB Scheme Creditors under the SFA, prior to the implementation of the Scheme. Our assessment of this value is undertaken in the Valuation Report included at Appendix D.

The Group comprises a portfolio of projects in Western Australia which are at different stages of development. We have determined the value of the Group using a combination of valuation methodologies, appropriate to the various groups of assets based on their stage in the development and operation cycle.

3.2 Basis of valuation

We have valued the Group's assets on the following basis:

Asset	Basis of Valuation
Production Projects (Abydos, Wodgina and Mount Webber):	DCF
Development Projects (McPhee and Corunna):	DCF
Exploration Projects:	Cost approach (multiple of mine expenditure and Geoscience matrix)
Investments:	
Listed exploration company	Market value of shares held
Port Hedland Port Development Joint Venture	Net assets basis

3.3 Summary valuation

We have shown a high to low range of values for each group of projects. The difference between the high and low scenarios is driven primarily by different discount rate assumptions.

Summary Valuation

$'m	Low	High
Present value of forecast cash flows - Production Projects	286.8	298.9
Present value of forecast cash flows - McPhee	120.6	130.2
Present value of forecast cash flows - Corunna	87.2	91.6
Present value of forecast cash flows - Total	**494.6**	**520.8**
Exploration assets	45.2	120.4
Investments	**0.2**	**0.2**
Enterprise Value	**540.0**	**641.4**

Source: PPBA Analysis, Management

In making this assessment, we have considered the Enterprise Value of the Group. The table above shows that the range of Enterprise Value for the Group is between $540m and $641m on the assumption that it is sold as a going concern on or around 30 November 2015 (the Valuation Date). A more detailed explanation of the valuation methodologies applied across the Group's portfolio of assets for each division is included with supporting information at Appendix D.

We highlight that the calculated Enterprise Value of the Group is highly sensitive to the assumed Benchmark iron ore price. In the Valuation Report we have set out sensitivity analysis which illustrates the potential impact on the Enterprise Value of the Group based on variations in the forecast Benchmark Iron Ore Price.

Note, in our assessment of the value of the Group's assets, we have not included the value of cash on the balance sheet at 30 November 2015 ($94.3m). Whilst the value of this cash may be attributable to the vendors in the event the Group was sold as a whole, we have not included it in our assessment because we have not considered any adjustments a purchaser may make to the Enterprise Value to reflect, for example, working capital normalisations and debt-like items (amongst other adjustments). Such analysis is outside the scope of this engagement.

3. Valuation of the Group's Assets *continued*

3.4 Secured Indebtedness of the TLB Scheme Creditors

As at 30 November 2015 (the Valuation Date), the TLB Scheme Creditors were owed US$267m (at an AUD/USD exchange rate of 0.72, this converts to A$371m).

3.5 Conclusion – value of the Group's assets relative to the debt owing to the TLB Scheme Creditors

Our range of Enterprise Values of the Group, of $540 to $641m, exceeds the debt owing to the TLB Scheme Creditors under the SFA of US$267m (A$371m) as at 30 November 2015.

As set out in Appendix D, in arriving at our estimate of the Group's Enterprise Value, we have used the generally accepted definition of fair market value, being *"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length."* This definition is based on a hypothetical transaction between a hypothetical willing buyer and a hypothetical willing seller and assumes that a transaction will occur, even if, for market or other reasons, a transaction will not, or is unlikely to, occur. Therefore, the valuation should not be regarded as indicative of a transaction that is currently capable of being consummated by the Group.

We also highlight our conclusions in section 6, which suggest that if the Scheme is not implemented then the hypothetical valuation of the Group's assets as set out above would no longer be relevant and the value achievable for the Group's assets would be as set out in section 7.

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4. Solvency Approach and Assumptions

The scope of this engagement requires us to provide our expert opinion in relation to the solvency of the Group immediately following the implementation of the Scheme. We have assessed the potential future solvency of the Group using the approach outlined below.

4.1 Approach

The Group's financial position has been examined to determine its ability to pay its debts as and when they fall due. Our analysis of the financial position has been conducted in consideration of the definition of solvency under Section 95A of the Corporations Act and the common law principles described in Appendix E.

We have assumed for the purposes of our analysis that the Scheme will be implemented on 30 April 2016 (the Scheme Date).

The following factors have been considered in reaching our conclusion on solvency:

4.1.1 Cash flow test (primary test)

The cash flow test is considered to be the primary test of solvency.

Section 95A of the Corporations Act provides that a debtor is solvent if it is able to pay its debts as and when they fall due and payable. The converse inference is that the debtor is insolvent if it cannot meet its debts as and when they fall due and payable, and creditors should not be forced to wait while the debtor realises some of its assets to pay them, particularly if those assets cannot be easily liquidated.

Our review of the Group's forecast cash flows allows us to determine whether the above definition of solvency is met. In line with case law, we have analysed the financial position of the Group in the twelve months following the implementation of the Scheme.

4.1.2 Balance sheet test (indicative test)

The balance sheet test of solvency provides that a debtor will be insolvent if the liabilities of the debtor would not be met if all of its assets were liquidated and used to meet those liabilities.

This involves a review of a debtor's balance sheet to determine whether the debtor's assets exceed its liabilities and, if so, by how much. It also highlights the nature of the debtor's assets and liabilities.

We note that a simple mathematical analysis of a company's balance sheet may not provide a definitive determination of whether the company would be able to meet its debts. This is because many of the assets held by a company may be illiquid in nature and not readily realisable to meet payment obligations.

4.1.3 Profit indicators (indicative test)

This involves reviewing the historic and forecast profit and loss statement to determine the company's profitability. The EBITDA generated by a company provides an indication as to its ability to meet its debts as and when they fall due, particularly with regard to interest payable on its debt facilities.

4.1.4 Financial covenants

To the extent that a financial covenant would be breached (and not cured) by the Group, this would allow the TLB Scheme Creditors to declare the balance of the Secured Debt immediately due and payable. Should the TLB Scheme Creditors elect to do so, this would have an effect on both the cash flow test, in that the Group would need to demonstrate sufficient liquidity to be able to repay the Secured Debt, and the balance sheet test, in that the Group would need to show sufficient liquid assets were available to meet the Secured Debt.

Prior to the Scheme Date, the Group is subject to the A$55m Minimum Cash Covenant set out in the Interim Amendment (as reduced by any principal or interest paid to the TLB Scheme Creditors after 25 March 2016). The Group will no longer be subject to this covenant following implementation of the Scheme.

4. Solvency Approach and Assumptions *continued*

Following the implementation of the Scheme, the SFA is expected to include a financial maintenance covenant. Whilst the financial maintenance covenant has not yet been agreed, we expect that, if the agreed covenant is in respect of Atlas' minimum cash balance, the covenant level will be significantly lower than the existing Minimum Cash Covenant, having regard to the post-Scheme forecasts set out in section 5.

4.1.5 Other Considerations

Case law indicates that the Courts adopt a commercial approach with respect to the question of solvency, not simply basing their view on the theoretical approaches noted above (*Taylor v. ANZ*[1], *Newark*[2] and *Sheahan v. Hertz*[3]).

The case of *ASIC v Plymin and Others*[4] provides a non-exhaustive list of insolvency indicators, including:

- Continuing losses;
- Poor relationship with lenders;
- No access to alternative finance;
- Inability to raise further equity capital;
- Suppliers placing a company on cash on delivery or special payment plans; and
- Special arrangements with selected creditors.

In determining the solvency of the Group, we have also considered the following additional matters:

- The SFA, including its key terms and covenants;
- The Group's ability to access additional debt facilities and other liquidity support; and
- The adequacy of the books and records of the Group.

4.2 Source Data

4.2.1 Cash Flow

Our analysis of cash flow is based on a combination of the Group's Daily Working Capital Model as at 1 February 2016 and its Corporate Model (incorporating the Valuation Scenario).

Daily Working Capital Model

The Daily Working Capital Model is a detailed rolling daily cash forecasting model prepared by Management. It is updated weekly or bi-weekly.

The Daily Working Capital Model is based on an actual opening cash position as at 31 January 2016 (of A$76.3m) and covers the period 1 February 2016 to 30 June 2016. We have primarily used it to analyse the period prior to the Scheme Date of 30 April 2016, as it is more regularly updated than the Corporate Model and refers to actual expected iron ore mining activity and shipments, as opposed to the Corporate Model which is built up monthly and based on high level macroeconomic assumptions.

Notwithstanding that the Daily Working Capital Model has not been reconciled to the Corporate Model, it is relevant for assessing whether the forecast cash position as at 30 April 2016 in the Corporate Model appears reasonable.

Corporate Model

The Group has prepared a Corporate Model, which is an integrated, monthly financial model incorporating a forecast profit and loss statement, balance sheet and cash flow (the latter prepared on a receipts and payments basis).

[1] (1988) 6 ACLC 808
[2] (1991) 6 ACSR 255
[3] (1995) 16 ACSR 765
[4] (2003) 46 ACSR 126

4. Solvency Approach and Assumptions *continued*

The Corporate Model:

- Sets out the Group's forecast revenue, costs, cash flows and balance sheet for any given iron ore price and foreign exchange rate adjustments;
- Contains a number of different forecast scenarios, the principal scenario being the Q3 2015 Forecast, which reflects Management's view (as at 23 December 2015) of the Group's expected mining activity and the revenue, costs and cash flows that this activity is likely to generate; and
- Contains a number of other scenarios, which primarily illustrate the impact of applying different headline iron ore price profiles to the forecast.

The key assumptions in the Corporate Model are based on the Group's Q3 2015 Forecast. The Corporate Model includes actual results up to 30 November 2015 and forecasts from December 2015 through to June 2024. We have used the receipts and payments basis cash flow forecast from the Corporate Model to assess the Group's liquidity position and performance against the cash flow test over the twelve months from the Scheme Date of 30 April 2016.

4.2.2 Balance sheet

The balance sheet has been sourced from the Corporate Model.

4.2.3 Profit and loss statement

The profit and loss statement has been sourced from the Corporate Model.

4.3 Adjustments to source data

4.3.1 General adjustments across the cash flow, balance sheet and profit and loss statement

The Group's Q3 2015 Forecast was prepared primarily as an operational update based on Management's Q3 FY15 operational forecasts (including items such as projected mining/sales volumes and operating costs).

We have created a scenario in the Corporate Model that broadly reflects Management's method of forecasting, and includes the most recently available independent Benchmark iron ore price forecasts and forward foreign exchange rates. The Valuation Scenario largely retains Management's Q3 FY15 operational assumptions and methodology of forecasting macro assumptions, with the exception of the Lump premium calculation and exchange rate assumptions outlined in the table below.

This Valuation Scenario has been used as the basis of the Valuation Report set out in section 3 and also as the basis for the cash flow, balance sheet and profit and loss information presented in section 5, subject to the additional sensitivities we have applied in respect of the cash flow forecast, as described in section 5.1.4 and the downside mitigants as described in section 5.1.1.

The key assumptions underpinning the Valuation Scenario are set out below and described in detail in the Valuation Report, attached as Appendix D.

Key Valuation Scenario assumptions

	Q3 2015 Forecast	Valuation Scenario
Iron Ore Price	Forward Curve Jan 16 - June 16 Staged step up from July to September 16 Independent Forecasters x3 from October 16	Forward Curve Jan 16 - June 16 Staged step up from July to September 16 Independent Forecasters x3 from October 16
AUD/USD Exchange rate	Futures market Jan 16 - June 16 Staged step up from July to September 16 Independent Forecasters x3 from October 16	Futures market Jan 16 - June 16 Flat 0.72 from July 16
Lump Premium	US$6.50/dmt (real) throughout the model	12.5% of Benchmark iron ore price
Corunna/McPhee Projects	Not considered - outside scope of this operational forecast	McPhee - construction capex commences Feb 2018 / revenue Nov 2018 Corunna - construction capex commences Jan 2017 / revenue July 2017

4. Solvency Approach and Assumptions *continued*

4.3.2 Adjustments to the cash flow forecast – supplier payment terms

In section 5.1.4 we also show the impact of applying a sensitivity to the Valuation Scenario cash flow forecast. The sensitivity reflects a delay in the $20m one-off cash benefit included in the Q3 2015 Forecast (and therefore, reflected in the Valuation Scenario) in March 2016, arising from an assumed partial reversion of trade payable terms to more normal levels following the completion of the Restructuring.

We have not applied this sensitivity to the balance sheet analysis in section 5.2, because the sensitivity only reflects a difference in the timing of a conversion of trade payables into cash and therefore does not impact net current assets or net assets at 30 April 2016.

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5. Solvency Analysis of the Group

5.1 Primary test: cash flow test

In considering the solvency of the Group, we have reviewed the cash flow forecasts on a consolidated basis for the following reasons:

- Historically, any cash deficiencies in a particular Group entity have been funded by cash surpluses from other Group entities, and this arrangement is not expected to change following implementation of the Scheme;
- It is expected that the Borrowing Entities will remain unchanged and Atlas will be responsible for servicing the Secured Debt following implementation of the Scheme; and
- We understand that the Secured Debt will continue to be cross-guaranteed by the Guarantors following implementation of the Scheme (see the Group structure chart in the Valuation Report).

We therefore consider it reasonable to consider the solvency of the Group as a whole, as any cash deficiencies in a particular entity are assumed to be funded by cash surpluses from other Group entities.

5.1.1 Group consolidated cash flow forecast – pre Scheme Date

Whilst our scope does not explicitly require an analysis of the Group's cash flows prior to the Scheme Date, we have considered the Group's Daily Working Capital Model over the period 1 February 2016 to 30 April 2016 in order to consider:

- Whether the Group is likely to remain solvent prior to the Scheme Date, having regard to the Minimum Cash Covenant; and
- Whether the forecast closing cash position as at 30 April 2016 in the Corporate Model appears reasonable, and therefore whether any adjustments should be made to the Corporate Model, on the basis of our view that the Daily Working Capital Model is likely to reflect a more accurate forecast of cash flow through to 30 April 2016, compared with the Corporate Model.

The Group has prepared two Daily Working Capital Models, both dated 1 February 2016, based on two different iron ore price assumptions:

- **The US$40 Case:** assumes a Benchmark iron ore price of US$40/tonne. This scenario also includes a one-off $10m cash improvement in March 2016, reflecting a return to more normal supplier payment terms following substantial progress being made in relation to the Scheme (this is 50% of the total $20m benefit that Management assumes may be possible in the Valuation Scenario); and
- **The Forward Curve Case:** assumes a Benchmark iron ore price based on futures prices as at the date of the forecast. This case does not include the assumed $10m working capital improvement, and is considered by Management to reflect a downside case.

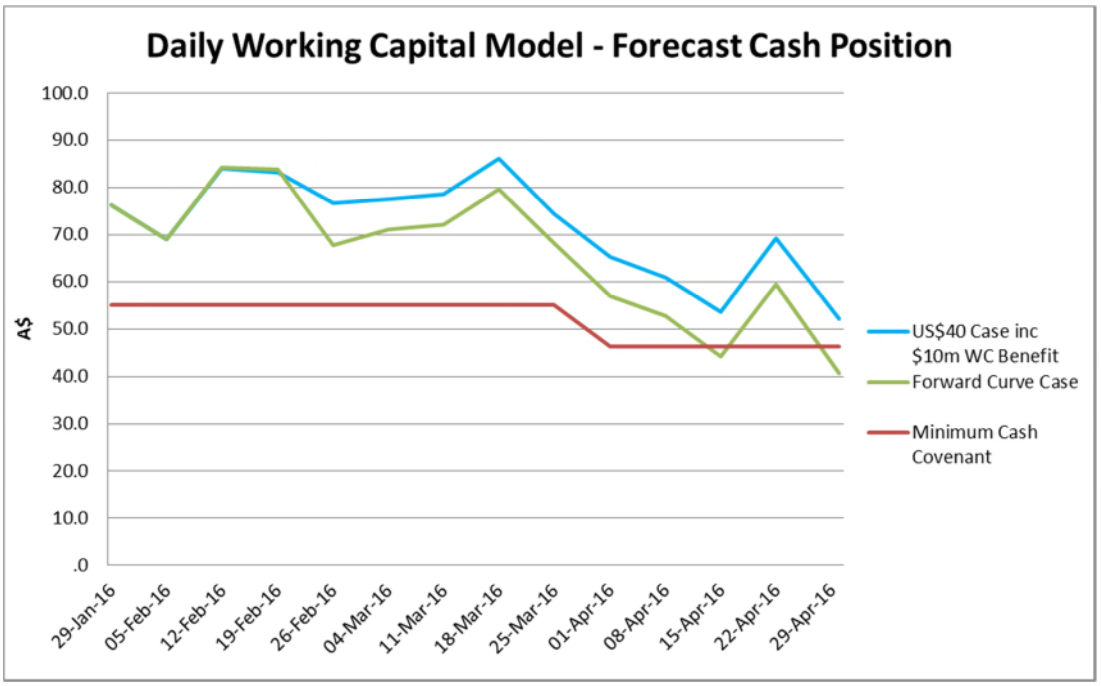
The output of the Daily Working Capital Model under the above two assumptions is attached at Appendix G.

The average Benchmark iron ore price during January 2016 was c.US$42p/t and therefore the above two cases incorporate a degree of conservatism compared with the spot price at the date of this Report. We note that neither of the two cases presented represent a worst case scenario for the Group, as the Benchmark iron ore price could fall below the prices assumed in the Forward Curve Case. Therefore, the actual cash balance as at 30 April 2016 may be meaningfully higher or lower than what is implied in either of the above cases. This is due to the sensitivity of Atlas' cash flows to the iron ore price.

The forecast cash balance at each week end under the two Daily Working Capital Models is set out in the chart below. We have compared the forecast balances against the Minimum Cash Covenant, which allows for the covenant to be reduced by the amount of any principal and interest payments which are made after 25 March 2016. The adjustment for forecast principal and interest payments is illustrated by the reduction in the Minimum Cash Covenant from $55m to approximately $46m as at 29 March 2016, reflecting interest and principal paid to the TLB Scheme Creditors.

5. Solvency Analysis of the Group *continued*

As set out in section 4.1.1, the Minimum Cash Covenant introduced through the Interim Amendment is only applicable to Atlas for the period up to the Implementation Date (which, under the terms of the RSA, can be no later than 30 April 2016), following which time it will be replaced by a financial maintenance covenant to be agreed between Atlas and the TLB Scheme Creditors (assuming the Scheme is implemented). Whilst the financial maintenance covenant has not yet been agreed, we expect that, if the agreed covenant is in respect of Atlas' minimum cash balance, the covenant level will be significantly lower than the existing Minimum Cash Covenant, having regard to the post-scheme forecasts set out in section 5.1.2.



The chart indicates that:

- Under the US$40 Case, the Group is forecast to satisfy the Minimum Cash Covenant throughout the period to 30 April 2016. However, under the Forward Curve Case, the Group is forecast to breach the Minimum Cash Covenant in the weeks ending 15 and 30 April 2016; and
- On 30 April 2016 the Group's cash holdings are forecast to reduce to a low point of:
  - $52.1m under the US$40 Case; and
  - $40.6m under the Forward Curve Case.

However, we highlight that the above forecasts are indicative only and that the Group may not, in reality, breach the Minimum Cash Covenant as Management has a number of options available to it in order to conserve cash above the levels forecast in the Daily Working Capital Model. These options include:

- Managing the timing of payments and receipt of funds to some degree to avoid temporary dips below the Minimum Cash Covenant;
- Negotiating improved payment terms with creditors and additional cost savings to be agreed with contractors;
- Putting hedging in place at Benchmark iron ore price levels above those in the forecasts during spikes in the market price. We understand that Atlas has some history of achieving this;
- Possibly reducing or ceasing production at the operating mines, albeit within the parameters of the RSA (which provides for termination of the RSA upon the suspension of all or substantially all of Atlas' mining operations). We note that this is less easily implemented in the short term, compared to the options above; and
- Approaching the TLB Scheme Creditors with a request to amend or waive the Minimum Cash Covenant. On the basis that the TLB Scheme Creditors have agreed to negotiate an amendment to the financial covenants included in the SFA as part of the Restructuring, they

5. Solvency Analysis of the Group *continued*

may be amenable to providing a short-term wavier or reduction of the Minimum Cash Covenant set out in the Interim Amendment, to facilitate Atlas remaining compliant with the RSA prior to the Implementation Date. We note that any amendment or waiver would require the consent of the TLB Scheme Creditors.

Furthermore, the Benchmark iron ore price may stay above a certain level such that cash flow generation is greater than what is forecast in either of the above scenarios. Further, Atlas may continue to benefit from low freight costs, with spot prices currently below the level assumed in these models, which would provide additional upside compared with the assumptions in the US$40 Case and Forward Curve Case.

The decision to reduce or cease production at one or a number of the mines involves complex analysis and is influenced by many factors, with a number of variables including:

- The Group's cash position;
- The current Benchmark iron ore price;
- Expectations of the Benchmark iron ore price in the near future;
- Costs of reducing or ceasing production and the ongoing cost of care and maintenance;
- Estimated costs of restarting operations and the working capital requirement to do so (in the event operations are placed on care and maintenance);
- The loss of skilled staff and specialised equipment (such as the existing haulage fleet) in the event production is ceased for an extended period of time; and
- The risk of loss of existing port allocation should Atlas' allocation not be utilised for an extended period of time.
- The ability of Management to reach a commercial agreement with its key suppliers in relation to avoiding or mitigating some of the contractual liabilities that exist within the Group's contracts which could be triggered by reducing or ceasing production.

5.1.2 Group Consolidated cash flows forecast – post Scheme Date

We set out below the Group's cash flow forecast for the following periods:

1. **January - April 2016:** Based on the Valuation Scenario from the Corporate Model, presented monthly; and
2. **May 2016 – April 2017:** Based on the Valuation Scenario from the Corporate Model, presented on a quarterly basis.

Cash Flow Forecast $'m	Notes	Jan 2016 Forecast	Feb 2016 Forecast	Mar 2016 Forecast	Apr 2016 Forecast	May - Jul 2016 Forecast	Aug - Oct 2016 Forecast	Nov - Jan 2016/17 Forecast	Feb - Apr 2017 Forecast	Total
Operating Cash Flows										
Customer receipts (inc freight)	1	61.2	50.1	54.9	59.2	169.5	174.8	181.8	158.3	**909.6**
Payments to suppliers	2	(54.8)	(49.9)	(56.1)	(39.7)	(171.0)	(161.8)	(155.6)	(135.8)	**(824.7)**
Royalty payments	3	(14.0)	-	-	(12.7)	(13.1)	(12.1)	(13.7)	(11.8)	**(77.4)**
Repayment of royalty relief	3	-	-	(3.0)	0.0	(3.0)	(3.0)	(3.0)	(3.0)	**(15.2)**
Other		0.1	-	0.1	-	-	-	-	-	**0.1**
Total operating cash flows		**(7.6)**	**0.2**	**(4.3)**	**6.8**	**(17.7)**	**(2.1)**	**9.4**	**7.6**	**(7.7)**
Capital Expenditure	4	(0.7)	(0.7)	(1.1)	(0.3)	(0.9)	(0.8)	(7.4)	(22.2)	**(34.2)**
Proceeds from bank guarantees		-	2.3	-	-	-	-	-	-	**2.3**
Debt repayment	5	-	-	(1.0)	(178.9)	(0.3)	(0.5)	(0.5)	(0.5)	**(181.6)**
Interest payments	6	-	-	(8.2)	(1.4)	(2.7)	(2.7)	(2.8)	(2.8)	**(20.6)**
Equity Issued	5	-	-	-	175.2	-	-	-	-	**175.2**
Other Financing Costs	7	(0.1)	(0.1)	(0.1)	(5.2)	(10.5)	(0.4)	(0.4)	(0.4)	**(17.3)**
Foreign Exchange adjustment		2.6	-	-	-	(1.4)	-	-	-	**1.2**
Increase / (Decrease) In Cash		**(5.9)**	**1.7**	**(14.8)**	**(3.6)**	**(33.6)**	**(6.6)**	**(1.7)**	**(18.2)**	**(82.6)**
Opening Cash	8	79.5	73.6	75.3	60.5	56.9	23.3	16.7	15.1	
Closing Cash		**73.6**	**75.3**	**60.5**	**56.9**	**23.3**	**16.7**	**15.1**	**(3.2)**	
Minimum Cash Covenant	9	55.0	55.0	46.3	46.3	-	-	-	-	
Cash covenant surplus / (shortfall)		**18.6**	**20.3**	**14.2**	**10.6**	**-**	**-**	**-**	**-**	

Source: Corporate Model incorporating the Valuation Scenario

5. Solvency Analysis of the Group *continued*

Notes

1. Atlas' sales are mainly on short term contracts, with typically 95% of customer receipts received in the same month as the sale is achieved.

2. Payments to major suppliers, including all contractor and corporate costs are assumed to be paid in the month incurred until March 2016. From April 2016, following the proposed restructure, Atlas assumes a partial normalisation of payment terms with key contractors returning to 30-45 day payment terms. The one-off cash benefit of this assumption (c.$20m) can be seen in the reduced level of cash payments to suppliers in April 2016.

3. Royalty payments include the State (7.5%), Native Title (0.5%) and Talison (2.5%, Wodgina only) and GAM (0.8% weighted average, Abydos only). Royalty payments are made quarterly. The State provided Atlas with a 50% royalty rebate for the year to 30 September 2015. Over that period, $21m of royalty liabilities have accrued and the first repayment is currently due on 31 March 2016 ($3.0m). Seven quarterly payments of $3.0m are forecast, with the final payment on 30 September 2017.

4. Capex to maintain the existing fixed assets, notably mine camps and equipment is forecast at minimal levels due to Atlas' contractor model.

   The Valuation Scenario includes the commencement of construction of Corunna from January 2017 and, accordingly, c.$24.8m of construction Capex is included in the forecast over the period January to April 2017. However, the Group would only commence construction works at Corunna if (i) the project was forecast to be cash generative, based on Management's expectations of future Benchmark iron ore prices; and (ii) the Group had sufficient liquidity at the time of commencing the works, to fund the Capex required for the project.

   Furthermore, Management has indicated that if the Group were to have insufficient liquidity to fund the Capex, it would consider alternative sources of funding, including project specific debt funding, or entering into cost sharing / profit sharing arrangements with the contractors identified to complete the construction or with customers. Alternatively, the Group could defer the commencement of construction until a later date, to allow time for sufficient liquidity to be built up to fund the Capex.

   We note that if the Group took the decision to permanently cancel the McPhee and Corunna Projects (and not to replace these projects with alternative projects), this would materially impact the valuation of the Group and its ability to repay the restructured Secured Debt either through a future refinance, or from free cash flow. However, simply deferring the commencement of the project in the short term (i.e. less than 12 months) to facilitate the build-up of liquidity would not be likely to create a significant additional repayment / refinancing risk in respect of the Secured Debt.

5. As part of the proposed restructure, a payment of US$2.5m (AUD$3.7m) is required on the implementation of the Scheme. The forecast also shows the effect of the conversion of US$122m (A$175.2m) into 70% of the Group's equity and options, which has no cash impact.

6. Cash interest payments reduce significantly post the Restructuring as the TLB cash interest rate is reduced from LIBOR plus 750 basis points to LIBOR plus 433 basis points (both with a LIBOR floor of 1.25%).

7. Other financing costs include approximately $14.0m paid during March/April to financial/legal advisors representing Atlas and the TLB Scheme Creditors. This is based on high level Management estimates (and assuming AUD/USD of c.0.72). The timing of these costs is assumed to occur in April/May for simplicity, however in reality a large portion of legal fees and some other professional fees will be incurred over the duration of the RSA period.

5. Solvency Analysis of the Group *continued*

8. The table below illustrates the cash balances across the Group's Corporate Model and Daily Working Capital Model:

Cash Balance

$'m	Corporate Model	Daily WC Model	Actual
31 January 2016	73.6	76.3	76.3
30 April 2016	56.9	40.6*	NA
Add: Working Capital benefit not included in Daily Working Capital Model adjustment	-	20.0	
	56.9	**60.6**	

**This is based on the Forward Curve Case*

In respect of forecast Benchmark iron ore prices, the Forward Curve Case is based on the forward curve from 1 February 2016 whereas the Corporate Model is based on the forward curve from 1 December 2015. In order to compare the forecast cash balances we have added back the assumed $20m working capital benefit included in the Corporate Model into the Forward Curve Case.

Whilst the Corporate Model has not been reconciled to the Daily Working Capital Model, the forecast cash balance as at 30 April 2016 in the Corporate Model is within 6% of that forecast in the Daily Working Capital Model. This suggests that the closing cash balance as at 30 April 2016 in the Corporate Model does not appear unreasonable. We have therefore not made adjustment to the opening cash position in the Corporate Model (as the difference is likely to be due to timing variances of working capital and provisional pricing adjustments).

9. The Group is currently subject to a Minimum Cash Covenant of $55m, less certain principal and interest payments. As set out in section 4.1.1, the Minimum Cash Covenant introduced through the Interim Amendment is only applicable to Atlas for the period up to the Implementation Date (which, under the terms of the RSA, can be no later than 30 April 2016), following which time it will be replaced by a financial maintenance covenant to be agreed between Atlas and the TLB Scheme Creditors (assuming the Scheme is implemented). Whilst the financial maintenance covenant has not yet been agreed, we expect that, if the agreed covenant is in respect of Atlas' minimum cash balance, the covenant level will be significantly lower than the existing Minimum Cash Covenant, having regard to the post-scheme forecasts set out above.

5.1.3 Observations on the cash flow forecast

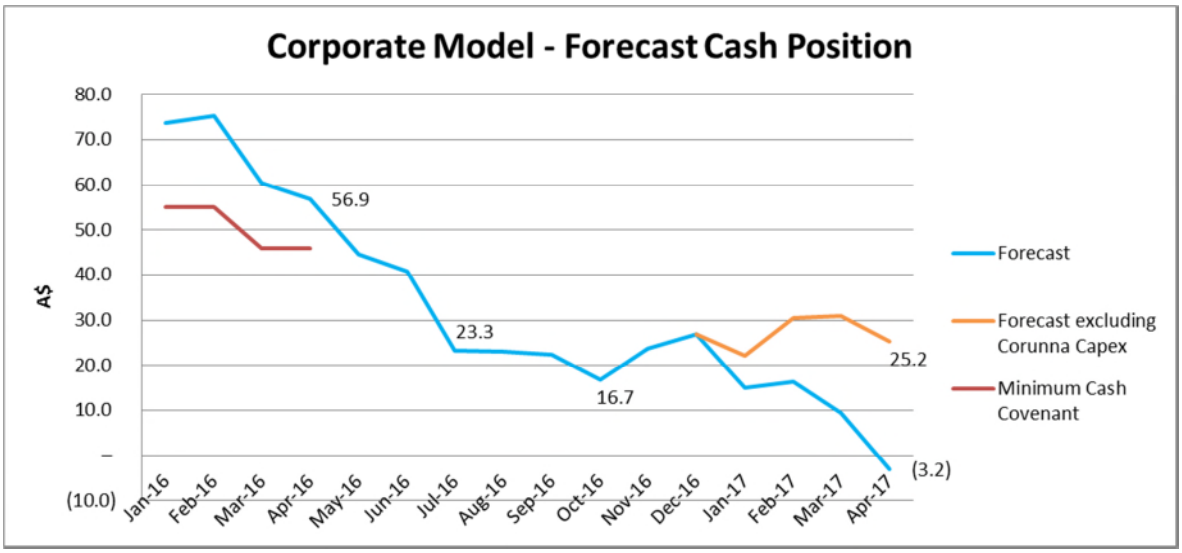
Pre-Scheme

The Group is at some risk of breaching the Minimum Cash Covenant prior to the Scheme Date, but we consider that Management would be in a position to flex working capital and, possibly, production levels at the mines to avoid any such breach, if such action becomes necessary. We also note that Atlas could approach the TLB Scheme Creditors for with a request to temporarily amend or waive the Minimum Cash Covenant if a short-term solution was required to ensure Atlas' continued compliance with the RSA prior to the Implementation Date.

Post-Scheme

The Group is forecast to generate a cash outflow of A$60.1m during the period 1 May 2016 to 30 April 2017, of which $28.4m relates to the Capex required to commence the Corunna Project. As stated above, the Group would only proceed with the project at that time in the event of an increase in the Benchmark iron ore price and if the Group's liquidity position supported the required Capex (either through free cash flow or project specific financing).

5. Solvency Analysis of the Group *continued*



The chart above shows the Group's forecast cash position with and without the Corunna Capex. We note that:

- The lowest forecast month end cash position is negative $3.2m in April 2017, assuming the construction of Corunna proceeds in January 2017. In reality, the Group would not proceed with Corunna unless it had sufficient liquidity to fund the construction phase and the ongoing management of the rest of the business. Therefore, it is reasonable to assume that the Group would not allow cash balances to reach this level; and
- Assuming that the Corunna Capex is postponed until after the forecast period illustrated above, the minimum forecast cash balance is $16.7m in October 2016.The Corporate Model cash flow forecast has not been prepared on a weekly basis and, accordingly, there may be mid-month points where the cash balance could be lower than the forecast month end position.

On this basis, the Group appears to have sufficient cash to continue to trade for the twelve months following the Scheme Date, although liquidity appears to be limited. We acknowledge that Management may be able to mitigate this limited liquidity position by flexing working capital and, possibly, production levels.

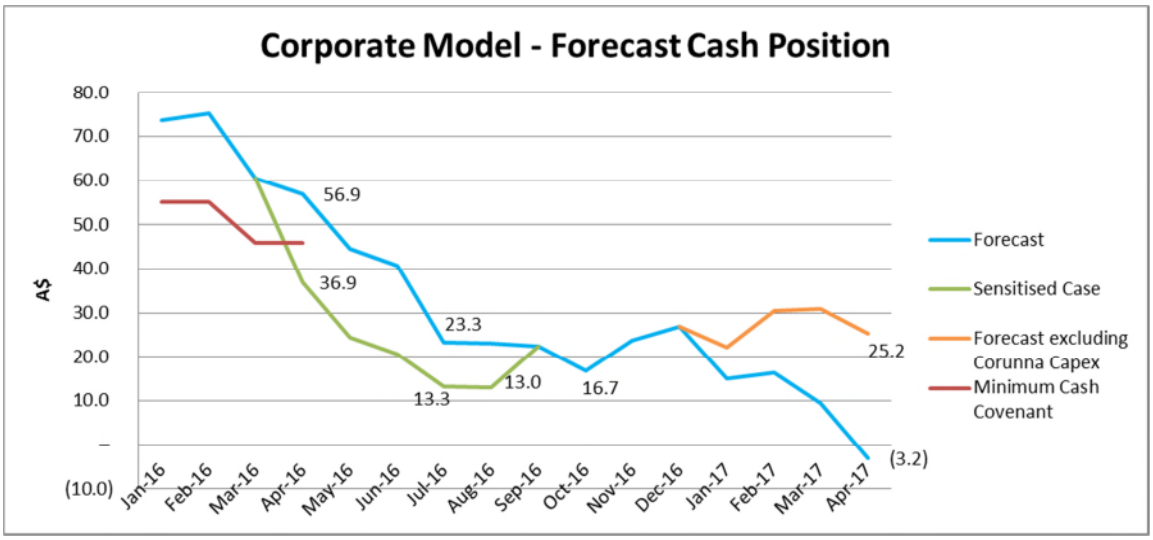
We note that the analysis above does not consider the impact of the post-Scheme financial maintenance covenant, which has not yet been agreed. However, we expect that if the agreed covenant is in respect of Atlas' minimum cash balance, the covenant level will be significantly lower than the existing Minimum Cash Covenant, having regard to the post-Scheme forecasts set out above.

5.1.4 Sensitivities

We have applied a sensitivity to the Corporate Model to reflect a delay in the $20m one-off cash benefit included in the Q3 2015 Forecast (and therefore, reflected in the Valuation Scenario) in March 2016, arising from an assumed reversion of trade payable terms to more normal levels following the anticipated completion of the Restructuring. We have re-phased the $20m cash benefit to July 2016 ($10m) and September 2016 ($10m). We refer to the output when this sensitivity is overlaid onto the Corporate Model as the "Sensitised Case".

A comparison of the Group's forecast month end cash balance based on the Valuation Scenario and the Sensitised Case is set out in the chart below.

5. Solvency Analysis of the Group *continued*



We highlight the following in respect of the output from the Corporate Model and the Sensitised Case:

- The Sensitised Case does not represent a downside case, as it is possible that the Benchmark iron ore price could decline further, which could potentially reduce the cash position below the Sensitised Case;
- The average Benchmark iron ore spot price was c.US$42p/t during January 2016, compared to the assumed futures price of US$41.12 used in the Corporate Model. Therefore, there may also be a degree of upside potential that increases the cash balance above the Sensitised Case and/or the Valuation Scenario.
- As noted in section 5.1.1, Management has a number of options available to it which may enable it to preserve cash at levels above those forecast in the Valuation Scenario and the Sensitised Case;
- There are a wide range of potential outcomes which could result from the Group utilising the options noted above to manage its cash position. Consequently, we have not attempted to comprehensively model such a broad range of outcomes, but note this as a potential upside against the forecast cash balances set out in the chart above. We have shown an illustrative example of one option available to the Group in this regard in section 5.1.5.
- As noted in section 5.1.3, the forecast includes $28.4m ($7.1m per month for four months) of Capex required to commence construction of Corunna. This results in a significant deterioration in cash balances between January and April 2017. In reality, the Group would only proceed with Corunna in the event of an increase in the iron ore price and if the Group had sufficient liquidity to fund the construction phase of the project.

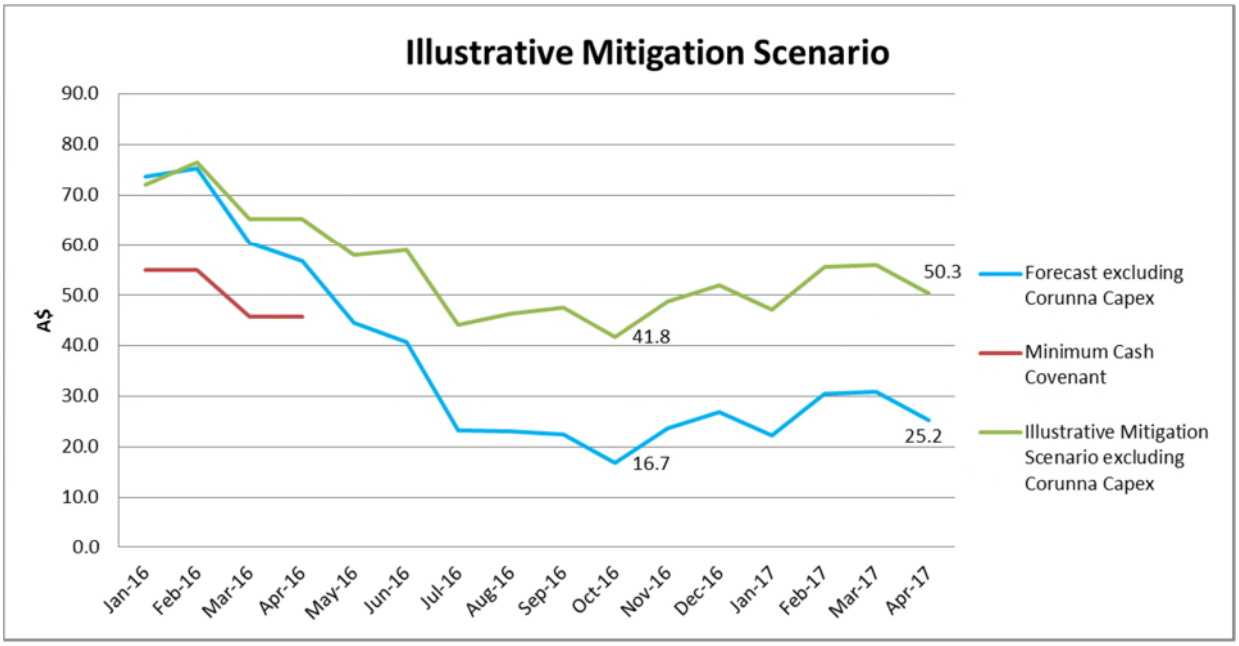
Therefore, allowing for the working capital sensitivity and without taking into account potential mitigating actions available to it and noting that Corunna would be unlikely to proceed under the current iron ore price conditions, the Group appears to have sufficient funds, based on forecast month end cash positions, to trade through to 30 April 2017. We highlight, however, that liquidity is forecast to be limited, particularly in light of the key risks to the forecast set out in section 5.1.6.

We note that the analysis above does not consider the impact of the post-Scheme financial maintenance covenant, which has not yet been agreed. However, we expect that if the agreed covenant is in respect of Atlas' minimum cash balance, the covenant level will be significantly lower than the existing Minimum Cash Covenant, having regard to the post-Scheme forecasts set out above.

5.1.5 Illustrative mitigation scenario

There are a number of levers Management could use to mitigate the forecast declining cash position. The chart below provides the illustrative impact of one of those levers, the extension of

existing contractor cost savings that are due to expire in March 2016, through the Illustrative Mitigation Scenario.



The Illustrative Mitigation Scenario is based on the same assumptions as the Valuation Scenario, amended to reflect:

- The extension of current contractor cost savings, which expire in the Valuation Scenario in March 2016, through to September 2016; and
- An updated Benchmark iron ore price forward curve as at 1 February 2016.

The Illustrative Mitigation Scenario shows an improvement in cash of $25.1m by 30 September 2016, attributable to:

- $19.6m in additional cash receipts from customers due to the improved iron ore price based on the 1 February 2016 forward curve; and
- $6.9m reduction in payments to suppliers due to the extension of contractor cost savings.

These two benefits are marginally offset by additional royalty payments of c.$1.4m

The Illustrative Mitigation Scenario clearly shows an improved forecast cash profile, compared with the Valuation Scenario and indicates that the Group may be in a position to improve its cash position if it can, for example, obtain an extension of the temporary cost savings provided by its key contractors.

5.1.6 Key risks to the forecast

The Sensitised Case does not reflect a downside scenario, which could result from any of the following additional key risks to the forecast:

- Iron ore pricing:
  - Whilst the Valuation Scenario assumes that the Benchmark iron ore price tracks in line with current futures pricing through to 30 June 2016 (following which it reverts over a three month period to the Independent Forecasters x 3 average), it is possible that iron ore prices over this period could be considerably lower than forecast. However, we note that the Valuation Scenario is relatively conservative (assumed Benchmark iron ore price of US$41.12 for January compared to the average actual spot price of c.US$42p/t during the month); and
  - We highlight that the Independent Forecasters x 3 average prices from July 2016 to July 2017 diverge from the current iron ore futures prices over the same period, as the futures

prices decrease and the Independent Forecasters x 3 average prices increase over the same period. This suggests that if iron ore prices track in line with current futures prices then the Group will experience a sustained period of depressed prices which (in the absence of further cost reductions) would mean that the Group would incur further losses, which would impact the forecast cash outflows over this period.

- Working capital improvement
  - Whilst we have applied a sensitivity to the $20m working capital improvement forecast to occur in March 2016, this sensitivity only impacts the timing of the improvement; and
  - There remains a risk that the Group's contractors resist its efforts to agree more favourable payment terms, in which case the one-off benefit to the Group may be less than $20m.
- FX
  - The Valuation Scenario assumes an AUD:USD exchange rate of 0.69 for the 6 months to 30 June 2016, following which it reverts to 0.72. If the Australian Dollar were to materially appreciate against that assumption, then the profitability and cash generation of the Group could be materially reduced.

In addition to the key risks noted above, there are numerous other risks that may impact the cash position of the Group and its ability to meet its debts as and when they fall due. These risks have been listed in Appendix I.

Management has a number of levers available to it to partly mitigate a reduction in forecast cash flows, as described in section 5.1.1.

However, whilst these levers do exist, there remains a real risk that the Group's actual cash position could be materially below the forecast if some or all of the risks identified above occur adverse to Atlas, including to the extent that the Group may be unable to meet its debts as and when they fall due.

5.1.7 Long term cash flow projections

Given the short remaining life of two of the Group's producing assets (Abydos and Wodgina), the Group is reliant on bringing its development projects (McPhee and Corunna) into production in order to be able to repay the Secured Debt through cash generation or refinancing.

Whilst we have not considered the Group's longer term projections in our solvency analysis, we highlight that if the Group was forced to permanently cancel the McPhee and Corunna projects because either (i) the future Benchmark iron ore price environment was not sufficiently attractive to support McPhee and Corunna's transition to operating assets; and / or (ii) the Group could not generate sufficient liquidity, or procure third party financing, to meet the Capex requirements of the projects, then this could impact the Group's solvency at the time that such a determination is made.

5.1.8 Findings

Based on the output of the Corporate Model and the Valuation Scenario, the Group is forecast to maintain sufficient cash to meet its debts as and when they fall due for the twelve months after the Scheme Date.

We highlight that this may require the short term deferral of Capex in respect of Corunna, if the Benchmark iron ore price does not improve beyond the levels included in the Valuation Scenario forecasts, or if the Group is unable to improve its liquidity position via other means.

Whilst applying a sensitivity to the forecast working capital improvement reduces cash headroom, the Group still appears to have sufficient cash, at least on a month end analysis basis, to meet its debts as and when they fall due. It remains possible that intra-month variances could result in a lower cash balance than the forecast month end position. We highlight that, with this in mind, the level of liquidity available to the Group appears limited, particularly for a business which is so sensitive to potential market forces beyond its control.

Furthermore, there is a real risk that the Group may not have sufficient cash to meet its liabilities as and when they fall due if a number of the key assumptions included in the forecast do not materialise as expected, primarily the Benchmark iron ore price.

In this scenario, Management may be able to partly mitigate any deterioration through the options outlined at 4.1.4, including through managing the level of production at the sites. However, if these remedial actions proved to be insufficient, the Group would need to consider its ability to raise additional finance to meet any shortfall. In this regard, we note that the Debt Term Sheet attached to the RSA envisages a $50m "other indebtedness" basket (prior to the adjustment for any other existing indebtedness, ie finance leases) which the Group could theoretically utilise to enter into such financing arrangements. Whether or not the TLB Scheme Creditors or a third party lender would be willing to provide such funding would depend upon the circumstances of the Group and the market conditions at that time.

Finally, Atlas, as an ASX-listed entity, may attempt to source funds from the equity capital markets to supplement its cash position. However, at the date of this report, raising material funds via the equity capital markets seems unlikely.

We note that the findings above do not consider the impact of the post-Scheme financial maintenance covenant, which has not yet been agreed. However, we expect that if the agreed covenant is in respect of Atlas' minimum cash balance, the covenant level will be significantly lower than the existing Minimum Cash Covenant, having regard to the post-Scheme forecasts.

5.1.9 Conclusion – cash flow test

Based on our review of the forecasts and the application of the Sensitised Case, Atlas appears to have sufficient cash to support the business through to 30 April 2017.

5.2 Indicative Test: Balance Sheet Test

5.2.1 Balance sheets as at 30 June 2015 and 30 April 2016

We have analysed the Group's audited consolidated balance sheet as at 30 June 2015 and compared it to the forecast balance sheet as at 30 April 2016, as extracted from the Corporate Model on the basis of the Valuation Scenario.

We note that the Corporate Model does not automatically amend the value of fixed assets on the balance sheet to reflect indicative impairment testing, based on the future forecasts set out in the Corporate Model. We also understand that the Group and its auditors are yet to complete impairment testing in relation to the December 2015 balance sheet. Therefore, the 30 April 2016 balance sheet may be subject to further impairment adjustments and the analysis in this section should be considered in that context.

The Corporate Model provides the estimated financial position of the Group as at 30 April 2016 (i.e. immediately following implementation of the Scheme), based on the following assumptions:

- Working capital movements reflect actual trading to 30 November 2015 and forecast trading for the remainder of the period;
- Movements in non-current assets reflect only the actual capex and depreciation to 30 November 2015 and forecast thereafter. The fixed assets have not been subject to impairment testing since that carried out as at 30 June 2015; and
- The movement in non-current liabilities primarily reflects the reduction in Secured Debt due to the Scheme.

Set out in the table below is the Group's audited Balance Sheet as at 30 June 2015 and the forecast balance sheet as at 30 April 2016 from the Corporate Model incorporating the Valuation Scenario, reflecting the position immediately following implementation of the Scheme.

5. Solvency Analysis of the Group *continued*

Balance Sheet

$'m	Audited as at 30 June 2015	Movement	Forecast Balance Sheet as at 30 April 2016
Current assets			
Cash	73.3	(16.3)	57.0
Accounts receivable	24.0	8.0	32.0
Inventory	15.6	10.5	26.1
Other	15.8	4.6	20.5
Total current assets	**128.7**	**6.8**	**135.6**
Non-current assets			
Mining Assets	496.8	(51.5)	445.3
Property, plant and equipment	129.1	3.7	132.8
Intangibles	1.6	(0.5)	1.1
Other receivables	12.0	2.7	14.7
Prepayments non-current	6.9	(3.8)	3.1
Investment in equity accounted investe	0.4	(0.4)	-
Total non-current assets	**646.7**	**(49.7)**	**597.0**
Total assets	**775.5**	**(42.9)**	**732.6**
Current liabilities			
Trade and other payables	(110.3)	16.0	(94.3)
Employee benefits	(1.8)	0.4	(1.4)
Current interest bearing liabilities	(3.6)	2.7	(0.9)
Provisions current	(7.2)	(0.2)	(7.4)
Total current liabilities	**(122.9)**	**18.9**	**(104.0)**
Non-current liabilities			
Trade and other payables	(4.0)	(2.1)	(6.1)
Employee benefits	(0.6)	(0.0)	(0.6)
Non-current interest bearing liabilities	(335.9)	133.7	(202.2)
Provisions non-current	(91.4)	(2.2)	(93.6)
Total non-current liabilities	**(431.9)**	**129.4**	**(302.5)**
Total liabilities	**(554.8)**	**148.3**	**(406.5)**
Net assets	**220.7**	**105.4**	**326.1**

Source: Corporate Model and Financial Report dated 30 June 2015

The forecast balance sheet as at 30 April 2016 indicates that, following implementation of the Scheme the Group is forecast to have net assets of $326.1m as at that date.

5. Solvency Analysis of the Group *continued*

5.2.2 Current assets

The Corporate Model forecasts to have current assets of $135.6m immediately following the Scheme Date. The material asset balances include $57.0m of cash and cash equivalents comprising cash on hand and at bank. The $16.3m reduction in cash from 30 June 2015 to 30 April 2016 is reconciled as follows:

Cash Reconciliation - 30 June 2015 to 30 April 2016

$'m	
Cash balance at 30 June 2015	73.3
Add:	
July 2015 capital raising	47.1
Operating cash flows	5.8
	52.9
Less:	
Debt repayments	(17.0)
Financing costs	(33.5)
Capex	(17.1)
Other investing cash flows / foreign exchange adjustments	(1.6)
	(69.2)
Forecast cash balance at 30 April 2016	**57.0**

5.2.3 Non-current assets

The Group's non-current assets are forecast to reduce by $49.7m to $597.0m, mainly due to the depreciation and amortisation of fixed assets. The Group forecasts total depreciation and amortisation of $112.8m in FY16 (FY15: $117.8m).

5.2.4 Non-current liabilities

The total of non-current liabilities is forecast to decrease by $129.4m to $302.5m following the implementation of the Scheme. This primarily relates to the retirement of $188m (US$132m) of the Secured Debt following implementation of the Scheme. This is offset by a foreign exchange adjustment due to the weakening of the AUD since 30 June 2015.

5.2.5 Conclusion – balance sheet test

The above analysis indicates that the Group is forecast to have both positive net current assets and total assets substantially in excess of its liabilities, which supports our view that the Group will be solvent on a balance sheet basis following the implementation of the Scheme. However, we note that the Corporate Model does not include any potential impairment of the assets that may occur at 31 December 2015 as a result of the Group's half-year audit.

5. Solvency Analysis of the Group *continued*

5.3 Indicative Test: Profit and Loss Statement

The Group's annual profit and loss statement for the year ended 30 June 2015 and the annual forecasts to 30 June 2018 are summarised below.

Profit and Loss Statement

$'m	FY15 Actual	FY16 Out-turn	FY17 Forecast	FY18 Forecast
Sales Revenue (CFR)*	718.5	721.5	678.5	738.3
Less Freight	(122.4)	(122.8)	(111.3)	(122.6)
Sales Revenue (FOB)**	**596.1**	**598.8**	**567.2**	**615.8**
Expenses				
Direct Operating Costs				
Mining and Processing	(224.6)	(172.2)	(148.2)	(133.9)
Haulage	(203.4)	(187.4)	(176.6)	(212.2)
Port	(128.9)	(107.3)	(92.5)	(95.2)
Other operating costs	(41.8)	(48.6)	(42.4)	(41.1)
Total Direct Operating Costs	**(598.6)**	**(515.5)**	**(459.8)**	**(482.3)**
Royalties	(55.8)	(55.5)	(49.3)	(52.8)
Exploration, Evaluation Expenditure	(5.2)	(5.6)	(5.9)	(3.6)
Corporate Costs	(49.9)	(23.0)	(17.5)	(12.1)
Inventory adjustment	(8.6)	5.0	(4.7)	1.5
Other income	2.7	0.0	0.0	0.0
Unwind of port prepayment	(7.5)	0.0	0.0	0.0
Other	(12.0)	(0.4)	(0.7)	(0.5)
Total Expenses	**(734.9)**	**(595.0)**	**(537.9)**	**(549.9)**
EBITDA (pre JV & Associates)	**(138.9)**	**3.8**	**29.3**	**65.9**
Less: JV & Associates	(3.6)	(8.2)	0.0	0.0
Other cost adjustment	0.9	-	-	-
EBITDA	**(141.6)**	**(4.5)**	**29.3**	**65.9**
Amortisation / Depreciation	(117.8)	(88.4)	(75.5)	(87.4)
EBIT	**(259.4)**	**(92.8)**	**(46.2)**	**(21.5)**
Net interest expenses/income	(31.5)	(39.3)	(17.4)	(17.6)
Net foreign exchange gain / (loss)	(39.3)	(34.4)	6.8	0.0
Profit before tax	**(330.3)**	**(166.5)**	**(56.8)**	**(39.1)**
Tax Expense	(67.0)	0.0	0.0	0.0
Profit after tax (before exceptional item)	**(397.3)**	**(166.5)**	**(56.8)**	**(39.1)**
Exceptional item: Impairment loss (after tax)	(980.4)			
Profit after tax	**(1,377.6)**	**(166.5)**	**(56.8)**	**(39.1)**

*Includes provisional pricing and hedge effects
**Includes Shipping Costs (Free on Board)
Source: Financial Report 30 June 2015, Valuation Scenario and Corporate Model

The profit and loss statement includes the commencement of Corunna in FY18. McPhee is not expected to contribute to group revenue until FY19.

In FY15, the Group recorded total revenue of $718.5m and total expenses of $734.9m. Group EBITDA was negative $141.6m.

5. Solvency Analysis of the Group *continued*

5.3.1 FY16

The full year out-turn is based on actuals to November 2015 and the Valuation Scenario forecast thereafter. The EBITDA loss in FY16 is forecast to improve substantially, compared to FY15. This is primarily a result of:

- Significant cost savings achieved pursuant to the Contractor Collaboration Deed agreed in mid-2015;
- Cost savings negotiated with BGC at Mount Webber;
- Reduced port charges; and
- Significant reductions in corporate costs due to organisational restructuring.

5.3.2 FY17-18

In FY17, whilst revenue is forecast to decline due to the cessation of mining activities at Abydos and Wodgina due to those mines having reached the end of their operating lives, the Valuation Scenario forecasts show an improvement in EBITDA. This forecast improvement is primarily a result of the forecast improvement in Benchmark iron ore prices in the Valuation Scenario, compared with FY16.

In FY18, the trend of improving EBITDA is forecast to continue, primarily due to a further increase in forecast Benchmark iron ore prices. This price improvement is compounded by the forecast commencement of mining activity at Corunna as this project comes on line (Corunna is forecast to contribute $14.0m to EBITDA in FY18).

5.3.3 Conclusion – profit and loss test

The above analysis indicates that the Group is forecast to generate positive EBITDA, which is sufficient to cover its interest and amortisation obligations under the restructured SFA.

5.4 Other considerations

In forming our view as to the solvency of the Group, we have considered the additional matters below:

5.4.1 Debt obligations

As at 30 November 2015, TLB Scheme Creditors had secured indebtedness of US$267m (A$371m). This excludes the Finance Leases, which totalled $7.7m as at 30 November 2015.

5.4.2 Restructuring Support Agreement

More than 50% of the holders of the TLB by number, and 75% by value, have entered into the RSA, effective as of 22 December 2015. The purpose of the RSA is to ensure sufficient support amongst the TLB Scheme Creditors for the proposed Scheme. Amongst other things, the RSA provides:

- A covenant that cash is not to fall below A$55m on any day during the term of the RSA, less any TLB principal and interest paid on or after 25 March 2016.
- That, if the Asset Covenant Ratio is breached as at 31 December 2015, then the Asset Coverage Ratio will be retested on the earlier of the last day of the month following the month in which the RSA is terminated or 30 April 2016.

The obligations of the Group and the TLB Scheme Creditors under the RSA will fall away upon implementation of the Scheme and will be replaced by a variation to the SFA, as described at section 5.4.3.

5.4.3 Impact of the Scheme on the Group's debt obligations

Implementation of the Scheme will vary the SFA as follows:

- The TLB Debt amount will be reduced to US$135m (approximately $188m);
- The maturity date will be extended from 10 December 2017 to five years from the implementation of the Scheme (estimated to be 30 April 2021);

- The interest rate payable in cash to be reduced from LIBOR plus 7.5% pa to LIBOR plus 4.33% pa and will continue to be paid in arrears at the end of each month;
- PIK interest of 3% pa will compound to the principal balance at the end of each month;
- Scheduled amortisation will be limited to 1.0% of the original principal balance of the TLB (as amended), paid quarterly; and
- A cash sweep mechanism will operate such that any cash amounts in excess of $75m, measured quarterly from 30 June 2016 will be paid to the TLB Scheme Creditors.

We highlight that the proposed financial maintenance covenant contemplated in the debt term sheet attached to the RSA remains outstanding as at the date of this Report. Accordingly, we have not been able to assess the solvency implications of this covenant and reserve the right to amend our conclusion, if relevant, upon agreement of this covenant.

However, we expect that, if the agreed covenant is in respect of Atlas' minimum cash balance, the covenant level will be significantly lower than the existing Minimum Cash Covenant, having regard to the post-scheme forecasts set out in section 5.1.2.

Under the Scheme, the TLB Scheme Creditors will be issued Shares and options such that, immediately after the Restructuring, they will hold 70% of Atlas' Shares and options on issue.

The proposed steps to effect the Scheme are set out in the Scheme and summarised in section 6 of the Explanatory Statement.

No other creditors of the Group are affected by the Scheme.

5.4.4 Provisions

The Group's audited accounts at 30 June 2015 include provisions totalling $98.6m, which relate mainly to the anticipated costs of rehabilitating and demobilising mine sites ($71.6m). The Group also included a provision of $26.0m in respect of the lease obligations at its Perth Head Office, which is currently 50% vacant.

The Corporate Model does not include a forecast of provisions as at 30 April 2016 but we are advised by Management that there are unlikely to be material changes to these provisions.

We are advised that the directors are not aware of any other material contingent claims against the Group. For the purposes of this Report, a material contingent claim is deemed to be in excess of $5m.

5.4.5 Adequacy of Books and Records

Pursuant to Section 286 of the Corporations Act, a company must keep written financial records that:

a) Correctly record and explain its transactions and financial position and performance

b) Would enable a true and fair set of financial statements to be prepared and audited.

Section 588E(4)(a) of the Corporations Act states that in the event of recovery proceedings, a failure by the company to comply with Section 286(1) carries a presumption that the company was insolvent for the relevant period.

In this regard, a company must create and maintain, at a minimum, the following:

a) Primary source documents, including invoices, accounts issued to the company, bank statements, cheque butts and the like;

b) Ledgers and journals recording and summarising entries from the source documents, for example, the general ledger, debtors' ledger, creditors' ledger and cash payments journal. These are generally referred to as the books of prime entry;

c) General journal to adjust the general ledger where appropriate;

d) Financial accounts, such as the statements of comprehensive income and financial position, prepared from the general ledger.

All documents need to be maintained in an orderly and logical fashion, so that the financial position of the company can be determined at any time.

Our view is that the books and records maintained by the Group are compliant with Section 286 of the Act.

5.4.6 Audit opinions

The Group's FY15 Audit Report contained an emphasis of matter in respect of the Group's financial statements.

The emphasis of matter highlights the sensitivity of the Group's cash flows to AUD iron ore prices and expresses an opinion that the continuation of recent volatility in AUD iron ore prices could lead to significant uncertainty in the Group's ability to repay or refinance the TLB ahead of its maturity in December 2017 and that this could affect the Group's ability to continue as a going concern.

We highlight that the Scheme will partly deal with these concerns, by reducing the quantum of the Secured Debt and deferring its maturity to April 2021. However, as noted earlier, the volatility of the AUD iron ore price remains a relevant factor to the Group's solvency.

5.5 Conclusion - solvency of the Group immediately following implementation of the proposed Scheme

We are of the opinion that the Group is solvent immediately following the implementation of the Scheme as:

- The Group is forecast to have positive month end cash balances in the 12 months immediately following the Scheme Date, reducing to a minimum month end cash balance of $16.7m in October 2016, which it can utilise to meet its debts as and when they fall due;
- The Group's balance sheet will be in a positive net asset/current asset position following implementation of the Scheme;
- The Group is forecast to generate a reduced, marginal EBITDA loss in FY16, and generate positive EBITDA in FY17 and FY18.

We highlight that the solvency of the Group remains dependent on the forecast improvement in the Benchmark iron ore price incorporated in the Valuation Scenario and the level of the financial maintenance covenant agreed between Atlas and the TLB Scheme Creditors pursuant to the Restructuring

6

1. Executive Summary
2. Background
3. Valuation of the Group's Assets
4. Solvency Approach and Assumptions
5. Solvency Analysis of the Group
6. Likely outcome for the Group should the Scheme not be implemented
7. Dividend Analysis - Impact of Insolvency on the TLB Scheme Creditors

6. Likely outcome for the Group should the Scheme not be implemented

The scope of this engagement requires us to provide our expert opinion regarding the likely outcome for the Group should the Scheme not be implemented, having regard to the Total Assets to Total Secured Debt Ratio (ie. Asset Coverage Ratio) covenant in clause 7.13 of the SFA (and any other provisions of the SFA that we consider are relevant) (scope item e).

6.1 Introduction

Clause 7.13 of the SFA states that the Asset Coverage Ratio, as determined on the last day of each semi-annual period, is to be greater than 2:1, i.e. total assets are required to be greater than Secured Debt (plus Finance Leases) by a ratio of 2:1.

6.1.1 Estimated performance against Asset Coverage Ratio

The RSA, which became effective on 22 December 2015, had the effect of amending the Asset Coverage Ratio test such that if the covenant is breached as at the 31 December 2015 test, then the Asset Coverage Ratio will be retested on the earlier of the last day of the month following the month in which the RSA is terminated or 30 April 2016.

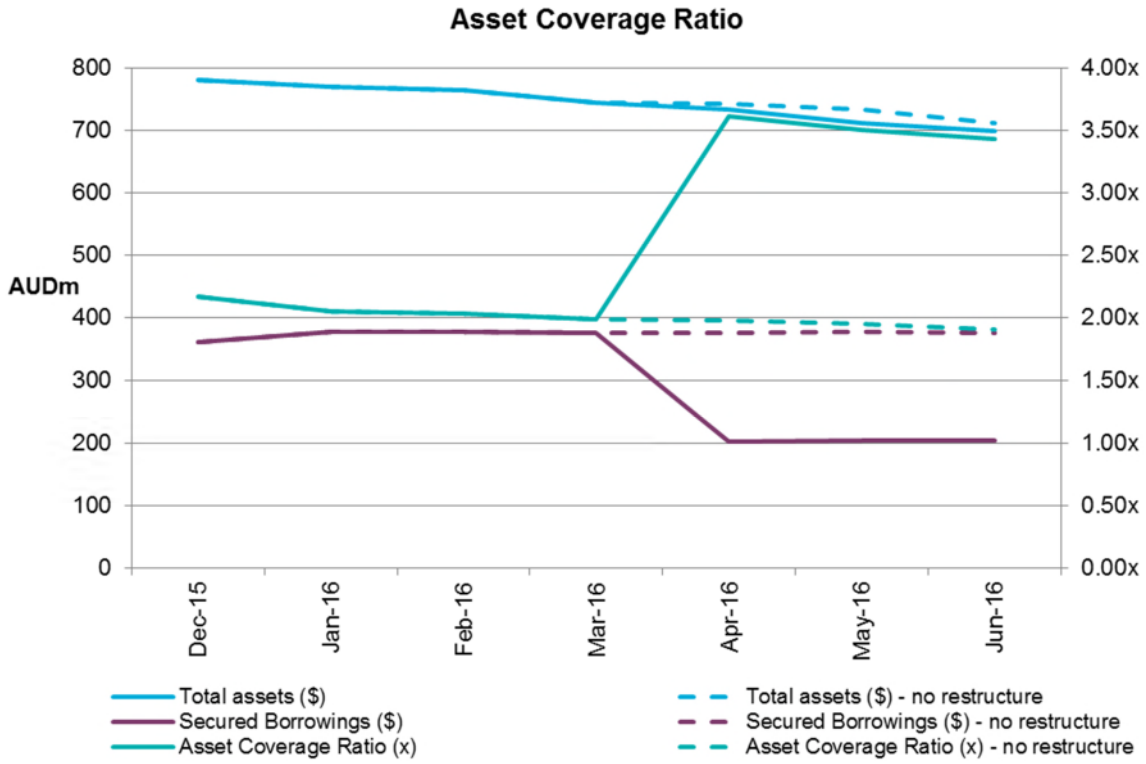
As illustrated in the graph below, based on the Corporate Model incorporating the Valuation Scenario, the Group is forecast to remain compliant with the Asset Coverage Ratio as at 31 December 2015 (2.17x). However, we highlight that this assessment is based on:

- Forecast management accounts, rather than statutory accounts, which may differ materially due to period end adjustments and the application of different accounting policies; and
- The balance sheet prior to the application of any write-downs from impairment testing (as the impairment testing procedure conducted by the Group's auditors is yet to be finalised as at the date of this Report).

Therefore, the outcome of the 31 December 2015 Asset Coverage Ratio test remains uncertain. As a result, we have also considered the potential performance against the covenant at two key future dates, being:

- **30 April 2016:** the date that the Asset Coverage Ratio would be re-tested if it was breached at 31 December 2015; and
- **30 June 2016:** the date at which the Asset Coverage Ratio would next be tested assuming no breach at 31 December 2015 and no implementation of the Scheme in the intervening period.

6. Likely outcome for the Group should the Scheme not be implemented *continued*



The total debt value used to calculate the Asset Coverage Ratio from January 2016 onwards is based on a USD/AUD exchange rate of 0.69, in line with the Valuation Scenario, compared to a USD/AUD of 0.72 in December 2015. This is a key factor in the decrease in covenant performance from December (2.17x) to January 2016 (2.04x) and highlights the sensitivity of the covenant to exchange rate fluctuations.

We also note that variations in the Benchmark iron ore price and FX assumptions can have a meaningful impact on the total assets balance (and therefore overall performance against the covenant) as any increase (or decrease) in the received iron ore price in AUD is a key determinant of cash and working capital.

The chart above highlights that, as at:

- 30 April 2016: Atlas is forecast to breach the Asset Coverage Ratio (1.98x)
- 30 June 2016: Atlas is forecast to breach the Asset Coverage Ratio (1.90x)

Therefore, whilst we cannot conclusively determine when and if the Asset Coverage Ratio test will show a breach of the covenant, it appears likely, based on the Valuation Scenario forecasts, that it would be breached by 30 June 2016, even before taking into account any further asset write-downs resulting from impairment testing unless there is an improvement in iron ore price or a change in the foreign exchange rate or an equity injection.

6.1.2 Estimated outcome for the Group should the Scheme not be implemented

As discussed in section 6.1.1, if the Scheme is not implemented, we consider it likely that Atlas will breach the Asset Coverage Ratio either at 30 April 2016 (in the case of a breach as at 31 December 2015) or 30 June 2016.

This breach would allow the TLB Scheme Creditors to call for the immediate repayment of the Secured Debt. It is unlikely that the Group would have sufficient liquidity or be able to raise sufficient capital/external finance to repay the Secured Debt in such a short timeframe.

6. Likely outcome for the Group should the Scheme not be implemented *continued*

If this were to occur, it would be likely to result in the Group becoming insolvent and either the Group appointing Voluntary Administrators or the TLB Scheme Creditors appointing Receivers and Managers to the Obligors (or both appointments occurring concurrently).

6.1.3 Impact of appointment of External Administrators to Atlas

In determining the estimated impact of the insolvency of the Group and the appointment of External Administrators to Atlas and its subsidiaries (and the value to the TLB Scheme Creditors in that scenario), we have considered the range of options that may be available to the External Administrators in order to realise value for the Group's creditors.

The following key observations are relevant to this options analysis:

Structural issues

We assume that if the Group was to enter external administration it would have lost the support of the TLB Scheme Creditors and they would be unwilling to advance further funding to the Group.

Atlas is both a borrower and guarantor under the SFA and a counterparty to many of the Group's key contracts including some of the mining tenements for the 3 operational mines. It is therefore unlikely to be possible to ring fence the operating assets and key contracts from the insolvency appointments.

Key contracts

As a result of the structural issues, the appointments would be likely to trigger insolvency clauses within key contracts, which would provide the contract counterparties with the ability to terminate the contracts. Whether counterparties would seek to enforce these rights would depend upon the commercial impact of such an enforcement on the counterparties themselves.

As the insolvency of the Group is likely to occur in the context of depressed iron ore prices, we consider that the majority of the Group's counterparties would be likely to negotiate a temporary extension of the existing contracts whilst the External Administrators conducted a sale process for the Group's assets and would also hope to provide their services to any purchaser on substantially similar terms.

Clearly there are risks to such an outcome, for example, the fact that the pricing for services provided under the Contractor Collaboration Deed may no longer be attractive to these contractors if they do not have the possibility of an equity upside. However, we consider that it is reasonably likely that an External Administrator would be able to agree commercial arrangements with key counterparties to enable the Group to continue trading and facilitate an operating sale, provided funding could be made available either from the TLB Scheme Creditors or from the cash and other liquid assets on the balance sheet as at the appointment date. Ongoing trading would also be subject to prevailing iron ore prices making it commercially viable to do so.

Costs of trading and funding

Based on the Valuation Scenario, if the Group were to become insolvent as at 30 April 2016, with Benchmark iron ore prices forecast at c.US$37p/t (i.e. reflective of the futures prices incorporated into the Valuation Scenario at that point in time), continuing to trade the business would generate losses in the order of $4m to $6m per month. Accordingly, the External Administrator would need to quickly assess whether there were likely to be buyers available for the Producing Projects which would justify the costs of continuing to trade.

If the decision were taken to continue to trade, support would be required from the TLB Scheme Creditors either by providing funding to support the forecast trading losses or by agreeing with them to utilise the Group's cash balances.

Alternatively, the External Administrator could cease trading and place the Group's assets into a sustainable care and maintenance program with a view to ensuring that the Group's key

6. Likely outcome for the Group should the Scheme not be implemented *continued*

infrastructure remains in place whilst seeking a buyer for the assets. Subject to commercial arrangements being reached with the key contractors / suppliers, Management estimates this could cost in the order of c.$4m per month. A sustainable care and maintenance program would be designed to maintain the Group's key infrastructure assets in place (including, for example, gas supply contracts, key contractor services and port access), so that operations could be subsequently recommenced - similar to the temporary shut downs implemented by the Group in the first half of 2015.

Given that the cost of sustainable care and maintenance is not materially less than trading the business, we expect that if the External Administrator did not consider that an operating sale of the assets was likely, he/she would, instead of implementing sustainable care and maintenance, close down the sites, and implement limited care and maintenance which Management have estimated would cost c.$250k per month in holding costs. We highlight that this limited care and maintenance would be likely to result in the loss of key infrastructure.

External Administrator's strategy

Based on the above considerations, we expect that the External Administrator's strategy would be:

- To quickly establish whether there were likely to be potential buyers for the Group's Producing Projects.
- If such buyers existed, seek funding/approval from the TLB Scheme Creditors to utilise the Group's cash to trade the business for a period of 1-2 months, whilst a marketing process for the assets was undertaken.
- If an offer acceptable to the TLB Scheme Creditors was made by a purchaser, move to execute that transaction.
- If no acceptable offers were received, immediately move to close the mine site, disclaim any leases to reduce outgoings and realise the residual assets on a piecemeal basis.
- Alternatively, if the External Administrator formed the view upon appointment that there was insufficient likelihood that a buyer for the Group on an operating sale basis could be found to justify continuing to trade the business, he or she would potentially immediately close the sites and place the assets into limited care and maintenance for a short period (up to 4 weeks) whilst expressions of interest for the business were sought.
- If this process was unsuccessful in soliciting attractive offers for the Group's assets, the External Administrator would realise the residual assets on a piecemeal basis, and then move to close the sites and disclaim the leases.

Insolvency scenarios

Based on the above, we have set out an analysis of the financial outcome for the TLB Scheme Creditors, based on two scenarios:

1. **Operating Sale Scenario:** the External Administrator trades the business for a 4-8 week period and realises a sale of all of the Group's assets. We assume that the purchaser would only attribute value to the three producing mines and the two development projects on the basis that the exploration projects carry a higher degree of risk in the current price environment. We highlight that this scenario is highly contingent upon the ability of the External Administrator / purchaser to maintain the Group's key supply contracts and is subject to a number of risks set out in section 7.1.1.

2. **Closedown Scenario:** upon appointment, the External Administrator ceases trading and places the business into limited care and maintenance for four weeks while soliciting offers for the Group's assets. The sale process (or, alternatively, a failed Operating Sale Scenario process having been implemented prior to moving to a closedown scenario) does not yield attractive offers for the Group's assets in one line and the External Administrator subsequently realises the assets on a piecemeal basis.

We set out these scenarios and our detailed assumptions in section 7.

6. Likely outcome for the Group should the Scheme not be implemented *continued*

A further potential outcome could be that the TLB Scheme Creditors acquire the Group's assets by credit bidding their existing debt. We expect that the TLB Scheme Creditors would consider this option if the highest available return across the two outcomes above was deemed unsatisfactory to them. We have not separately modelled such a scenario, but we consider that the value ascribed to the assets in such a transaction would be slightly above the best available alternative offer at the time.

6.2 Conclusion – the likely outcome for the Group should the Scheme not be implemented

If the Scheme is not implemented, we consider it likely that Atlas will breach the Asset Coverage Ratio either at 30 April 2016 (in the case of a breach as at 31 December 2015) or 30 June 2016 unless there is a price improvement or equity injection.

If the Asset Coverage Ratio is breached, the Group is likely to become insolvent and an External Administrator would be appointed to the Group.

The External Administrator would look to realise the assets of the Group on either an operating sale basis, or a piecemeal basis.

7

7. Dividend Analysis - Impact of Insolvency on the

The scope of this engagement requires us to determine

- The expected dividend that would be available to the TLB Scheme Creditors if Atlas were to be wound up within six months of the hearing date of the application for orders under section 411(1) and (1A) of the Act (scope item c);
- The expected dividend to the TLB Scheme Creditors if the Scheme was put into effect as proposed, immediately after implementation of the Scheme (scope item d);
- The expected dividend that would be available to Subordinate Claim Holders, in addition to the Net Proceeds, if Atlas were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act and the Scheme was not implemented (Supplementary Instructions scope item a);
- The expected dividend that would be paid to Subordinate Claim Holders, in addition to the Net Proceeds, if the Scheme were put into effect as proposed, immediately following implementation of the Scheme (Supplementary Instructions scope item b); and
- The extent, if any, to which the expected dividend that would be paid to Subordinate Claim Holders, in addition to the Net Proceeds, differs between either of the above two scenarios (Supplementary Instructions scope item c).

In respect of scope item c, while the scope and the Corporations Act require us to provide an opinion on the expected dividend if Atlas (as the scheme company) were to be wound up, we consider that in the event of Atlas' insolvency (as determined on a consolidated basis per our opinion at section 5.1), the Group as a whole would be subject to the appointment of an External Administrator in order to ensure that the value of the entire Group is captured in any sale process. Accordingly, we have conducted our analysis below on a whole of Group basis, which we consider to be the appropriate course.

7.1 Dividend to TLB Scheme Creditors if Atlas is wound up within 6 months of the Scheme Hearing Date – assuming the Scheme has not been implemented

In section 6, we concluded that, in the absence of the Scheme, Atlas is likely to breach the Asset Coverage Ratio test as early as 30 April 2016. Accordingly, we consider that the appropriate date within 6 months of the Scheme Hearing Date to determine the dividend that would be paid to TLB Scheme Creditors is 30 April 2016 (being the earliest likely date that Atlas would be wound up).

It is possible that if Atlas passes the Asset Coverage Ratio as at 31 December 2015 the covenant will not be retested until 30 June 2016. We have considered this eventuality and an insolvency of the Group as at 30 June 2016 in section 7.1.2.

We have set out below an estimated outcome statement in respect of the Group, assuming the appointment of External Administrators to the Group as at 30 April 2016, illustrating the potential range of dividends payable to TLB Scheme Creditors under the two scenarios set out in section 6.1.3. We have shown a Low and High outcome under each scenario, based on the assumptions set out below.

7. Dividend Analysis - Impact of Insolvency on the *continued*

Estimated outcome statement - 30 April 2016

	Valuation		Closedown		Operating Sale	
$'m	Low	High	Low	High	Low	High
Producing Projects	286.8	298.9	-	-	286.8	298.9
Distress value erosion			-	-	*(200.8)*	*(149.5)*
Development Projects (McPhee and Corunna)	207.8	221.9	-	-	20.8	66.6
Exploration Projects	45.2	120.4	-	-	4.5	12.0
Investments	0.2	0.2	0.2	0.2	0.2	0.2
Option value of projects in a Closedown	-	-	5.0	10.0	-	-
Balance Sheet assets as at 30 April 2016						
Cash			42.0	42.0	42.0	42.0
Receivables			24.0	30.4	-	-
Inventory			10.9	16.1	-	-
Other receivables			0.0	1.8	-	-
Property, plant and equipment			6.6	13.3	-	-
Total Asset value	**540.0**	**641.4**	**88.7**	**113.7**	**153.5**	**270.3**
Less:						
Trading costs			-	-	(11.6)	(5.8)
Duress creditors			-	-	(15.0)	(10.0)
Limited care and maintenance			(0.5)	(0.3)	-	-
External Administrator costs			(5.0)	(3.0)	(8.0)	(6.0)
Legal costs			(1.0)	(0.5)	(3.0)	(2.0)
Sales Advisor Costs			-	-	(1.7)	(3.0)
Employee termination costs			(7.3)	(6.8)	(5.8)	(3.6)
Net Receivership Realisations			**74.9**	**103.2**	**108.4**	**239.9**
Forecast TLB debt at 30 April 2016			(368.3)	(368.3)	(368.3)	(368.3)
Surplus / (Shortfall) to TLB Scheme Creditors			**(293.4)**	**(265.1)**	**(259.9)**	**(128.4)**
TLB Scheme Creditor Recovery (cents in the A$)			*20.3*	*28.0*	*29.4*	*65.1*
Unsecured creditors			**(201.3)**	**(201.3)**	**(201.3)**	**(201.3)**
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders			**(494.7)**	**(466.4)**	**(461.2)**	**(329.7)**

Source: PPBA Valuation and Valuation Forecast Model at 30 April 2016

Our assumptions are based on the following:

- Information made available to us by the Group, its advisors and consultants involved in the Restructuring process;
- Our discussions with Management and its advisors involved in the Restructuring process; and
- Our experience in the insolvency and restructuring of similar businesses.

7.1.1 Notes and Key Assumptions

Key risks to the Operating Sale Scenario

There are a number of key risks to achieving an operating sale of the Group's assets, including:

Iron ore price – a sustained period of low iron prices, or negative market sentiment around future prices, will reduce the likelihood of attracting a purchaser willing to acquire the assets at a discount to the DCF based valuation, due to the funding required by that purchaser to trade at a loss or hold the assets in care and maintenance while waiting for a price recovery.

Exchange Rate – along with the benchmark iron ore price, the AUD/USD exchange rate is a key determinant of Atlas' received Australian Dollar iron ore price and therefore a key driver of revenue and cash flows. Should the Australian Dollar appreciate materially against the US Dollar (or be expected to appreciate materially), this would reduce value ascribed to Atlas' operations by potential acquirers.

7. Dividend Analysis - Impact of Insolvency on the *continued*

Contractor support – any purchaser would need to agree new supply contracts with Atlas' key suppliers in order to maintain business continuity. If contractors are to agree to the current schedule of rates, they may require a continuation of the existing profit sharing agreements, which would impact value for the purchaser. The appointment of an External Administrator may also lead to the insolvency of one or more of Atlas' contractors, which would create significant challenges for the External Administrator in selling the business and may make an operating sale unviable.

Government – if an agreement cannot be reached with the State in respect of pre-appointment royalty obligations and ongoing environmental obligations, the commerciality of any potential deal may be jeopardised.

Valuation

The detail behind our valuation methodology is included in Appendix D. In the Operating Sale Scenario, we have assumed that the purchaser acquires all of the Group's assets including the working capital assets.

Distress value erosion – Producing Projects

In the Operating Sale Scenario, we envisage that any prospective purchaser would likely apply a discount to the Producing Projects, primarily reflecting the risk around the iron ore price recovery and also the risk of acquiring the assets through an insolvency process. We have applied an illustrative 50-70% discount (in the high and low scenarios, respectively) to reflect this value erosion.

Development Projects (McPhee and Corunna)

In the Operating Sale Scenario, we envisage that any prospective purchaser will ascribe a value to the two key development projects, given their location and the mineral reserve. However, given the uncertainty surrounding the success of mines that are yet to commence operations, and the factors highlighted above in respect of acquiring the assets through an insolvency process, we have applied a discount of 70% to 90% to the DCF Valuation (in the high and low scenarios, respectively).

Exploration Assets

We have applied a 90% discount to the valuation of the Exploration Assets in both the high and low scenarios to reflect the fact that these assets require significant further work and investment to bring into production and therefore carry greater execution risk for a purchaser compared with the Producing Projects and Development Projects.

Investments

We have applied the valuation without any discount as the shares in the investee company are publicly traded.

Option value of projects in a Closedown Scenario

In the event of Closedown, we consider that a prospective purchaser may acquire a number of Atlas' mining tenements, despite the risk around the iron ore price recovery, effectively as an option on any future improvement in the iron ore price. The value realised for these tenements is impossible to estimate with any degree of certainty and would be subject to a number of market factors at the time of sale. We have included a value of $5m to $10m for illustrative purposes.

Cash

We have assumed that in the Operating Sale Scenario the business is purchased cash free, debt free and that the cash remains with the External Administrator. In the Closedown Scenario, we assume that the External Administrator realises the cash from the Group's accounts. We have used the forecast cash balance from the Valuation Scenario as the basis for the realisable cash available as at 30 April 2016, adjusted as follows:

7. Dividend Analysis - Impact of Insolvency on the *continued*

Cash book value at 30 April 2016

	$'m
Cash balance assuming Scheme is implemented per Corporate Model	**57.0**
Less:	
$20m working capital benefit not achieved if Scheme not implemented	(20.0)
Add:	
US$2.5m payment not made to Scheme Creditors	3.6
1 month TLB interest not paid to the Scheme Creditors	1.4
Cash balance assuming Scheme is not implemented	**42.0**

We note that if the Scheme is implemented, all accrued interest would be paid at the Implementation date.

Other assets

We have applied the following recovery rates to the forecast book value of the Group's assets as at 30 April 2016 in the Closedown Scenario:

	Close Down	
	Low	High
Receivables	75%	95%
Inventory - WIP	30%	50%
Inventory - Finished Goods	50%	70%
Other receivables	0%	10%
P.P&E	5%	10%

Receivables: given the nature of the business, whereby the majority of sales are on short term agreements and are backed by letters of credit from a financial institution, we have applied a recovery rate of 75-95% for trade receivables.

Inventory: although the forecast inventory balance in the Corporate Model ($26.1m) has not been split between WIP and finished goods, we have applied the same allocation as at 30 June 2015 (42% WIP / 58% finished goods). We have applied lower recovery rates to WIP to reflect the likely cost to convert the product to finished goods. The recovery rate applied to the finished goods reflects the likely cost of transportation/shipping.

Other receivables: these mainly consist of prepayments to GAM as part of an infrastructure sharing agreement at Wodgina and other advanced payments. In an insolvency scenario where there may be disruption to trade or a period of care and maintenance, we would anticipate minimal recovery of these assets.

Property, Plant and Equipment: The majority of the property, plant and equipment relates to infrastructure or assets at the operating mines and port, much of which is bespoke and has minimal value to any party not operating from the mine or port. In a Closedown Scenario there would be significant costs of demobilising and transporting any plant and equipment. We have shown an illustrative recovery of 5% to 10% against book value, in the absence of a valuation of the equipment prepared for this specific purpose.

In the Operating Sale Scenario, the realisable value of these assets is included in the valuation of the Producing Projects.

Trading costs

In an Operating Sale Scenario, it is assumed that the External Administrator makes an assessment within the first 1-2 weeks of their appointment that a sale of the producing projects has a reasonable prospect of success and that the TLB Scheme Creditors are prepared to fund 1-2 months of operating costs (forecast negative EBITDA $5.8m per month in May and June 2016). We have therefore assumed 1 month of trading losses in the high case and 2 months in the low case.

7. Dividend Analysis - Impact of Insolvency on the *continued*

In a Closedown Scenario it is assumed that the External Administrator places the assets into limited care and maintenance immediately upon appointment, thereby minimising trading costs.

Duress creditors

In an insolvency scenario, key suppliers to the Group may request payment in full or part of any amounts due in respect of the pre appointment period in order to continue to supply the Group. As most suppliers are currently paid on very short terms, supplier duress creditors are unlikely to be a major issue.

However, in order to effect a transfer of any mining tenements the government is likely to require payment of any outstanding royalties. Ongoing royalty obligations are paid quarterly in arrears and total between $10-15m subject to sales revenue.

In the Operating Sale Scenario we have shown an illustrative $10-15m impact of an External Administrator making payment of these outstanding royalties to facilitate a sale.

In the Closedown Scenario we assume this payment is not required as the assets are realised on a piecemeal basis.

Care and maintenance

Management has estimated that an immediate closure of the sites followed by a limited care and maintenance regime would cost c.$250k per month. We note that this level of maintenance would be likely to result in the loss of key infrastructure assets and would mean that the assets could only be realised on a piecemeal basis.

Professional fees

External Administrator and legal costs are estimates included for illustrative purposes only

Employees

The Group estimates accrued employee entitlements as at 31 March 2016 at $7.3m (across 103 employees).

The Operating Sale assumes between 20-50% of employee entitlements are transferred to the purchaser. The full employee termination costs are deducted in the Closedown Scenario.

GST

GST is assumed to be nil in the Operating Sale Scenario. In the Closedown Scenario we assume that all recoveries are net of any GST paid.

Finance Leases

We have assumed that the Finance Lease provider is secured only over the financed assets at Mount Webber and collects these assets in satisfaction of its debt.

7.1.2 Estimated return to the TLB Scheme Creditors in the event the Scheme is not implemented and Atlas is wound up on 30 June 2016

We consider that the dividend that might be paid to TLB Scheme Creditors if Atlas were to be wound up on 30 June 2016 (being the date at which the Asset Coverage Ratio will be next tested if Atlas passes the covenant on 31 December 2015) would not materially change from our analysis as at 30 April 2016. The table below is provided for illustrative purposes only.

7. Dividend Analysis - Impact of Insolvency on the *continued*

Estimated outcome statement - 30 June 2016

	Closedown		Operating Sale	
$'m	**Low**	**High**	**Low**	**High**
Net Receivership Realisations	61.5	88.4	95.5	227.0
Forecast TLB debt at 30 June 2016	(367.9)	(367.9)	(367.9)	(367.9)
Surplus / (Shortfall) to TLB Scheme Creditors	**(306.4)**	**(279.5)**	**(272.4)**	**(140.9)**
TLB Scheme Creditor Recovery (cents in the A$)	*16.7*	*24.0*	*26.0*	*61.7*
Unsecured creditors	(203.0)	(203.0)	(203.0)	(203.0)
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders	**(509.4)**	**(482.5)**	**(475.4)**	**(343.9)**

PPBA Analysis

7.1.3 Conclusion: estimated return to the TLB Scheme Creditors in the event that the Scheme is not implemented

In an insolvency scenario the TLB Scheme Creditors are:

- Highly unlikely to be repaid in full in respect of their debt; and
- Would likely receive a return in the range of $74.9m to $239.9m, which equates to a dividend in the range of c.20.3 to c.65.1 cents in the dollar against their forecast Secured Debt of c.$368m.

7.1.4 Conclusion: estimated return to Subordinate Claim Holders if the event that the Scheme is not implemented

In accordance with subsection 563A(2), Subordinate Claims are subordinated to the ordinary unsecured creditors of the Group and rank pari-passu with any shareholder claims that may exist upon insolvency.

The analysis above indicates that if the Scheme is not implemented and External Administrators are appointed to Atlas, then there will be a shortfall against the claims of the TLB Scheme Creditors under the scenarios described in section 6.1.3. Accordingly, there will be no funds available to pay a divided to any Subordinate Claim Holders.

We note that the above conclusion excludes any return that may be available to Subordinate Claim Holders through the Net Proceeds, which, in accordance with our instructions, we are not required to quantify.

7.2 Dividend to TLB Scheme Creditors immediately following implementation of Scheme

We have assumed that the Scheme is implemented on the Scheme Date, 30 April 2016. In order to analyse the likely dividend to the TLB Scheme Creditors assuming an insolvency event occurs immediately upon implementation of the Scheme, we have amended our analysis in Section 7.1 to take account of the forecast level of the TLB as at 30 April 2016, which will have been reduced by the cash payments made under the Scheme and the reduction of the Secured Debt.

7.2.1 Cash Payments/Share Issues under the Scheme

The expected distribution paid to the TLB Scheme Creditors under the Scheme is as follows:

- a US$2.5m cash payment to the TLB Scheme Creditors on implementation of the Scheme;
- payment of all accrued and unpaid interest owing in respect of the Secured Debt as at the Scheme Date; and
- the issue of Shares and options equivalent to 70% of Atlas' Shares and options on issue. Options will carry an exercise price of 7.5 cents per share.

7. Dividend Analysis - Impact of Insolvency on the *continued*

7.2.2 Dividend to TLB Scheme Creditors if Atlas is wound up within six months of implementation of the Scheme

Following implementation of the Scheme, the TLB Scheme Creditors will have:

- Retired a portion of their debt; and
- Received Shares and options to acquire further Shares.

We do not consider that this would have any impact on the options available to an External Administrator in respect of realising assets for the Group's creditors and therefore, we have based our estimated outcome statement on the two scenarios outlined in Section 6.1.3.

Accordingly, our dividend analysis is based simply on an assessment of the balance sheet items shown in Section 7.1 assuming that the Scheme has been implemented and an assessment of the recoveries to the TLB Scheme Creditors based on their position as TLB Scheme Creditors and shareholders.

Estimated outcome statement - 30 April 2016

	Valuation		Closedown		Operating Sale	
$'m	**Low**	**High**	**Low**	**High**	**Low**	**High**
Producing Projects	286.8	298.9	-	-	286.8	298.9
Distress value erosion			-	-	*(200.8)*	*(149.5)*
Development Projects (McPhee and Corunna)	207.8	221.9	-	-	20.8	66.6
Exploration Projects	45.2	120.4	-	-	4.5	12.0
Investments	0.2	0.2	0.2	0.2	0.2	0.2
Option value of projects in a Closedown	-	-	5.0	10.0	-	-
Balance Sheet assets as at 30 April 2016						
Cash			57.0	57.0	57.0	57.0
Receivables			24.0	30.4	-	-
Inventory			10.9	16.1	-	-
Other receivables			0.0	1.8	-	-
Property, plant and equipment			6.6	13.3	-	-
Total Asset value	**540.0**	**641.4**	**103.7**	**128.7**	**168.5**	**285.3**
Less:						
Trading costs			-	-	(11.6)	(5.8)
Duress creditors			-	-	(15.0)	(10.0)
Limited care and maintenance			(0.5)	(0.3)	-	-
External Administrator costs			(5.0)	(3.0)	(8.0)	(6.0)
Legal costs			(1.0)	(0.5)	(3.0)	(2.0)
Sales Advisor Costs			-	-	(1.7)	(3.0)
Employee termination costs			(7.3)	(6.8)	(5.8)	(3.6)
Net Receivership Realisations			**89.9**	**118.2**	**123.4**	**254.9**
Forecast TLB debt at 30 April 2016			(195.7)	(195.7)	(195.7)	(195.7)
Surplus / (Shortfall) to TLB Scheme Creditors			**(105.8)**	**(77.5)**	**(72.3)**	**59.2**
TLB Scheme Creditor Recovery (cents in the A$)			*46.0*	*60.4*	*63.1*	*100.0*
Unsecured creditors			**(201.3)**	**(201.3)**	**(201.3)**	**(201.3)**
Surplus / (Shortfall) to Shareholders and Subordinate Claim Holders			**(307.1)**	**(278.8)**	**(273.6)**	**(142.1)**

Source: PPBA Valuation and Valuation Forecast Model at 30 April 2016

7.2.3 Notes and key assumptions

The assumptions underlying the above estimated outcome statement are in line with those detailed in section 7.1, except:

- The value of the cash balance;
- The Secured Debt and unsecured debt values; and

7. Dividend Analysis - Impact of Insolvency on the *continued*

- The value of unsecured creditors which includes the total value of payables, royalty relief liabilities and provisions as recorded on the forecast balance sheet. We note that total unsecured claims in an insolvency could differ materially to this number due to the potential for contingent liabilities to arise.

These values reflect the forecast Valuation Scenario balance sheet at 30 April 2016, assuming the Scheme has been implemented.

7.2.4 Conclusion: estimated return to the TLB Scheme Creditors in the event that the Scheme is implemented

In a winding up of the Group immediately following implementation of the Scheme, the TLB Scheme Creditors would likely receive a return in the range of $89.9m to $195.7m, which equates to a dividend in the range of c.46 to 100 cents in the dollar against their Secured Debt of c.$196m.

Following the implementation of the Scheme, the TLB Scheme Creditors' shareholdings in Atlas will be subordinated to Atlas' unsecured creditors. However, we note our conclusion in section 5.5 that Atlas will be solvent immediately following implementation of the Scheme.

7.2.5 Conclusion: estimated return to Subordinate Claim Holders in the event that the Scheme is implemented

In accordance with subsection 563A(2), Subordinate Claims are subordinated to the ordinary unsecured creditors of the Group and rank pari-passu with any shareholder claims that may exist upon insolvency.

The analysis above indicates that if the Scheme is implemented and External Administrators are appointed to Atlas, then there will be a shortfall against the claims of the TLB Scheme Creditors under the scenarios described in section 6.1.3. Accordingly, there will be no funds available to pay a divided to any Subordinate Claim Holders.

We note that the above conclusion excludes any return that may be available to Subordinate Claim Holders through the Net Proceeds, which, in accordance with our instructions, we are not required to quantify.

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A. Letters of Engagement

Appendix A. Letters of Engagement

Our ref: JKM\AKAB\02 3003 1912
Partner: James Marshall
Direct line: +61 2 9258 6508
Email: james.marshall@ashurst.com
Contact: Camilla Clemente, Senior Associate
Direct line: +61 2 9258 6574
Email: camilla.clemente@ashurst.com

Ashurst Australia
Level 11
5 Martin Place
Sydney NSW 2000
Australia

GPO Box 9938
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Fax +61 2 9258 6999
DX 388 Sydney
www.ashurst.com

17 December 2015

PPB Advisory
Level 7, 8-12 Chifley Square
Sydney NSW 2000

ashurst

Dear Sir

Engagement for Dividend and Solvency Analysis in relation to the Creditors Scheme of Arrangement of Atlas Iron Limited (the **Scheme**)

We act for Atlas Iron Limited (**Scheme Company**) and its subsidiaries (**Group**), which include Atlas America Finance, Inc. (**FinCo**).

The Scheme Company and FinCo are co-borrowers under a Syndicated Facility Agreement dated 10 December 2012 between them and, among others, Credit Suisse AG, Cayman Islands Branch (as Administrative Agent), and Credit Suisse AG, Sydney Branch (as Australian Administrative Agent and Collateral Agent) (**SFA**).

We have been instructed by the Scheme Company to engage PPB Advisory to prepare an independent expert report on behalf of the Scheme Company and the Group addressing financial matters relating to a proposal by the Scheme Company and certain of its creditors to apply for orders under section 411 of the *Corporations Act 2001* (Cth) (**Act**) convening a meeting of all of the Scheme Company's creditors under the SFA (**Senior Lenders**) to consider a scheme of arrangement. Your independent expert report is also to be prepared for use by the directors of the Scheme Company in relation to the Scheme.

The Scheme Company wishes to appoint Philip Carter of your office as expert.

1. **INSTRUCTIONS**

You are instructed to prepare an independent expert report (**PPB Report**) addressing the following matters:

(a) The solvency of the Group immediately following the implementation of the proposed Scheme. For the avoidance of doubt:

(i) solvency is to be determined immediately following completion of the Scheme; and

(ii) you are to determine "solvency" with reference to section 95A of the Act.

(b) The value of the assets of the Group generally relative to the debts owing to the Senior Lenders under the SFA.

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(c) The expected dividend that would be available to the Senior Lenders if the Scheme Company were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act.

(d) The expected dividend that would be paid to the Senior Lenders if the Scheme were put into effect as proposed, immediately after implementation of the Scheme.

(e) The likely outcome for the Group should the Scheme not be implemented having regard to the Total Assets to Total Secured Debt Ratio covenant in clause 7.13 the SFA (and any other provisions of the SFA that you consider are relevant).

The PPB Report should include a schedule listing the data, reports and other information (to the extent this material is not set out in the body of the PPB Report) which has been used to prepare the PPB Report.

You are also instructed to read the following **enclosed** documents:

- Federal Court of Australia Practice Note CM7 – Expert witnesses in proceedings in the Federal Court of Australia and to acknowledge in the PPB Report that you have done so and agree to comply with it;
- Expert witness code of conduct prescribed under the *Uniform Civil Procedure Rules 2005* (NSW) for use in proceedings in the Supreme Court of New South Wales and to acknowledge in the PPB Report that you have done so and agree to comply with it; and
- Regulatory Guide 112 issued by ASIC on 30 March 2011 and to acknowledge in the PPB Report that you have done so and consider that you are independent in accordance with the requirements of Regulatory Guide 112 and that you consider that you have complied with the terms of that document.

You are also instructed to disclose in the PPB Report the existence of any engagements you have had with the Group.

The finalised PPB Report is required to be delivered by **22 January 2015**.

2. **COURT PROCEEDINGS AND THE USE OF THE PPB REPORT**

You agree that the directors of the Scheme Company may rely on the PPB Report for, amongst other things, considering whether the Scheme Company would be solvent (within the meaning of section 95A of the Act) immediately following implementation of the Scheme.

You agree to the inclusion of the PPB Report as:

(a) an annexure to the Explanatory Statement to be provided by the Scheme Company to the Senior Lenders and others (including ASIC and the ASX) in relation to the Scheme;

(b) an annexure to a notice of meeting to the shareholders of the Scheme Company; and

(c) an annexure to any prospectus issued in connection with the Scheme Company.

Schemes of arrangement are subject to Court approval. Any application by the Scheme Company may require the following documents to be included in the applications to the Court:

- extracts from or the entirety of the PPB Report; and

- an affidavit from Philip Carter introducing and annexing or exhibiting the PPB Report and verifying the opinions contained therein.

You agree to the PPB Report being used, amongst other things, in the proceedings before the Court relating to the Scheme, and to the provision of affidavits by Philip Carter in relation to the PPB Report in the Court proceedings.

3. **CONFIDENTIALITY**

Your services as independent expert may require you to receive confidential and/or proprietary information or property of the Scheme Company. You agree to maintain all documents, information and things obtained in connection with this matter in strict confidence. You agree to maintain any reports, work papers, memoranda or summaries which may be prepared in connection with the engagement by you or personnel assisting you in strict confidence. You agree not to disclose these things to any person or use them for any purpose apart from assisting Ashurst and the Scheme Company in relation to this matter, and you agree to ensure your personnel are obliged to do the same. You agree to retain all such material, subject to our instructions.

Apart from engaging with us, the Scheme Company and its authorised personnel or consultants, and the giving of evidence in the Court proceedings:

(a) you must keep all communications between us confidential (including the contents of this letter). It is a condition of this engagement that you take all reasonable measures to protect the confidentiality of, and any privilege attaching to, these communications;

(b) you must not disclose to anyone the content of any confidential oral or written communication relating to this engagement;

(c) no other use, disclosure or dissemination of such materials or information gained in connection with this engagement is to be made without prior written consent, except as may be required by law; and

(d) you must not discuss any aspect of this matter with any other person, or inform them of your involvement in this matter, without our prior written consent.

There may be specific confidentiality orders applying to the Court proceedings described above. We will advise you if and when such orders apply to you. If you are ever in doubt about what may be discussed with others, please contact us to ensure there is no inadvertent breach of this agreement or any Court orders.

Please mark any written communications (including emails) and reports involving this matter ***"Confidential"***. Please address all letters and faxes in connection with your services to:

Confidential
Attention: James Marshall
Ashurst Australia
Level 11, 5 Martin Place
Sydney NSW 2000

All documents obtained in the course of this engagement must be returned to us upon request. The obligations in this letter expressly apply to both you and any personnel providing assistance to you. The obligations in this letter survive expiration or termination of this engagement.

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Appendix A. Letters of Engagement *continued*

4. **YOUR FEES**

We confirm that the Scheme Company will ultimately be responsible for your fees for the preparation of the independent expert report, and that we will hold funds provided to us by the Scheme Company in our trust account to cover the cost of your engagement.

5. **CONFIRMATION**

Please confirm whether PPB Advisory agrees to the terms of this engagement, including the confidentiality requirements by return letter.

Please contact James Marshall or Matt Benson should you require any further information or confirmation, or if you have any questions or issues in relation to this letter or otherwise.

Yours faithfully

Ashurst Australia

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Appendix A. Letters of Engagement *continued*

PPB ADVISORY

Our Ref: 2182653_1

21 December 2015

Mr James Marshall
Ashurst Australia
Level 11, 5 Martin Place
SYDNEY NSW 2000

Dear Mr Marshall

Confirmation of Engagement Letter

Project Calabria – Dividend and Solvency Analysis in relation to the proposed Creditors Scheme of Arrangement ("the Scheme")

Thank you for requesting that PPB Advisory conducts a Dividend and Solvency Analysis in relation to the proposed Creditors Scheme of Arrangement of Atlas Iron Limited ("the Scheme Company").

This Confirmation of Engagement Letter sets out the terms and conditions under which we will undertake this review for Ashurst Australia on behalf of the Scheme Company and confirms the scope of work and services we will provide. It also confirms our commitments to you as a client of PPB Advisory.

Please read this letter carefully and let us know as soon as possible if you have any queries regarding its contents.

Scope of the engagement ("the Services")

PPB Advisory's scope of the engagement is as set out in your letter to us dated 17 December 2015.

PPB Advisory will complete each of these Services and the scope of works will be limited to these Services, unless we are specifically instructed to the contrary by you.

If you provide additional instructions which expand the scope of the Services, and PPB Advisory accepts those instructions, we will provide them in accordance with the terms of this Engagement Letter. Our scope of works also includes completing any incidental matters or actions that must be undertaken to complete the Services.

Deliverables

PPB Advisory will prepare a draft independent expert report setting out our findings and conclusions from our review. This draft will be forwarded to the Scheme Company's Management to check its factual accuracy.

Once Management confirms that the draft report is factually accurate, we will send the final report to you.

Level 7, 8 Chifley
8 - 12 Chifley Square
Sydney NSW 2000
GPO Box 5151
Sydney NSW 2001
t: +61 2 8116 3000
f: +61 2 8116 3111
www.ppbadvisory.com

PPB Advisory will make every effort to ensure that the report is factually accurate, but we are not under any obligation to amend or vary the conclusions, opinions and recommendations set out in our report, based on requests from the Scheme Company.

Access to information

We will require access to various books, records and financial information of the Scheme Company to perform the Services, together with access to Management and key personnel. We will liaise directly with the Scheme Company in relation to our information requirements.

If we are unable to access the required information, we will inform you as soon as possible about the likely impact this will have on the nature or completeness of our report.

Your team

As Engagement Partner, Phil Carter will have overall responsibility for the delivery of the Services set out in this letter. He will be your main point of contact during the engagement and will coordinate other PPB Advisory employees to ensure that the Services are completed thoroughly and efficiently.

Campbell Jaski will be the Valuations Partner for this engagement. He is responsible for conducting the valuation aspects of the services set out in this letter.

Simon Theobald will be the Review Partner for this engagement. He is responsible for conducting a final review of the report and providing valued oversight during the engagement.

Phil, Campbell and Simon will be assisted in this review by David McGrath and Fiona Hansen (Directors) and other PPB Advisory staff and resources as required.

Fees

Our fees will be calculated according to the time it takes to complete this engagement at our hourly rates for work of this nature (plus goods and services tax (GST). PPB Advisory's hourly rates (excluding GST) are attached to this letter.

PPB Advisory also charges for reasonable disbursements and out of pocket expenses.

Reliance on information provided to us

PPB Advisory will rely on the information and explanations provided to us by the Management and staff of the Scheme Company, who are responsible for the preparation and presentation of the financial and other information referred to in our review. We will assume that this information and any explanations made to us are accurate and complete and that we will not be required to verify this information.

Where possible, we will conduct reasonableness checks of the information provided. We will not be conducting an audit or providing any assurances or warranties as to the accuracy of the information provided to us. Our review should not be relied upon to disclose any misappropriation of funds, fraud or any other irregularities.

Distribution and use of reports

PPB Advisory agrees that you may provide a copy of draft and/or final reports to the Scheme Company and its legal and other advisors. PPB Advisory also agrees to the inclusion of the reports as an annexure to:

- the Explanatory Statement to be provided by the Scheme Company to certain of the Scheme Company's creditors and others (including ASIC and the ASX) in relation to the Scheme;
- a notice of meeting to the shareholders of the Scheme Company; and
- any prospectus issued in connection with the Scheme Company.

PPB Advisory acknowledges that schemes of arrangement are subject to Court approval and any application by the Scheme Company may require the following documents to be included in the applications to the Court:

- extracts from or the entirety of the reports; and
- an affidavit from Philip Carter introducing and annexing or exhibiting the reports and verifying the opinions contained therein.

PPB Advisory agrees to the report being used, amongst other things, in the proceedings before the Court relating to the Scheme, and to the provision of affidavits by Philip Carter in relation to the reports in the Court proceedings.

The reports must not, however, be disclosed to any other party without our prior consent in writing.

Any written reports or other documents prepared by us are to be used solely for the purpose for which they are intended and may not be published or used for any other purpose without our written consent.

Our commitments

We value our relationships with Ashurst Australia and in accepting this engagement we make the following commitments:

- We will undertake the Services in a professional and diligent manner and ensure that all work is conducted to a high standard.
- We will keep you informed of the progress of our work and provide you with written or verbal updates at agreed intervals. You may request additional progress updates at any time. Depending on the scope of the information required, we reserve the right to charge a reasonable fee for any written progress reports but we will not charge any fees for providing cost estimates.
- We will conduct our work as efficiently as possible, and conscientiously manage all fees and costs on your behalf. We will ensure that any expected variance in timing or fees (either up or down) is communicated to you as soon as we become aware of it.
- We place great importance on building trust with our clients and will treat all documents, information and communications confidentially – unless we have previously agreed with you for the release of information to specific parties.
- PPB Advisory's employees will conduct themselves at all times in accordance with our firm values - respectful, ethical, collegiate, innovative and professional.

Your agreement

Please take the time to review this Engagement Letter and the attached Terms and Conditions. Please note that any work PPB Advisory undertakes prior to your acceptance of this letter (in connection with this engagement) will also be covered by these terms.

Appendix A. Letters of Engagement *continued*

If you would like us to proceed with this engagement on the basis of this letter and the Terms and Conditions, please indicate your acceptance by completing and signing a copy of this letter.

We thank you again for engaging us and we look forward to working with you on this project.

If you have any questions or would like to discuss anything in this letter, please contact me directly on (02) 8116 3189 or 0412 667 823.

Yours sincerely

Phil Carter
Partner

Enclosure

Ashurst Australia acknowledges and accepts the terms and conditions of this engagement letter, including the attached Schedule, and retains PPB Advisory upon those terms and conditions.

.....
Signed:
For and on behalf of Ashurst Australia

21/12/15
.....
Date

PPB ADVISORY

4

Schedule

Terms and Conditions of engagement

1. **Engagement**

1.1 PPB Advisory will provide the Client with the Services described in the Engagement Letter and the Confirmation of Engagement Letter into which these Terms and Conditions are incorporated.

1.2 The Client will be responsible for obtaining its own professional advice on legal, accounting, taxation and other specialist matters, unless any of those matters are expressly included as part of the Services.

2. **Interpretation**

2.1 Certain capitalised words appearing in these Terms and Conditions have defined meanings. The definitions of these terms are set out below:

2.1.1. **Activities** means any tasks performed by any Advising Person in providing the Services.

2.1.2. **Advising Person** means any director, officer, consultant, agent and employee of PPB Advisory and its affiliates and related bodies corporate.

2.1.3. **Client** means Ashurst Australia acting on behalf of the Scheme Company which has engaged PPB Advisory to perform the Services.

2.1.4. **Engagement Letter** means the letter dated 17 December 2015 from Ashurst Australia outlining the nature of the engagement of PPB Advisory and scope of the Services to be provided by PPB Advisory in respect of the Client and which incorporates these Terms and Conditions.

2.1.5. **Confirmation of Engagement Letter** means this letter dated 21 December 2015 from PPB Advisory to the Client incorporating these terms and conditions and agreeing to provide the services as requested in the Engagement Letter.

2.1.6. **Expenses** means, without limitation, all costs and expenses (including all reasonable legal fees on a ful indemnity basis and disbursements of counsel incurred by PPB Advisory or any Advising Person) in connection with investigating, preparing or defending any potential, threatened or actual investigative, administrative, judicial or regulatory action or civil or criminal proceeding of any nature whatsoever in any jurisdiction arising out of or in connection with the Engagement Letter including, without limitation, the Activities.

2.1.7. **Losses** means all losses, claims, actions, proceedings, demands, expenses, damages, obligations or liabilities of any kind.

2.1.8. **Party** means all of, or if the context requires, any one or another of PPB Advisory, the Client and any other individual or entity executing an acknowledgement to be bound by these Terms and Conditions.

2.1.9. **PPB Advisory** means PPB Pty Ltd trading as PPB Advisory.

2.1.10. **Report** means the Independent Expert Report to be provided under the Engagement Letter

2.1.11. **Services** means the Services described in the Engagement Letter.

2.1.12. **Terms and Conditions** means the terms and conditions contained within this Schedule.

2.2 In these Terms and Conditions, words importing the singular include the plural and vice versa and words importing a gender include every gender.

2.3 Unless expressly stated to the contrary in the Engagement Letter, if there is any conflict between the Terms and Conditions and the terms of the Engagement Letter, the terms of the Engagement Letter will prevail.

PPB ADVISORY 5

3. Provision of information

3.1 PPB Advisory's provision of Services to the Client is dependent on the information that the Scheme Company provides to PPB Advisory. Accordingly, PPB Advisory will rely on the Scheme Company for the accuracy and completeness of all information and representations supplied to PPB Advisory by the Scheme Company or its agents or advisors without any obligation to independently verify their accuracy or completeness. The Scheme Company must inform PPB Advisory promptly of any changes to information previously provided to PPB Advisory by it.

3.2 The Client represents and warrants that all information released by or on behalf of it, either to PPB Advisory or publicly, complies with applicable laws and is and will be true, complete, accurate and not misleading by omission or otherwise. The Client will inform PPB Advisory promptly if any such information ceases to be true, accurate, complete and not misleading.

3.3 The Scheme Company further represents and warrants that all information and statements of opinion provided by it or on its behalf to PPB Advisory have been or will be made after due and careful enquiry and were or will be based on reasonable grounds.

3.4 The Scheme Company undertakes to provide PPB Advisory with access to necessary information to the extent that it is relevant to the scope of PPB Advisory's engagement in a timely manner.

4. Benefit of advice

4.1 The Report is to be provided as a document to be appended to the proposed Scheme of Arrangement of the Scheme Company.

5. Fees, expenses and payment terms

5.1 Out-of-pocket expenses and disbursements charged in accordance with the Engagement Letter will be charged to Ashurst Australia on behalf of the Scheme Company at the cost such expenses are incurred by PPB Advisory.

5.2 Ashurst Australia, on behalf of the Scheme Company agrees to pay any tax or other charge imposed on PPB Advisory (now or in the future) in relation to any transactions arising in connection with, or as an outcome of, the Confirmation of Engagement Letter. The hourly rates quoted in the Confirmation of Engagement Letter are GST exclusive. Any fees payable to PPB Advisory for any supply made or to be made under the Engagement Letter will be increased by the applicable amount of GST payable in respect of that supply. This calculation will be calculated initially with regard to goods and services tax ('GST') at a rate of 10%. PPB Advisory reserves the right to adjust this fee to reflect any change in this GST rate.

5.3 Unless otherwise stated in the Confirmation of Engagement Letter or otherwise agreed in writing by PPB Advisory, payment terms for fees and disbursements are 7 days from the date of the invoice issued by PPB Advisory. All amounts invoiced will be in Australian Dollars and payment in satisfaction of any invoices is to be made in Australian Dollars. PPB Advisory reserves the right to charge interest at the rate of 3 per cent above the 90-day bank bill rate per annum, calculated daily on overdue payments.

5.4 If PPB Advisory is required (pursuant to subpoena or other legal process) to produce documents or attend Court in relation to the Services for judicial or administrative proceedings to which PPB Advisory is not a party, the Client must reimburse PPB Advisory at standard billing rates for all professional time and expenses, including reasonable legal fees, incurred in responding to such requests.

6. Release and limitation of liability

6.1 This section sets out, and the Client accepts, the limitations which apply to PPB Advisory's liability should the Client have reason to make a claim against PPB Advisory. The limitations and exclusions are accepted by the Client to be fair and reasonable, given the duties PPB Advisory is undertaking, the sums to which PPB Advisory is entitled and the availability (and cost) of insurance.

6.2 PPB Advisory seeks to assist the Client in the manner set out in the Confirmation of Engagement Letter. However, PPB Advisory does not accept responsibility in the event that the endeavours are unsuccessful or not completed in the manner or time contemplated in the Confirmation of Engagement Letter or a transaction does not proceed.

6.3 The Client agrees that PPB Advisory and its affiliates and related bodies corporate (as defined in the Corporations Act) and any Advising Person do not have any liability (whether direct or indirect, in contract or tort or breach of statutory duty or otherwise), to the Client (nor to any related body corporate nor to any director, officer, consultant, agent, or employee of the Client or of any such body) arising out of or in connection with the Engagement Letter including, without limitation, the Services and an Advising Person's role in connection with the provision of the Services or any other task, advice, report or opinion expressed or provided at the request of the Client except:

6.3.1. to the extent to which it is not permissible by law to exclude, restrict or modify liability; and

6.3.2. all Losses incurred by the Client that have resulted primarily from actions taken or omitted to be taken by PPB Advisory illegally or in bad faith.

6.4 In all cases, PPB Advisory's liability for any loss or causes of action arising in relation to this Confirmation of Engagement Letter, including for negligence, is limited as set out below:

6.4.1. where a scheme approved under professional standards legislation applies, in the manner provided by that scheme; or

6.4.2. where a scheme or professional standards legislation does not apply, to the amount that is the lesser of the total sum of any fees paid in respect of the engagement and $1.0m.

In either case, PPB Advisory will only be liable to the Client for that proportion of the total Losses that PPB Advisory has caused or to which PPB Advisory has contributed.

6.5 The Client acknowledges and confirms that it has not relied on any representation in entering into or executing an acknowledgment contained within the Confirmation of Engagement Letter. The Client agrees that all warranties, conditions, liabilities or representations in relation to the quality of fitness of the Services (other than any being or giving rise to non-excludable rights under any laws in force in any applicable jurisdiction) which might be implied in this Engagement Letter by law or otherwise are hereby expressly negatived and excluded.

6.6 Any civil liability of an Advising Person to the Client in respect of or in any way related to the Services pursuant to any non-excludable right referred to in clause 6.3 are, insofar as is lawful, limited to the cost of having the Services supplied again (which in turn is limited to the amount of fees that PPB Advisory earns under the Confirmation of Engagement Letter). Such liability is concurrent with, and not in addition to, any liability that PPB Advisory may have in respect of the engagement described in the Engagement Letter or for any other services that PPB Advisory may provide to the Client at its request.

7. **Indemnities**

7.1 The Client agrees to indemnify and hold harmless PPB Advisory and each Advising Person from and against all Losses arising out of or in connection with this Engagement Letter and the performance of the Services including, without limitation, the Activities.

7.2 Without limiting the generality of clause 7.1, the Client agrees to reimburse, indemnify and hold harmless PPB Advisory and each Advising Person for all Expenses (including, without limitation, legal fees on a full indemnity basis or solicitor and own client basis, whichever is the higher, and disbursements of counsel) incurred by PPB Advisory or an Advising Person in connection with investigating, preparing or defending any potential, threatened or actual investigative, administrative, judicial or regulatory action or civil or criminal proceeding of any nature whatsoever in any jurisdiction arising out of or in connection with this Confirmation of Engagement Letter and the performance of the Services including, without limitation, the Activities.

7.3 However, the Client will not be responsible for any Losses (including Expenses) that are finally judicially determined to have resulted primarily from actions taken or omitted to be taken by PPB illegally or in bad faith.

7.4 PPB Advisory enters into these indemnities on its own behalf and as agent for each other Advising Person and further shall hold the benefit of these indemnities in trust for such Advising Persons.

8. Confidentiality

8.1 The Client and PPB Advisory will take all reasonable steps to preserve and protect the confidentiality of all confidential information obtained or generated in connection with the provision of the Services. PPB Advisory may only use or disclose the confidential information of the Client for the purposes of carrying out the Services under the Engagement Letter or as the Client may authorise. PPB Advisory will disclose this information only to those of its directors, employees, agents and contractors who are required to know this information for the purposes of performing the Services.

8.2 PPB Advisory's confidentiality obligations will not apply to information which is available to it on a non-confidential basis (that is, all information available in the public domain) or which must be disclosed by law, pursuant to any requirement of a Court or a governmental or regulatory agency.

8.3 The Client agrees that PPB Advisory will not, and is under no obligation to, disclose to the Client or take into account in connection with its provision of the Services, any information which at any time is or comes intothe possession of an Advising Person which is confidential to any other client of PPB Advisory or any other peson of which PPB Advisory otherwise has a duty not to disclose.

8.4 The Client shall not use the name of PPB Advisory or any other related parties, or any abbreviations, derivatives or antecedents of those names or any logo used by PPB Advisory in relation to any public or private communication by the Client without the prior written consent of an officer of PPB Advisory.

8.5 PPB Advisory will provide a consent to the final Report being appended to the Scheme of Arrangement documents for the Scheme Company.

9. Termination

9.1 Termination of this agreement will not affect PPB Advisory's rights to fees or reimbursement of expenses already received from the Client or rights to fees or reimbursement of expenses accrued prior to termination.

9.2 Any limitation of liability and indemnity or any obligation of confidence or obligation to pay fees or reimburse expenses under the Confirmation of Engagement Letter is independent and survives termination of the Confirmation of Engagement Letter. In addition, clauses 1, 4, 6, 7, 8 and 9 of the Terms and Conditions survive termination of the Confirmation of Engagement Letter.

10. Governing law and jurisdiction

10.1 This Confirmation of Engagement Letter and all aspects of this engagement and the performance of the Services are governed by, and construed in accordance with, the laws of the State of New South Wales. The Client agrees to irrevocably submit any disputes arising under this Engagement Letter to the exclusive jurisdiction of the Courts of that state.

11. General

11.1 No variation of the Engagement Letter and the Confirmation of Engagement Letter will be valid unless confirmed in written communication by authorised signatories of both the Client and PPB Advisory on or after the date of signature of the Engagement Letter.

11.2 The Engagement Letter and the Confirmation of Engagement Letter contains the entire agreement between the Client and PPB Advisory in relation to its subject matter, and supersedes all previous agreements, understandings, statements, representations and warranties of the parties in relation to its subject matter.

11.3 The Engagement Letter and the Confirmation of Engagement Letter may be executed in counterparts. All executed counterparts constitute one document and may be exchanged by electronic means.

11.4 The terms of this Confirmation of Engagement Letter may be excepted expressly in writing or by the Client continuing to instruct or retain PPB Advisory in relation to the provision of the Services after the Client has been provided with a copy of the Engagement Letter.

11.5 The failure of any party at any time to require performance of any obligation under the Confirmation of Engagement Letter is not a waiver of that party's right to insist on performance of or to claim damages for a breach of that obligation.

Appendix A. Letters of Engagement *continued*

11.6 PPB Advisory will provide the Services as an independent contractor. Nothing will be construed to create a partnership, joint venture or other relationship. No party has the right, power or authority to oblige or bind any other party in any other matter.

12. Dispute resolution

12.1 Should the Client have any complaints about the service provided, it should contact the Engagement Partner identified in the Confirmation of Engagement Letter to discuss the issue in the first instance. If the Client is not satisfied with the response received from the Engagement Partner, it should then raise the issue with the Review Partner identified in the Confirmation of Engagement Letter. PPB Advisory will take reasonable steps to have the issue/complaint resolved in an open, honest and transparent

PPB ADVISORY 9

Standard Charge Rates – Insolvency & Restructuring

Position	Rate per hour ($) (excl. GST)
Partner / Appointee	745
Director / Principal	645
Senior Manager	560
Manager	510
Assistant Manager	490
Senior Analyst 1	435
Analyst	340
Graduate	230
Undergraduate	210
Bookkeeper	140
Personal Assistant	175
Administration	130

Our ref: JKM\CCLEMEN\02 3003 1912
Partner: James Marshall
Direct line: +61 2 9258 6508
Email: james.marshall@ashurst.com
Contact: Camilla Clemente, Senior Associate
Direct line: +61 2 9258 6574
Email: camilla.clemente@ashurst.com

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23 February 2016

BY EMAIL
CONFIDENTIAL & PRIVILEGED

Philip Carter
PPB Advisory
Level 7
8 - 12 Chifley Square
SYDNEY NSW 2000

ashurst

Dear Philip

Supplementary instructions in relation to Creditors' Scheme of Arrangement of Atlas Iron Limited

We refer to our letter of engagement dated 19 December 2015. Capitalised terms used in this letter have the same meaning as set out in our letter of engagement, unless otherwise defined.

1. **Background**

Since our initial instructions to you, it is now proposed that the Scheme provide that:

(a) the rights and entitlements of Subordinate Claim Holders to enforce Subordinate Claims against the Scheme Company be limited to the amount, if any, actually recovered by the Scheme Company from any available policy of insurance under which the Scheme Company is entitled to indemnity in respect of any Subordinate Claim net of any expenses (including defence costs) incurred by the Scheme Company and/or any relevant insurer in connection with the claim (**Net Proceeds**); and

(b) the Scheme Company is released from any obligation to pay any amount in respect of any Subordinate Claim (including interest and costs) in excess of the Net Proceeds referrable to that claim.

For the purposes of the above background:

Subordinate Claim means a subordinate claim within the meaning of subsection 563A(2) of the Corporations Act, against the Scheme Company in respect of any fact, matter, circumstance or event which has arisen or occurred at any time prior to the compromise of those claims by the Scheme in the manner outlined above.

Subordinate Claim Holder means any person who has or, but for the Scheme, would be entitled to make, a Subordinate Claim.

2. **Supplementary instructions**

You are instructed to expand your independent expert report to address, in addition to those matters outlined in our letter of engagement of 19 December 2015, the following:

(a) the expected dividend that would be available to Subordinate Claim Holders, in addition to the Net Proceeds, if the Scheme Company were to be wound up within 6 months of the hearing of the application for an order under section 411(1) and (1A) of the Act and the Scheme was not implemented;

(b) the expected dividend that would be paid to Subordinate Claim Holders, in addition to the Net Proceeds, if the Scheme were put into effect as proposed, immediately following implementation of the Scheme; and

(c) the extent, if any, to which the expected dividend that would be paid to Subordinate Claim Holders, in addition to the Net Proceeds, differs between either of the above two scenarios.

For the avoidance of doubt, you are not required to estimate the amount of any Net Proceeds that may be payable to Subordinate Claim Holders.

In providing your opinion, you should have regard to section 563A of the Corporations Act, which postpones payment of subordinate claims (as defined in that section) until all other debts payable by, and claims against, the company (including priority creditors and ordinary unsecured creditors) have been satisfied.

Please also reflect the revised terms of the proposed Scheme in your report.

Please contact James Marshall or Matt Benson should you require any further information or confirmation, or if you have any questions or issues in relation to this letter or otherwise.

Yours faithfully

Ashurst Australia

239169183.01

ashurst

B

B. Curriculum Vitae

Appendix B. Curriculum Vitae

Phil Carter

Partner

Email: pcarter@ppbadvisory.com

Telephone: +61 2 8116 3189

Overview

Phil has over 25 years' experience advising clients in corporate advisory and restructuring in Australia and the UK. His expertise includes:

- Assessing business performance
- Implementing turnaround initiatives
- Restructuring and workout arrangements
- Formal insolvency appointments.

Phil has advised clients over a broad range of industries including:

- Financial services
- Retail
- Manufacturing
- Media and Communications
- Mining and mining services

He has also led successful workouts involving private equity, hedge fund and other debt trading stakeholders.

Recent assignments

- Independent expert and scheme administrator of the successful financial restructure of Nine Entertainment Company Holdings, which is now ASX-listed
- Administrator of Bandanna Energy Limited, an ASX-listed coal mining group with assets in the Bowen and Galilee basins
- Administrator of AWA Limited, an ASX-listed technology service provider which was successfully sold
- Administrator of CMA Recycling Pty Limited, a major scrap metal recycling and recovery business with operations in Australia, New Zealand and Singapore, the major constituent parts of which were successfully sold
- Receiver and manager of Clive Peeters, an ASX-listed company which operated 45 retail superstores across Australia. The business was successfully sold to Harvey Norman as a going concern within six weeks of our appointment
- Receiver and manager of Betta Electrical, an NSX-listed company which operated 100 owned and franchised retail superstores across Australia, which was successfully sold to a consortium of senior Betta franchisees as a going concern
- Syndicate advisor to a PE-owned household goods retailer with approximately 200 stores which was successfully restructured and is now ASX-listed

Qualifications/memberships

- Australian Board member and NSW Chairman of the Turnaround Management Association
- Member, Institute of Chartered Accountants, Australia
- Member, Financial Services Institute of Australia
- Bachelor of Arts (Economics), University of Leicester (UK)
- Official Liquidator

Appendix B. Curriculum Vitae *continued*

Simon Theobald

Partner

Email: stheobald@ppbadvisory.com

Telephone: +61 8 9216 7601

Overview

Simon is a Partner with PPB Advisory. He has over 17 years' experience in large and complex reconstruction and reorganisation assignments, acting for various stakeholders in corporate advisory and restructuring assignments. His expertise includes assessing business performance, implementing turnaround initiatives, restructuring and workout arrangements and formal insolvency appointments. Simon has advised clients across a broad range of industries including:

- Mining
- Mining Services
- Property and construction
- Agribusiness
- Leisure

Recent assignments

Some of Simon's recent major assignments include:

- Receiver and manager of Burrup Fertlisers, one of the world's largest producers of tradeable liquid ammonia. Responsible for plant operations over 12 month trade-on period during which over 500,000t of liquid ammonia was shipped from Dampier Port. Responsible for preparation of business for sale, including renegotiating key employment and supply contracts to normalise business performance and assisting with complex global sale process. Plant sale achieved an enterprise value of c.$1.2bn.
- Receiver and manager of the Griffin Coal Group's interest in the Worsley Alumina multi fuel cogeneration plant. Oversaw global sale process conducted by Macquarie Bank for equity interest (enterprise value c.$300m).
- Receiver and manager of ASX listed Black Oak Minerals Ltd, a gold and silver producer with a mining operation in NSW.
- Receiver and manager of Alcyone Resources Ltd, an ASX listed company operating the Texas Silver Project in South-East Queensland.
- Voluntary Administrator of ASX listed gold producer Range River Gold Ltd
- Managed the administration and sale of ASX-listed gold mine, Gleneagle Gold Ltd, including recapitalisation of the listed entity
- Assisted in the liquidation of the Christmas Island Resort and Casino, including undertaking international sale process for assets. Liaised with numerous government departments.

Qualifications/memberships

- Bachelor of Commerce (Accounting and Business Law)
- Graduate Diploma – Applied Finance and Investment (Corporate Finance)
- Graduate Diploma – Applied Corporate Governance
- Member, Institute of Chartered Accountants Australia
- Member, Australian Restructuring, Insolvency and Turnaround Association
- Member, Turnaround Management Association
- Member, Governance Institute of Australia
- Fellow, Financial Services Institute of Australasia
- Registered Liquidator
- Official Liquidator

Appendix B. Curriculum Vitae *continued*

Marcus Ayres

Partner

Email: mayres@ppbadvisory.com

Telephone: +61 2 8116 3295

Overview

Marcus has more than 16 years' experience in corporate insolvency, restructuring and advisory services and has spent a number of years working with secured lenders in Hong Kong and China.

Marcus has been involved in all forms of corporate insolvency including voluntary administrations, liquidations, receiverships and diagnostic reviews of debt impaired entities. Marcus has significant experience working on cross-border insolvency matters including:

- receiverships of corporate groups with operations in various Asian countries
- worldwide investigative sweeps, including a foreign currency Ponzi scheme operating in 15 countries
- negotiations and litigation in structured credit products in the United Kingdom and United States
- negotiations regarding financial instrument repurchase agreements between Australia, England and Germany.

Recent assignments

Marcus is currently working as one of the liquidators of the Australian arm of Lehman Brothers, which involves complex cross border insolvency issues and the unwinding of derivative products in various countries, in particular the United States and United Kingdom.

Marcus has worked with a number of syndicates to exit distressed manufacturing businesses primarily in China. He has also worked on a number of debt restructuring projects in the Asian region.

Marcus also conducts business diagnostic reviews on behalf of syndicated lenders with a view to optimising outcomes by adopting non formal restructuring routes where possible.

Qualifications/memberships

- Bachelor of Commerce
- Chartered Accountant
- Official Liquidator
- Registered Liquidator
- Member of the Australian Restructuring Insolvency and Turnaround Association (formerly IPA)

C

C. Information List

Appendix C. Information List

Scheme Documents

Explanatory Statement dated [ ]

Scheme Document dated [ ]

Documents provided by Atlas

Syndicated Facility Agreement dated 10 December 2012

Restructuring Support Agreement dated 23 December 2015

First Amendment to Syndicated Facility Agreement, dated 22 December 2015

Annual Financial Report for the year ended 30 June 2015

Consolidated Management Accounts from July 2013 to November 2015

Daily Working Capital Model dated 1 February 2016 - US$40 Case

Daily Working Capital Model dated 1 February 2016 - Forward Curve Case

Corporate Model Q3 FY16, dated 16 January 2016

Estimated Employee Entitlements as at 31 March 2016

Lender presentation dated 6 November 2015

Contractor Collaboration Deed dated 14 May 2015

November 2015 Board Report

Other

Australian Stock Exchange - Company announcements

Atlas Iron Limited Shareholder Prospectus dated 11 June 2015

D

D. Valuation Report

Atlas Iron Limited

Valuation of business

at 30 November 2015

PPB ADVISORY

22 February 2016

Mr James Marshall
Partner
Ashurst Australia
Level 11, 5 Martin Place
Sydney NSW 2000

Dear Mr Marshall

Valuation of Atlas Iron Limited

PPB Advisory has been engaged to prepare a valuation ("Valuation") of the fair market value of Atlas Iron Limited ("Atlas" or "the Company") as at 30 November 2015 for the purposes of the proposed scheme of arrangement between Atlas and its creditors under Part 5.1 of the Corporations Act ("Scheme"). The proposed Scheme will have the effect of restructuring the debt owing to the lenders under the Syndicated Facility Agreement. The Valuation is to be undertaken in accordance with our engagement letter dated 17 December 2015.

This valuation report ("Valuation Report") is to be appended to the Independent Expert's Report for the Scheme. The Valuation Report is provided for the above purpose only, and should not be used or relied upon for any other purpose, nor should it be disclosed to or discussed with any other party (except relevant statutory authorities or your professional advisors acting in the capacity, provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) without our prior written consent.

We have estimated the fair market value of Atlas, on an ungeared basis, to be between $540.0 million and $641.4 million. No value within the range is any more or less appropriate than any other value in the range. In the event that a single value is required, we would recommend the adoption of the mid-point of our valuation range of **$590.7 million**.

In preparing this Valuation Report, we have considered and relied upon information provided by management of Atlas ("Management"). We consider, on reasonable grounds, that this information is reliable and not misleading. In this regard, Management has represented to us that all information held by the Company that may influence our opinion has been provided to us and is accurate and complete.

A summary of information we have received and used in our valuation is outlined in Appendix A. The information we have used in preparing this Valuation Report has been obtained from a variety of sources as indicated within the Valuation Report. While our work has involved analysis of financial information and accounting records, it has not included an audit or review in accordance with generally accepted auditing and assurance standards. Accordingly, we assume no responsibility for and make no representations with respect to the accuracy or completeness of any information provided to us by and on your behalf.

The Management of Atlas has reviewed a draft version of this report and has confirmed that the information provided to us and presented in this report is accurate and that no significant information essential to our Valuation Report has been withheld.

This letter should be read in conjunction with our full Valuation Report that is attached.

Yours sincerely

Campbell Jaski
Partner
+61 3 9269 4201
cjaski@ppbadvisory.com

Fiona Hansen
Director
+61 3 9269 4295
fhansen@ppbadvisory.com

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Appendices

Glossary

Term	Definition
APES 225	Accounting Professional & Ethical Standards Board Limited professional standard APES 225 '*Valuation Services*'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Atlas or the Company	Atlas Iron Limited
AUD/$	Australian dollars
BIF	Banded Iron Formation
CAPM	Capital Asset Pricing Model
Centaurus	Centaurus Metals Limited. Atlas owns 60,320,264 shares equivalent to an 11.567% interest at 31 December 2015
CFR	Cost plus freight
CGB	Commonwealth Government Bond
Completed Projects	Projects recently completed that are under "care and maintenance" – comprising Pardoo and Mt Dove
Contractor Collaboration Deed	Deed dated 14 April 2015 between Atlas, MACA Mining Pty Ltd, McAleese Resources Pty Ltd and Qube Bulk Pty Ltd
Corporate Model	Financial model prepared by Management of Atlas for the Production Projects and McPhee
Corunna	Corunna Downs Development Project
Corunna Model	Financial model prepared by Management of Atlas for Corunna
CSI	Crushing Services International
DCF	Discounted Cash Flow
Development Projects	Projects currently in development with production imminent - comprising Corunna and McPhee
dmt	Dry metric tonne
DSO	Direct Shipping Ore
EV	Enterprise Value – calculated as equity plus debt minus cash
Exploration Projects	Early stage projects where no resources have been defined
Fe	Iron
Financial Models	The Corporate Model and the Corunna Model, collectively
FOB	Free On Board. This refers to the price received for Atlas' iron ore product in a scenario where the purchaser pays for shipping, insurance and all other costs associated with the transportation of the goods to their destination
FY	Financial Year ending or ended 30 June
Horizon II	The second phase of growth projects which will expand the Company's production base by expansion of its North Pilbara production, development of its South East Pilbara Resources and participation in port and rail developments to provide a supporting logistics chain.
Independent Expert's Report	Independent Expert's Report in relation to the Scheme
Independent Forecasters	Four independent forecasters engaged by the Management of Atlas to present forecast iron ore prices and AUD/USD exchange rates

Term	Definition
Indicated (Mineral) Resource	That part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve.
Inferred (Mineral) Resource	That part of a Mineral Resource for which quantity and grade (or quality) is estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to an Ore Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration.
JORC	Australasian Joint Ore Reserves Committee. The JORC Committee was established in 1971 and is sponsored by the Australian mining industry and its professional organisations. The Committee comprises representatives of each of the three parent bodies: The Minerals Council of Australia (MCA), The Australasian Institute of Mining and Metallurgy (The AusIMM), and the Australian Institute of Geoscientists (AIG); as well as representatives of the Australian Securities Exchange (ASX), the Financial Services Institute of Australasia (FinSIA) and the accounting profession. The Committee is responsible for the development and ongoing update of the JORC Code.
Kd	Cost of debt
Ke	Cost of equity
Km	Kilometres
Kt	Thousand (metric) tonnes
LOM	Life Of Mine
Management	The management of Atlas
McPhee	The McPhee Creek project, is part of the Company's growth program that targets the expansion of the Company's production base
Measured (Mineral) Resource	That part of a Mineral Resource for which quantity, grade (or quality), densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proved Ore Reserve or under certain circumstances to a Probable Ore Reserve.
MEE	Multiple of Exploration Expenditure
Mineral Resource/s	A concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.
Modifying Factors	Are considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors.
MRP	Market Risk Premium (Rm – Rf) represents the risk associated with holding a market portfolio of investments, that is, the difference between the expected return on holding the market portfolio and the risk free rate. It represents the additional return above the risk free rate that investors seek to invest in the equity securities.
Mt	Million (metric) tonnes
mth	Month
Mtpa	Million (metric) tonnes per annum

Term	Definition
Mwmt	Million wet metric tonnes
NBV	Net Book Value
NMI	NWI Pty Ltd. A port development joint venture (formerly the North West Iron Ore Alliance) in which Atlas has an investment of 63%
Ore Reserve	The economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.
pa	Per annum
PEM	Prospectivity Enhancement Multiplier
PFS	Pre-Feasibility Study
Pre-Development Projects	The following projects are collectively referred to as Pre-Development Projects: Anthiby Well, Farrell's Well (including Miralga Creek), Hickman, Jigalong (Davidson Creek Hub), Jimblebar, Warrawanda, Weld Range (Mid West) and Western Creek.
Probable (Ore) Reserve	The economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve.
Production Projects	Projects currently in production – comprising Wodgina, Abydos and Mt Webber
Proved (Ore) Reserve	The economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors.
RC	Reverse Circulation (drilling)
Resource Multiple	Enterprise value per unit of contained Fe (in Mineral Resource)
Rf	Risk free rate
Scheme	The scheme of arrangement between Atlas and the Scheme Creditors under Part 5.1 of the Corporations Act
Shaw	Shaw River Manganese Limited
USD	US Dollars
VALMIN	The VALMIN Committee is a joint committee of The Australasian Institute of Mining and Metallurgy (AusIMM) and the Australian Institute of Geoscientists. The committee was established to develop and maintain the "Australasian Code for Public Reporting of technical assessments and valuations of mineral assets", commonly known as the VALMIN Code.
Valuation	Valuation of the business of Atlas as at the Valuation Date
Valuation Date	30 November 2015
Valuation Report	This report prepared by PPB Advisory
VWAP	Volume Weighted Average share Price
WACC	Weighted Average Cost of Capital
wmt	Wet metric tonne
YTD	Year to date

All dollars referred to in this report are Australian dollars unless stated otherwise.

1. Executive summary

Purpose and Scope	PPB Advisory has been engaged to prepare this Valuation Report setting out our opinion as to the fair market value of Atlas. The valuation is to be undertaken as at 30 November 2015 ("Valuation Date"). The Valuation Report has been prepared for the purposes of the proposed Scheme. The proposed Scheme will have the effect of restructuring the debt owing to the lenders under the Syndicated Facility Agreement. The Valuation is to be undertaken in accordance with our engagement letter dated 17 December 2015. This Valuation Report is to be appended to the Independent Expert's Report for the Scheme Our valuation has been undertaken in accordance with the Accounting Professional & Ethical Standards Board Limited professional standard APES 225 '*Valuation Services'* ("APES 225"). This engagement is considered to be a Valuation Engagement under APES 225.
Definition of Value	We have used the generally accepted definition of fair market value, as set out below: *"The price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length."* This definition is based on a hypothetical transaction between a hypothetical willing buyer and a hypothetical willing seller and assumes that a transaction will occur, even if, for market or other reasons, a transaction will not, or is unlikely to occur. We have not taken special value into account.
Valuation Method	We have valued Atlas using the sum of the parts, due to the discrete nature of the activities of Atlas including production, development and exploration. Atlas also has investments and other assets and liabilities. We have used the following valuation methodologies to value the parts of Atlas: ***Production Projects and Development Projects*** – Income approach, specifically the Discounted Cash Flow ("DCF") method. We used an after tax discount rate in the range of 12% to 13% to discount the future after tax cash flows of the Production Projects and the Development Projects to their net present values. ***Exploration Projects*** – Cost approach, specifically the Multiple of Exploration Expenditure ("MEE") methodology which considers the costs incurred in connection with the exploration and development of a project and applies a Prospectivity Enhancement Multiplier ("PEM") which adjusts the exploration expenditure base depending on the degree to which the past exploration expenditure has improved (or diminished) the prospectivity of the tenement. ***Pre-Development Projects –*** combination of the cost approach as used for the Exploration Projects and the market approach – specifically the comparable trading methodology, which estimates the value of the subject asset or project based on a comparison of the market value of publicly traded companies and the contained Fe in their Mineral Resources. ***Investment and other assets*** – Cost approach Our valuation methodologies are set out at Appendix B.
Valuation Opinion	We have estimated the fair market value of the business of Atlas, on an ungeared basis, to be between $540.0 million and $641.4 million. No value within the range is any more or less appropriate than any other value in the range. In the event that a single value is required, we would recommend the adoption of the mid-point of our valuation range of $590.7 million.

Cross Checks	We have assessed the reasonableness of our valuation by: • calculating the implied EBITDA multiples of Atlas and comparing them to comparable listed companies – refer Appendix C for comparable companies used • calculating the net asset values of the Company • considering the prices at which the Company's shares have traded on the Australian Securities Exchange ("ASX").
Qualifications & Limitations	Our qualifications and limitations are included in Section 10 of this report, and should be read in conjunction with the analysis and conclusions outlined above and throughout this report.

2. Company background

2.1. Business overview

Atlas Iron Limited is an independent Australian iron ore company, mining and exporting Direct Shipping Ore ("DSO") from its operations in the Northern Pilbara region of Western Australia. Atlas listed on the ASX in December 2004.

The Company's main focus is the discovery, development and mining of DSO deposits in locations within proximity of its existing infrastructure. Its current projects include established iron ore mines, near-term development projects, and exploration projects ranging from greenfields to advanced pre-development projects. The Company has three operational mines and a number of other projects at varying stages of development.

The Company's portfolio of existing projects covers an area in excess of 5,000 square kilometres located in the northeast Pilbara and the Midwest of Western Australia.

The Company ships its iron ore from Port Hedland, via the Utah Point facility, which is a multi-user facility owned by the Western Australian Government.

Atlas uses mining contractors to extract and process the iron ore from the Company's mines. Currently, Atlas produces iron ore as both lump and fines products. Lump iron ore traditionally sells at a premium to fines iron ore as the steel mill customers don't incur the cost of sintering the fines product for use in their blast furnace. The Company also uses contractors to haul the iron ore by road transport from the mines to the port and then load the vessels. The Company is heavily reliant on its contractors for the operation of its business.

Currently, the Company sells its iron ore under both term contracts and on a spot basis.

2.2. History of business

A brief history of significant events relating to the Company is summarised in Table 1.

Table 1 History of business summary

Year	Events
2015	Market capitalisation $110 million 1,207 Mt DSO resource
2014	Mt Webber expansion approved Market capitalisation $577 million 1,201 Mt DSO resource
2013	200th shipment from Port Hedland Abydos commenced production Market capitalisation $678 million 1,170 Mt DSO resource
2012	Acquired the remaining 25% of Mt Webber from Haoma Mining NL Utah Point expansion Mt Dove commenced production Completed USD 275 and AUD50 million financing package Market capitalisation $1.8 billion 1,100 Mt DSO resource
2011	Acquired FerrAus Limited Acquired a 19.9% interest in Centaurus Market capitalisation $3.1 billion 1,000 Mt DSO resource
2010	Acquired Giralia Resources Limited Merged with Aurox Resources Limited McCamey's North discovery

Year	Events
	Market capitalisation $999 million 205 Mt DSO resource
2009	Merged with Warwick Resources Limited Mt Webber discovery Market capitalisation $567 million (joined ASX 200) 165 Mt DSO resource
2008	First shipment to China Wodgina discovery 39 Mt DSO resource
2007	Abydos discovery 23 Mt DSO resource
2006	Changed its name from Atlas Gold Limited 7 Mt DSO resource
2005	Acquired tenements totaling 450km squared located 40km south east of Port Hedland Pardoo discovery
2004	Listed on the ASX with a market capitalisation of $9 million Incorporated

Source: Management, Capital IQ

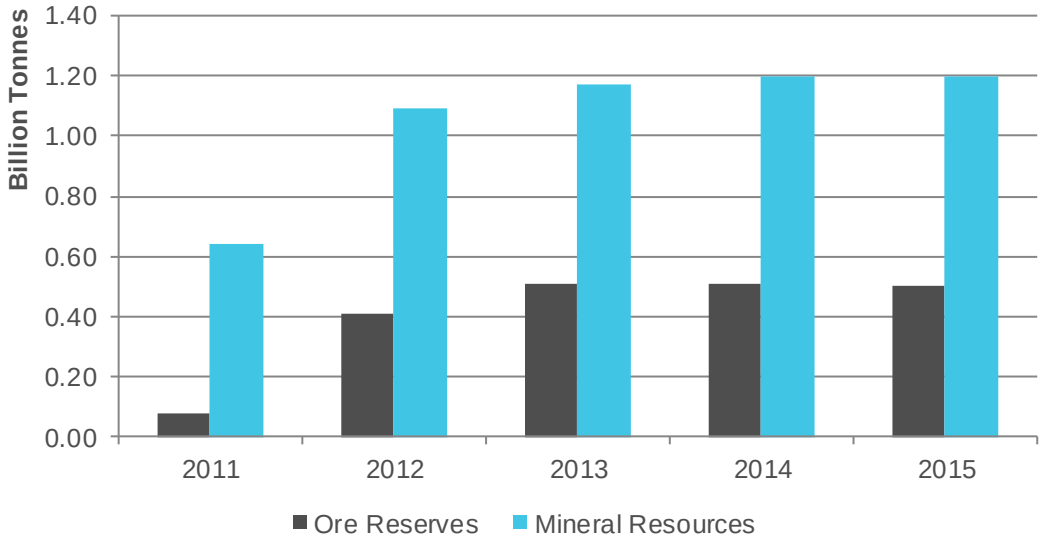
2.3. Overview of the projects

Atlas has a portfolio of projects in Western Australia, primarily in the north and south-east Pilbara area and the Midwest region. These include established mines, development projects and exploration projects ranging from greenfields through to advanced pre-development projects.

The Company's previous strategy of pursuing and developing exploration opportunities has led to rapid growth in its resource inventory.

Figure 1 shows the growth in the Company's Ore Reserves and Mineral Resources between FY2011 and FY2015.

Figure 1 The Company's Ore Reserves and Mineral Resources



Source: Management

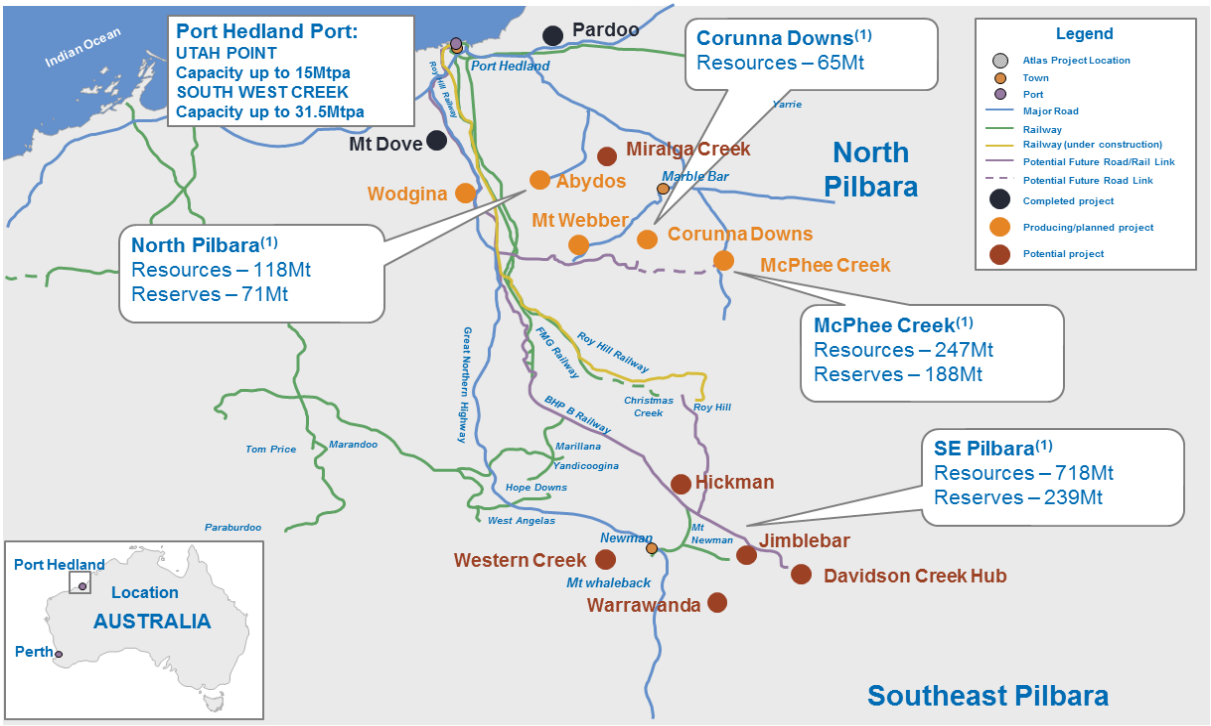
Through a sustained commitment to building its Pilbara DSO business, Atlas has grown its mine portfolio and resource inventory through a series of exploration, acquisition and development initiatives.

Atlas currently has three key production projects comprising Wodgina, Abydos and Mt Webber ("Production Projects"), two development projects comprising Corunna Downs ("Corunna") and McPhee Creek ("McPhee") (together the "Development Projects"), eight pre-development projects comprising Anthiby Well, Farrell's Well, Hickman, Jigalong (also referred to as the Davidson Creek Hub), Jimblebar, Warrawanda, Weld Range and Western Creek (together the "Pre-Development Projects") and seven exploration projects comprising Blue Rose, Corktree, Mount Gould, Upper Ashburton, Watershed, Western Shaw and Yuinmery (together the "Exploration Projects").

Atlas has recently completed two projects that are under "care and maintenance": Pardoo and Mt Dove (together the "Completed Projects"). The Mt Dove facilities are currently utilised for contractor accommodation and Pardoo is on care and maintenance while the economics of producing remaining resources are evaluated.

The location of the Company's operations are shown on the map in Figure 2

Figure 2 Summary of operations



Source: Management

(1) Resources and Reserves as at 30 June 2015

Mineral Resources and Ore Reserves

The Mineral Resources and Ore Reserves in the following tables are as at 30 June 2015, as reported in the company's 2015 Annual Report. Readers of the following tables are referred to the Mineral Resources and Ore Reserves Corporate Governance and Competent Persons' statements included in the 2015 Annual Report.

Table 2 Mineral Resources as at 30 June 2015

	Measured Resources		Indicated Resources		Inferred Resources		Total Mineral Resources	
	Tonnage	Grade	Tonnage	Grade	Tonnage	Grade	Tonnage	Grade
Iron Ore (a)	Kt	% Fe	Kt	% Fe	Kt	% Fe	Kt	% Fe
Pardoo					9,000	55.7	**9,000**	**55.7**
Abydos (b)			13,100	57.2	6,000	56.7	**19,100**	**57.1**
Wodgina (c)	2,200	56.2	13,200	56.5	17,000	54.0	**32,400**	**55.1**
Mt Webber (d,e)	35,300	58.3	25,100	55.3	1,800	57.3	**62,200**	**57.1**
McPhee	32,900	57.4	205,000	56.2	9,000	55.0	**246,900**	**56.3**
Miralga Creek (f)					4,000	57.6	**4,000**	**57.6**
Corunna (g)			20,000	57.3	45,000	57.3	**65,000**	**57.3**
Mid-West					12,000	60.0	**12,000**	**60.0**
Hickman					70,000	55.4	**70,000**	**55.4**
Western Creek					79,000	56.0	**79,000**	**56.0**
Jimblebar			41,100	58.1	28,000	55.6	**69,100**	**57.1**
Warrawanda					24,000	56.8	**24,000**	**56.8**
Davidson Creek Hub	43,200	57.9	339,100	55.9	94,000	55.8	**476,300**	**56.0**
West Pilbara					38,000	53.6	**38,000**	**53.6**
	113,600	**57.9**	**656,600**	**56.2**	**436,800**	**55.8**	**1,207,000**	**56.2**

Source: Management

Mineral Resources are reported inclusive of Ore Reserves

Notes to Table 2:

(a) Iron Ore Mineral Resource tonnes are reported on a dry weight basis, tonnes are rounded according to JORC category with grades carried through unaffected by rounding.

(b) Abydos Mineral Resource has increased as a result of drilling and remodelling at Leighton and decreased due to production at Trigg and Mettams and drilling and remodelling at Scarborough.

(c) Wodgina Mineral Resource has reduced due to production at Avro, Constellation, Dragon, and Hercules.

(d) The Mt Webber Mineral Resource increased due to drilling and remodelling at Ibanez and then subsequently reduced due to production at Ibanez.

(e) Mt Webber Mineral Resource for Ibanez, Fender and Gibson is no longer subject to third party JV. Atlas interest has increased from 70% to 100%.

(f) Maiden Mineral Resource at Miralga Creek released May 2015.

(g) Corunna Mineral Resource increased due to the maiden Mineral Resource for Glen Herring, reported May 2015.

Other Mineral Resources remain unchanged from 30 June 2014.

Table 3 Ore reserves at 30 June 2015

	Product Type (a,b)	Proved Ore Reserves		Probable Ore Reserves		Total Ore Reserves (c)	
		Kt	% Fe	Kt	% Fe	Kt	% Fe
Abydos (d)	Standard Fines	200	56.3	7,200	57.2	**7,400**	**57.2**
Wodgina (d)	Standard Fines	300	55.9	7,100	57.2	**7,400**	**57.1**
Wodgina (d)	Value Fines	-	-	3,000	53.3	**3,000**	**53.3**
Mt Webber (d)	Standard Fines	32,300	58.2	20,900	55.8	**53,200**	**57.2**
McPhee	Standard Fines	29,700	57.1	158,500	55.8	**188,200**	**56.0**
Davidson Creek Hub	Standard Fines	31,300	58.1	207,700	56.2	**239,000**	**56.5**
Port Stocks	Standard Fines	100	56.6			**100**	**56.6**
Total Ore Reserves (c)		**93,900**	**57.8**	**404,400**	**56.0**	**498,300**	**56.4**

Source: Management

Mineral Resources are reported inclusive of Ore Reserves

Notes to the Table 3:

(a) All Ore Reserves are Iron Ore, reported on a dry weight basis, to be mined by open pit method or located in stockpiles.

(b) Standard Fines product targets a grade at or above 57% Fe. Value Fines are a lower grade product.

(c) The presented tonnages and grades are rounded. Total tonnages and grade are summed on the raw data then rounded.

(d) Ore Reserves at Abydos, Wodgina and Mt Webber decreased following production depletion.

2.3.1. Completed Projects

Pardoo

Pardoo is located in the Pilbara, about 75km from Port Hedland. It is 100% owned by Atlas and was the Company's first DSO iron ore discovery in 2005. The Pardoo project was the Company's first producing iron ore mine having commenced operations in October 2008 at a 1Mt pa initial rate and ramped up to 3Mt pa before operations were suspended in 2014 upon completion of mining in the existing pits. Further resources exist at Pardoo and development of these in the future is possible pending further environmental approvals and a supportive iron ore price.

Mt Dove

The Mt Dove DSO project was a small scale / short life open pit iron ore mine located 65km south of Port Hedland.

Mining activities at Mt Dove commenced in 2012 and ceased in 2014 once the Reserve was fully depleted. Total ore of 2.4Mt was extracted from the site, in excess of the 2.1Mt Reserve published prior to the commencement of mining.

2.3.2. Production Projects

Wodgina

The Wodgina project is located approximately 100km south of Port Hedland, via the Great Northern Highway.

Atlas acquired 100% of the iron ore rights to the project area from Talison Minerals Pty Ltd (now Global Advanced Metals Pty Ltd) in 2008. This project became the main focus of the Company's exploration efforts from the commencement of drilling in late 2008 to the commissioning of the Wodgina DSO mine in 2010.

As at 30 June 2015, the Wodgina mine had a remaining Mineral Resource of 32.4Mt (2.2Mt Measured Resource, 13.2Mt Indicated Resource and 17.0Mt Inferred Resource) and an Ore Reserve of 10.4Mt (0.3Mt Proved Reserve and 10.1Mt Probable Reserve). Since commencing production, approximately 26Mt of ore has been mined (as at 30 September 2015).

Wodgina has a remaining life of mine of approximately two years (as at June 2015), which may be extended through the sale of value fines. The mine has a remaining average strip ratio of approximately 0.92 to 1, waste to ore.

Mining consists of traditional drill, blast, load and haul operations. Processing is via a dry crushing and screening operation to produce a 100% fines product. Transportation of product from the mine to port in Port Hedland is via quad configuration road trains.

Mining at Wodgina is contracted to MACA Mining. Processing at Wodgina is contracted to Crushing Services International ("CSI"), with downstream road train haulage contracted to McAleese. Qube and the Pilbara Ports Authority provide port and handling services.

The Company suspended pit operations at Wodgina in April 2015 as part of a decision to suspend operations at all three mines. A significantly reduced cost base was achieved through the Contractor Collaboration Deed and a decision was subsequently made to re-start operations in May 2015.

Wodgina is now producing at a rate of 5-6Mtpa.

Historically the Wodgina mine has, at different times, produced a 'value fines' product from the lower grade parts of the ore body. Whilst market conditions currently present challenges for the production of value fines as a stand-alone product, there is potential to extend the life of mine for Wodgina by either blending value fines with higher grade product from another site or by selling value fines as a stand-alone product according to market demand.

Abydos

The Abydos mine is located 130km south-southeast of Port Hedland. Atlas commenced mining at Abydos in 2013.

As at 30 June 2015, the Abydos mine had a Mineral Resource of 19.1Mt (13.1Mt Indicated Resources and 6.0Mt Inferred Resources) and an Ore Reserve of 7.4Mt (0.2Mt Proved Reserves and 7.2Mt Probable Reserves).

As at 30 September 2015, approximately 6.9Mt of ore had been mined at Abydos since mining began. Production from Abydos is forecast at varying rates in the range of 3 to 4Mtpa.

Abydos has a remaining mine life of approximately 2 years (as at June 2015), subject to mine production rates, further conversion of Mineral Resources to Ore Reserves and the utilisation of the mine's existing infrastructure for the potential development of nearby projects such as Miralga Creek. The mine has a remaining average strip ratio of approximately 1.07 to 1, waste to ore.

Mining consists of traditional drill, blast, load and haul operations. Processing is via dry crushing and screening operations to produce a lump and fines products. Transportation of ore from the mine to the port in Port Hedland is via quad configuration road trains. Both mining and processing is contracted to

MACA Mining, with downstream road train haulage contracted to McAleese. Qube and Pilbara Ports provide port and handling services.

Up until early 2015, Abydos had produced a 100% fines product. In March 2015 processing trials were conducted with the existing plant on site for the purpose of investigating the production of a lump product (in addition to fines). The trials and previous metallurgical test work results supported a lump to fines production split of approximately 66% lump to 34% fines. Subsequent production of lump product on site has confirmed the previous test work results.

Following the successful trial in March 2015 and favourable marketing response, Abydos commenced lump production in April 2015, with the product being part of the Abydos production schedule.

Mt Webber

The Mt Webber mine is located approximately 230km (via road) south-southeast of Port Hedland. It was opened in 2014 following completion of Stage 1 of the project (3Mtpa). Construction of Stage 2 was completed in late 2014, taking production capacity to 6Mtpa.

At 30 June 2015, the Mt Webber mine had a Mineral Resource of 62.2Mt (35.3Mt Measured Resources, 25.1Mt Indicated Resources and 1.8Mt Inferred Resources) and an Ore Reserve of 53.2Mt (32.2Mt Proved Reserves and 20.9Mt Probable Reserves).

Mine life is estimated to be approximately 8 to 9 years depending on mine plans and ultimate production rates. Mt Webber has a remaining average strip ratio of approximately 0.25 to 1 waste to ore ratio.

Mining consists of traditional drill, blast, load and haul operations. Processing is via a dry crushing and screening operation which to date has predominantly produced fines product. Previous metallurgical test work results support a lump to fines production split of approximately 50% lump to 50% fines. On the basis of this successful test work and market soundings for the blended Mt Webber and Abydos lump product, the Company recently commenced production of lump product from Mount Webber, with lump now expected to comprise some 50% of the mine's total production.

Transportation of ore from the mine to the port in Port Hedland is via quad configuration road trains.

Mining and the processing are contracted to BGC Contracting, with road train haulage contracted to McAleese. Qube and Pilbara Ports provide port and handling services.

The Company made a decision in April 2015 to suspend operations across the three mines resulting in Mt Webber suspending pit operations and processing.

As announced to the ASX on 2 June 2015, the Company subsequently reached agreement with BGC Contracting to recommence mining and crushing services at Mt Webber. Pursuant to that agreement, production had ramped up to a rate of approximately 6Mtpa by the end of the December 2015 quarter.

2.3.3. Development Projects

Corunna

Corunna is located 35km from the Mt Webber mine and 241km from Port Hedland.

The Mineral Resource is approximately 65.4Mt at 57.2% Fe. The low phosphorous and low alumina exploration results indicate the potential scale of the Mineral Resource and its blending capacity. Ore Reserves announced in the Pre-Feasibility Study ("PFS") are 21.1Mt at 57.0% Fe.

Subject to regulatory, environmental and internal company approvals, construction of the mine is expected to commence in FY17 with initial capital expenditure expected to be in the range of $37 million to $43 million. A PFS was completed in December 2015 and the results were announced by the Company on 23 December 2015, which also contained Competent Persons' statements in relation to Corunna's Mineral Resources and Ore Reserves.

Table 4 Corunna Mineral Resources

Corunna Mineral Resource Table – As at 30 Nov 2015										
Deposit	**COG %Fe**	**Resource Classification**	**Kt[(a)]**	**Fe(%)**	**SiO_2(%)**	**Al_2O_3(%)**	**P(%)**	**S(%)**	**LOI(%)**	**CaFe(%)[(b)]**
Split Rock	**50**	Measured	-	-	-	-	-	-	-	-
		Indicated	22,077	57.1	6.5	1.5	0.12	0.01	9.0	62.7
		Inferred	3,367	56.9	7.2	1.4	0.11	0.01	8.9	62.5
Shark Gully	**50**	Measured	-	-	-	-	-	-	-	-
		Indicated	8,936	57.6	5.5	2.2	0.09	0.01	9.4	63.6
		Inferred	246	56.9	6.6	2.3	0.07	0.01	9.0	62.5
Runway	**50**	Measured	-	-	-	-	-	-	-	-
		Indicated	11,093	57.3	5.3	2.1	0.04	0.01	9.7	63.5
		Inferred	315	56.3	7.8	2.2	0.04	0.01	8.9	61.8
Razorback	**50**	Measured	-	-	-	-	-	-	-	-
		Indicated	-	-	-	-	-	-	-	-
		Inferred	5,862	57.1	5.5	1.8	0.04	0.01	10.0	63.5
Glen Herring	**50**	Measured	-	-	-	-	-	-	-	-
		Indicated	-	-	-	-	-	-	-	-
		Inferred	13,517	57.3	7.1	1.5	0.05	0.01	8.8	62.9
Sub Total		**Measured**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
		Indicated	**42,106**	**57.3**	**6.0**	**1.8**	**0.09**	**0.01**	**9.3**	**63.1**
		Inferred	**23,307**	**57.2**	**6.7**	**1.6**	**0.06**	**0.01**	**9.1**	**62.9**
Total			**65,413**	**57.2**	**6.2**	**1.7**	**0.08**	**0.01**	**9.2**	**63.1**

Source: Management

Notes to Table 4:

- Mineral Resource tonnes are reported on a dry weight basis.
- Calculated calcined Fe grade where CaFe=(Fe%/(100-LOI%))*100.

Table 5 Corunnna Ore Reserves

Corunna Ore Reserves Table - As at 30 Nov 2015										
Deposit	**COG %Fe**	**Reserve Classification**	**Kt**	**Fe(%)**	**SiO_2(%)**	**Al_2O_3(%)**	**P(%)**	**S(%)**	**LOI(%)**	**CaFe(%)[a)]**
Runway	**53**	Proved	-	-	-	-	-	-	-	-
		Probable	4,467	56.9	5.3	2.6	0.04	0.02	9.7	63.1
Split Rock	**51**	Proved	-	-	-	-	-	-	-	-
		Probable	11,838	57.0	6.4	1.8	0.13	0.01	9.0	62.6
Shark Gully	**51**	Proved	-	-	-	-	-	-	-	-
		Probable	4,755	57.1	5.9	2.5	0.10	0.02	9.5	63.1
Sub Total		**Proved**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
		Probable	**21,060**	**57.0**	**6.0**	**2.1**	**0.1**	**0.0**	**9.3**	**62.8**
Total			**21,060**	**57.0**	**6.0**	**2.1**	**0.1**	**0.0**	**9.3**	**62.8**

Source: Management

Notes to Table 5:

- Calculated calcined Fe grade where CaFe=(Fe%/(100-LOI%))*100.
- The proximity of Corunna to Port Hedland and the other existing North Pilbara portfolios such as the nearby Mt Webber and McPhee, presents an opportunity to contribute to the Company's existing trucking model.
- A drilling program comprising 508 RC drill holes for resource definition, 20 diamond drill holes for geotechnical, metallurgical and hydrogeological analysis were undertaken to support the PFS. The PFS indicates 2 months development and pre-stripping prior to ramping up to full production of 4Mt pa over 4 months.

McPhee

McPhee is part of the Company's growth program and is located approximately 270km south east of Port Hedland. It comprises three deposits, Main Range, Main Range West and Crescent Moon.

It is well located should a blending operation between the Corunna and McPhee sites be contemplated.

As at 30 June 2015, Ore Reserves were 188.2Mt at 56.0% Fe and Mineral Resources were 246.9Mt at 56.3% Fe.

The previous development focus was on railbased delivery but new routes and reduced trucking costs indicate that roadbased 'capex-lite' solutions are possible.

A feasibility study on railbased mine and infrastructure has been completed previously and this is expected to be supplemented with a roadbased delivery study during calendar year 2016/17.

Subject to regulatory, environmental and internal company approvals, construction of the mine is expected to commence in FY18 with initial capital expenditure expected to be approximately $50 million to 60 million, with first production and shipment expected late in calendar year 2018.

2.3.4. Pre-Development Projects

Anthiby Well

The Anthiby Well iron ore project is a channel iron deposit located approximately 100km west of Paraburdoo in the Pilbara Region of Western Australia and approximately 220km by road from Onslow port. An initial 87 hole drilling program was completed in December 2008 following which Giralia, the previous owner, reported an Inferred Mineral Resource of 37.6Mt at 53.6% Fe. The mineralisation commences at or very near the natural land surface, to a maximum depth of approximately 40 metres.

Farrell's Well (including Miralga Creek)

Farrell's Well is 100% owned by Atlas and includes the Miralga Creek Project. Successful first pass RC drilling at the project, located 35 kilometres from the existing Abydos mine, has indicated continuity of mineralisation along strike from the Abydos operation and higher grade intercepts point to strong blending potential across the Company's existing mine portfolio.

Drilling to date at Miralga Creek has confirmed the presence of mineralisation and defined an Inferred Resource of 3.8Mt at 57.7% Fe.

Hickman

The Hickman project consists of three tenements in the south-east Pilbara region. E47/2052 contains Inferred Mineral Resources in Halley (10Mt @ 56.1%Fe), Hale-Bopp (11Mt @ 55.4%Fe) and Levy (9Mt @ 55.2%Fe). E47/2053 has some unmodelled drilling on target HK13 and an untested target (HK23).

E47/2054 contains the Shoemaker Inferred Mineral Resource of 40Mt @ 55.3%Fe with no additional targets.

Jigalong (Davidson Creek Hub)

The Davidson Creek Hub is a DSO project located 110km south east of Newman. It was previously referred to as the Jigalong-Ferraus Project. The combined area includes Davidson Creek, Robertson Range (both 100% owned by Atlas), Mirrin Mirrin and Jigalong itself, over which Atlas owns 100% of the iron rights.

Davidson Creek Hub is the largest project in the Company's South East Pilbara portfolio. As at 30 June 2015, Mineral Resources totalled 476.3Mt (43.2Mt Measured Resources, 339.1Mt Indicated Resources and 94.0Mt Inferred Resources).

FerrAus Limited conducted systematic exploration at Davidson Creek and Robertson Range from 2005 until the acquisition by Atlas in late 2011, culminating in a draft definitive engineering study completed in December 2011.

In November 2012, Atlas received environmental approvals for the Davidson Creek Hub and associated rail spurs. With combined DSO Ore Reserves of 239.0Mt (31.3Mt Proved Reserves and 207.7Mt Probable Reserves), Davidson Creek Hub has the potential to underpin any future expansion by Atlas into the south-east Pilbara, should market conditions allow.

Jimblebar

Jimblebar incorporates the Jimbelbar Range, McCamey's North, and Caramulla South resources.

Jimblebar Range is located approximately 50km to the east of Newman and 8km from BHP Billiton's Jimblebar iron ore mine and railway line.

McCamey's North is 100% owned by Atlas. It is a significant DSO exploration project located approximately 45km east of Newman and 3km northeast of BHP Billiton's Jimblebar mine.

Early work on the project by Warwick Resources identified a number of areas of high-grade surface iron enrichment within the Boolgeeda Formation. Atlas commenced its first RC drilling program in 2010, and after three rounds of drilling a maiden Mineral Resource estimate was announced to the market in early 2011.

Caramulla South is located 19km to the east of BHP Billiton's Jimblebar iron ore mine and railway. Atlas has published a Mineral Resource of 9Mt at 53.8% Fe at Caramulla South.

Warrawanda

The Warrawanda project contains part of Wishbone Inferred Resource of 24Mt @ 56.8%Fe. There is limited additional prospectivity with several targets having been tested unsuccessfully.

Weld Range (Mid West)

The Weld Range DSO project is one of the Company's two high grade projects in the mid-west region of Western Australia. The project incorporates the premium grade hematite deposit at Wilgie Mia, for which Atlas has published a Mineral Resource of 5Mt at 61.0% Fe, and deposits at Beebyn, for which Atlas has published a Mineral Resource of 7.2Mt at 57.2% Fe. The project also includes the Beebynganna Hills DSO project.

The Wilgie Mia area of the Weld Range has historically been mined for ochre and mined on a commercial scale for specularite to be used in paint manufacture. A small program of RC drilling by Atlas confirmed the extent and tenor of iron mineralisation, with assays as high as 68% Fe. The deposit remains open at depth and along strike.

Western Creek

The Western Creek is a DSO Project that is 100% owned by Atlas 100%. It is a group of tenements situated between 15km and 50km west of Newman in the Southeast Pilbara.

The project area includes prospects formerly owned by Warwick Resources and Giralia. The Marra Mamba Formation hosts two published Mineral Resource estimates at Western Creek and Western Ridge.

2.3.5. Exploration Projects

Blue Rose (JV with PacMag)

Atlas acquired Giralia's interest in the Blue Rose project in 2011. The project is located 300 kilometres north-east of Adelaide, and previously comprised two Exploration Licences EL3848 and EL3849, of which Atlas now only holds EL3848. Atlas is now the minority JV partner in the tenement with the majority owner paying ongoing holding costs. At the date of acquisition of Giralia's interest, The Blue Rose Base Metal Project was classified as an 'Advanced Exploration Area' where coherent areas of exploration interest for copper-gold mineralisation have been outlined and the mineralisation model is sufficiently well understood for further evaluation of the mineral prospectivity of the tenement.

Corktree

The Corktree Copper Project occurs on the western edge of the Earaheedy Basin, Western Australia. Atlas holds Fe rights in the tenements, which were acquired from Giralia. At the date of acquiring Giralia's interest, the project was classified as an 'Exploration Area' where areas of exploration interest have been outlined but significant and coherent mineralisation intersections and volumes have yet to be identified. The commodity item of interest for exploration is primarily copper mineralisation. No Mineral Resources have been defined for this project.

Mount Gould

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 that has been mined and exported from Jack Hills by Crosslands Resources.

Upper Ashburton

Part of Aruma's Bulloo Downs Copper Project with very limited channel iron deposit prospectivity. One target was unsuccessfully drill tested.

Watershed

Part of Aruma's Bulloo Downs Copper Project. Very limited iron ore prospectivity.

Western Shaw

Western Shaw consists of two exploration tenements. There is limited Fe prospectivity with unsuccessful drill testing of the main target. Other targets remain untested, however the tenements provides Atlas with some strategic value.

Yuinmery

The Yuinmery Gold project is located approximately 10 kilometres east of the historic Youanmi mine and approximately 500km northeast of Perth in the East Murchison Mineral Field of Western Australia. The total tenement area of the project is 184km^2. Atlas acquired Giralia's interest in the Fe Rights to the project in April 2011.

At the date of acquiring Giralia's interest, the project was classified as an 'Exploration Area' mineral asset where areas of exploration interest have been outlined but significant and coherent mineralisation intersections and volumes have yet to be identified. The commodity item of interest for exploration is primarily gold mineralisation. No Mineral Resources have been defined for the project.

2.3.6. Other projects

Ridley Magnetite Project

The Ridley Magnetite Project is 100% owned by Atlas, and is located within the Pardoo project area.

The Ridley resource consists of Banded Iron Formation ("BIF") which forms part of the Ridley Range. An extensive drilling campaign and pre-feasibility study on the project were performed in 2008/09.

The project has an estimated Mineral Resource of 2 billion tonnes of magnetite with average in-situ grade of 36.5% Fe. Estimated ore reserves of 970mt have the potential to support a c.30 year mine life should the project be developed. See Atlas' ASX announcement of 14 April 2009 for full details and Competent Persons Statement.

Table 6 Summary of the Completed Projects, Production Projects and the Development Projects

Mine	Note	Pardoo	Mt Dove	Wodgina	Abydos	Mt Webber	Corunna	McPhee
Status		*Completed*	*Completed*	*In production*	*In production*	*In production*	*Development*	*Development*
Production commencement		October 2008	December 2012	June 2010	April 2013	June 2014	September 2017	August 2018
Total mine life		5 – 6 years	2 years	6-7 years	10 years	9 - 10 years	5-6 years (stage 1)	10 years +
Remaining mine life at 30 November 2015		na	na	1 year	< 2 years	8 years	5-6 years (stage 1)	10 years +
Distance from port		75km	65km	100km	130km	230km	240km	270km
Production per annum		1.5- 2.0Mtpa	1.5Mtpa	5-6Mtpa	3-4.3Mtpa	6-7Mtpa	4Mtpa	3-4Mtpa
Shipped to date	2	7.0Mt	2.5Mt	26.2Mt	6.9Mt	2.9Mt	na	na
% lump		-	-	-	66%	50%	57%	50%
Ore reserve	1	7.4Mt	2.1Mt	7.4Mt	7.4Mt	53.2Mt	21.1Mt-	188.2Mt
Reserve grade	1	57.3%	57.7%	57.1%	57.2%	57.2%	57.0%	56.0%
Mineral resource	1	24Mt	2,5Mt	32.4Mt	19.1Mt	62.2Mt	65Mt	246.9Mt
Resource grade		55.7%		55.1%	57.1%	57.1%	57.3%	56.3%
Strip ratio	3	13.5:1	0.25:1	0.92:1	1.07:1	0.25:1	0.5:1	1.50:1
C1 costs including haulage	4	$49-$56/wmt	$39-$48/wmt	$31-$36/wmt	$36-$40/wmt	$34-$38/wmt	$37 – 42/wmt	$40/wmt
Development capex	5	$45 million	$30 - $35 million	$165-$170 million	$200-$210 million	$270-$280 million	$35-$40 million	$50-$60 million
Ownership		100%	100%	100%	100%	100%	100%	100%
Other				Large value fines stockpiles can be sold on standalone or blended to standard fines	Miralga Creek in close proximity and could access Abydos infrastructure	Production not within current full collaboration agreement – therefore no uplift amount or profit share other than haualge	Resource of scale with further exploration potential and opportunities to produce higher Fe grade product	Resource of scale with opportunity to increase production to 10-15Mtpa if rail has capacity

Source: Management, 30 June 2015 annual report, ASX announcements
Na = not applicable

Notes to Table 6:

1. Reserve grade, reserves and resources for operating projects plus McPhee as at 30 June 15. Corunna as per 23 December 15 PFS announcement. Pardoo reserves and resources as at 30 June 08. Mt Dove reserves and resources as at February 2013.
2. Cumulative production for operating projects as at 30 September 15.
3. Strip ratio for completed projects based on LOM. Operating projects based on remaining LOM. Corunna strip ratio as per PFS announcement. McPhee as per company desktop study.
4. C1 costs for completed projects based on LOM. Operating projects based on remaining LOM and excludes any contractor cost uplift or profit share payments. Corunna costs as per PFS. McPhee as per company desktop study.
5. Development capex for completed and operating projects includes capex to commencement of mining plus any expansionary capex. Excludes pre-strip spend.

Table 7 Summary of Exploration Projects and Pre-Development Projects

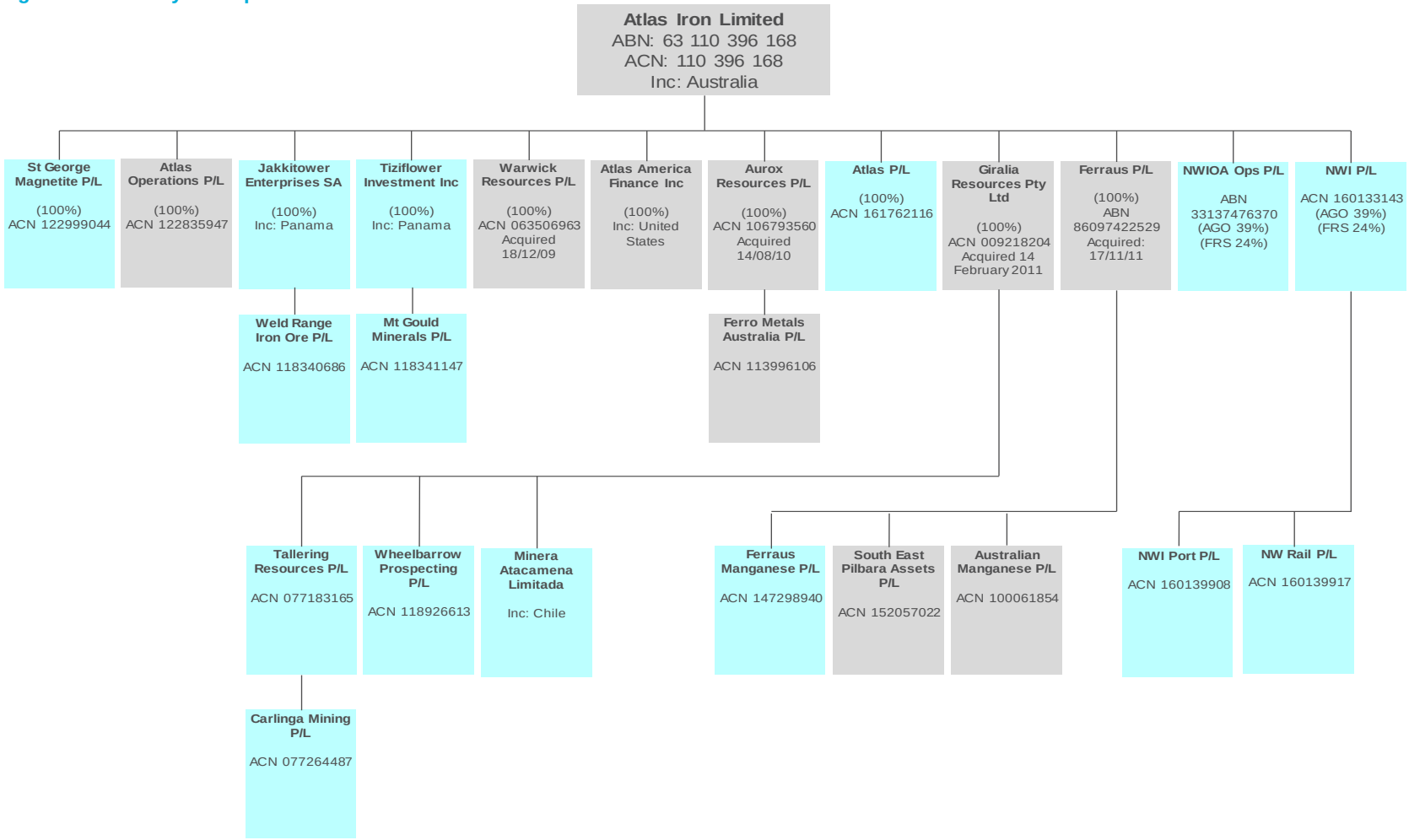
Project	Total Ore Reserve (Mt)	Ore Reserve Grade (Fe%)	Total Mineral Resource (Mt)	Mineral Resource Grade (Fe%)
Anthiby Well	-	-	38.0	53.6
Blue Rose (JV PacMag)	-	-	-	-
Corktree	-	-	-	-
Farrell's Well	-	-	4.0	57.6
Hickman	-	-	70.0	55.4
Jigalong	239.0	56.5	476.3	56.1
Jimblebar	-	-	69.1	57.1
Mount Gould	-	-	-	-
Warrawanda	-	-	24.0	56.8
Watershed	-	-	-	-
Weld Range	-	-	12.0	60.0
Western Creek	-	-	79.0	56.0
Western Shaw	-	-	-	-
Yuinmery	-	-	-	-

Source: Management, 30 June 2015 annual report, ASX announcements
Na = not applicable

2.4. Corporate structure

The Company has a large number of subsidiaries. The corporate structure is summarised in Figure 3:

Figure 3 Summary of corporate structure



Source: Management
Greyed entities are the borrowers / guarantors in the group

2.5. Directors and key management

The directors and key Management of the Company are summarised in Table 8 below:

Table 8 Summary of directors and key Management

Position	
Non-Executive Chair	**Hon. Cheryl Edwardes** • Appointed Non-Executive director of Atlas Iron Limited on 6 May 2015 and subsequently as Non-Executive Chair on 11 June 2015 • Ms Edwardes held positions including WA Attorney General, Minister for the Environment and Minister for Labour Relations. She also has broad experience and networks within China's business community • Former Minister in the Western Australian Legislative Assembly with extensive experience and knowledge of WA's legal and regulatory framework relating to mining projects, environmental, native title, heritage and land access.
Managing Director	**David Flanagan** • Founding managing director of Atlas in 2004 • Assumed the role of Non-Executive Chairman from 2012 to June 2015 before resuming the role of Managing Director • Holds position of Murdoch University chancellor since 2013 • Western Australian of the Year and West Australian Business Leader of the Year in 2014 • Geologist graduated from WA School of Mines 1993.
Non-Executive Director	**Ken Brinsden** • Joined Atlas in May 2006 as Operations Manager. Assumed the role of Managing Director from February 2012 to June 2015. Since this time he has assumed a Non-Executive Director role • Mining Engineer with over 20 years' experience in surface and underground operations • Graduated from the WA School of Mines in 1993 • Previously worked for WMC Resources, Normandy, Central Norseman Gold Corporation, Gold Fields and Iluka Resources in production, management, brown-fields and greenfields mine development roles.
Non-Executive Director	**Jeff Dowling** • Corporate leader with 36 years' experience in professional services with EY, culminating in his in his appointment as Managing Partner of the EY Western Region for a period of five years • Professional expertise centres around audit, risk and financial acumen derived from acting as lead partner on large public company audits, capital raisings and corporate transactions • Former chairman at Sirius Resources, chairman of Pura Vida Energy, a Non-executive Director at NRW and a Director of Neptune Marine Services Limited. • Joined the Atlas board in 2011.
Chief Financial Officer	**Mark Hancock** • Joined Atlas in July 2006 as Chief Financial Officer (CFO) • Chartered Accountant with over 25 years' experience • Commenced his career in public practice and subsequently held senior financial management roles across a variety of industries in Australia and South East Asia with companies including Woodside Petroleum, Premier Oil and Lend Lease • Director of Centaurus Metals Limited.

Position	
Chief Operating Officer	**Jeremy Sinclair** • Mining Engineer with 20 years of experience in surface mining operations • Previously held key management roles within Rio Tinto Iron Ore in their Pilbara operations • Has spent time consulting to the mining industry and also working in other operational roles in large scale operations mining nickel, iron ore and gold • Joined Atlas in 2007 and has led the delivery of all mining projects.
Company Secretary	**Tony Walsh** • Rejoined Atlas in 2015 after having previously served as the Company Secretary for the seven years preceding 2013 • Previous Company Secretary and General Manager Corporate of Independence Group, an ASX listed diversified mining producer • Previously a member of the West Australian State Council of Governance Institute of Australia • Fellow of Charter Secretaries Australia and the Institute of Chartered Accountants in Australia.

Source: Management

2.6. Business outlook

As indicated in the presentation to shareholders at the 2015 annual general meeting, the Company will continue to look for cost reductions and other opportunities to improve margins, such as the Contractor Collaboration Deed, and to improve and protect margins against a backdrop of falling iron ore prices.

Atlas will continue to look for opportunities to hedge a greater portion of its cargoes to remove volatility from revenue and will also seek to establish its lump product in the market to benefit from the premium pricing it traditionally offers.

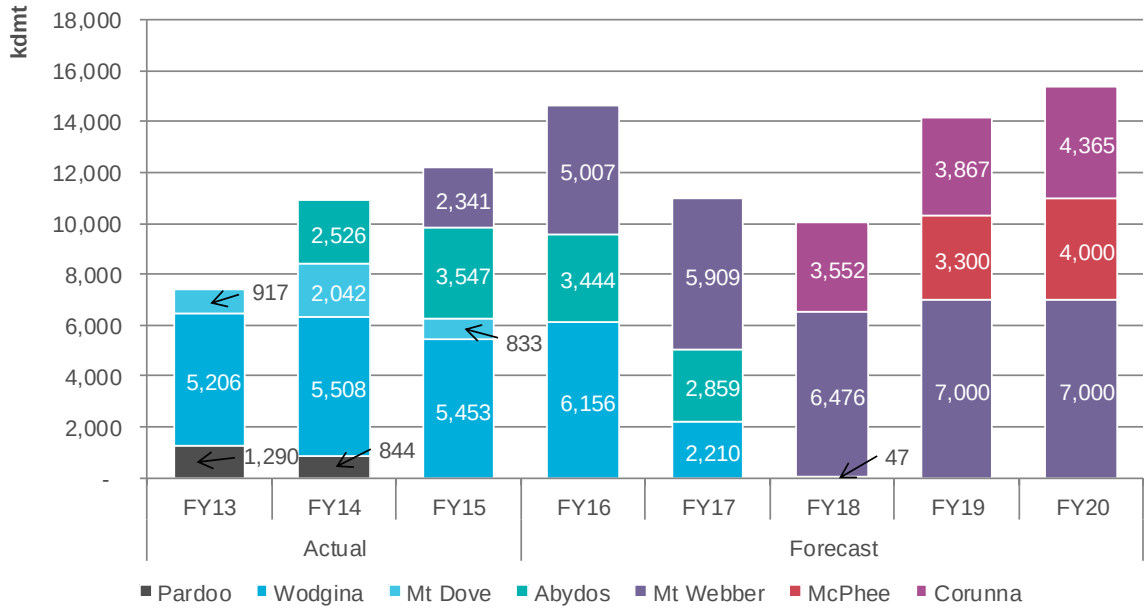
Lump price premiums have historically averaged approximately 12% compared to the price of fines.

Where possible, the Company will seek to leverage the existing mine infrastructure to maintain production levels via low cost development of:

- Corunna, which presents an opportunity to contribute to the Company's existing trucking model
- McPhee, where previous focus had been on rail based delivery but new routes and reducing trucking rates illustrating road based capex-lite solutions are possible
- Miralga Creek, which has some potential to bolt-on to the existing Abydos infrastructure, including haul road.

Actual annual production and targets per mine are summarised in Figure 4:

Figure 4 Summary of actual and forecast production per mine



Source: Management and Financial Models

Notes to Figure 4:

- The mine production estimates and mine lives are based on Ore Reserves as at 30 June 2015, less depletion to September 2015.
- The production above 6Mtpa at Mt Webber is based on estimated existing Ore Reserves.
- Annual production is based on ore shipped.
- During the quarter ended 30 September 2015, 3.3Mwmt was shipped, as Mt Webber ramped-up.
- The result for the quarter ended 31 December 2015 was 3.6Mwmt shipped and a production rate of 14–15Mt per annum.
- It assumes opportunities to extend the life of mine at Abydos and Wodgina
- It assumes a potential to expand production at Mt Webber, that is driven by efficiencies from lump production.
- It assumes a potential to extend Mt Webber mine life.
- There is a portfolio of project opportunities beyond existing Ore Reserves, targeting extended mine lives and higher production (subject to further study).
- Subject to economic conditions and all necessary approvals, Corunna and then McPhee Creek are considered the most likely development projects and will continue to be the focus of ongoing refinement of existing pre-feasibility and feasibility studies.

2.7. Capital structure

As at 30 November 2015, Atlas had the following securities on issue:

Table 9 Securities on issue

Security	Number '000
Fully paid listed ordinary shares	2,669,787
Listed options	1,744,762
Unlisted options	189,903

Source: Statutory financial statements, 30 June 2015 & Capital IQ

The listed options on issue are:

Table 10 Listed options on issue

Issue date	Listed options '000	Exercise price $	Expiry date
24-Jul-15	1,744,762	.075	30-Jun-17
Total	**1,744,762**		

Source: Statutory financial statements, 30 June 2015

Based on the current share price as reflected in Section 2.9, the unlisted options on issue are:

Table 11 Unlisted options on issue

Issue date	Unlisted options '000	Exercise price $	Expiry date
Executive options	189,804	nil	13-Nov-20
Various options	100	4.20	31-Dec-15
Total	**189,904**		

Source: ASX announcement dated 18 November 2015 - Statutory financial statements, 30 June 2015

The executive options issued on 18 November 2015 are exercisable for $nil.

The various options had a weighted average exercise price of $4.20 per option and have expired subsequent to the Valuation Date on 31 December 2015.

Based on the current share price as reflected in Section 2.9, the options are out of the money.

2.8. Top 10 shareholders

The top 10 shareholders of the ordinary shares at 30 November 2015 are:

Table 12 Top 10 shareholders

	Shareholder	Total shares held Number '000	% of total issued shares
1	BGC Contracting Pty Ltd.	461,793	17.30%
2	McAleese Resources Pty Ltd	260,000	9.74%
3	MACA Limited	95,837	3.59%
4	IMC Resources Investments Pte. Ltd.	89,145	3.34%
5	DFA Australia Ltd	64,833	2.43%
6	Realindex Investments Pty. Ltd.	30,246	1.13%
7	Credit Suisse Private Banking (Singapore)	24,386	0.91%
8	Dimensional Fund Advisors, L.P.	20,837	0.78%
9	Private Clients of UBS Financial Services Inc	16,548	0.62%
10	Shane Quinn	14,363	0.54%
Total of the top 10 shareholders		1,077,986	40.38%
Other shareholders		1,591,617	59.62%
Total		**2,669,603**	**100.00%**

Source: Management
May not add due to rounding

BCG Contracting Pty Ltd is a major contractor to Atlas, and currently working on the Mt Webber project providing mine development and contract mining services.

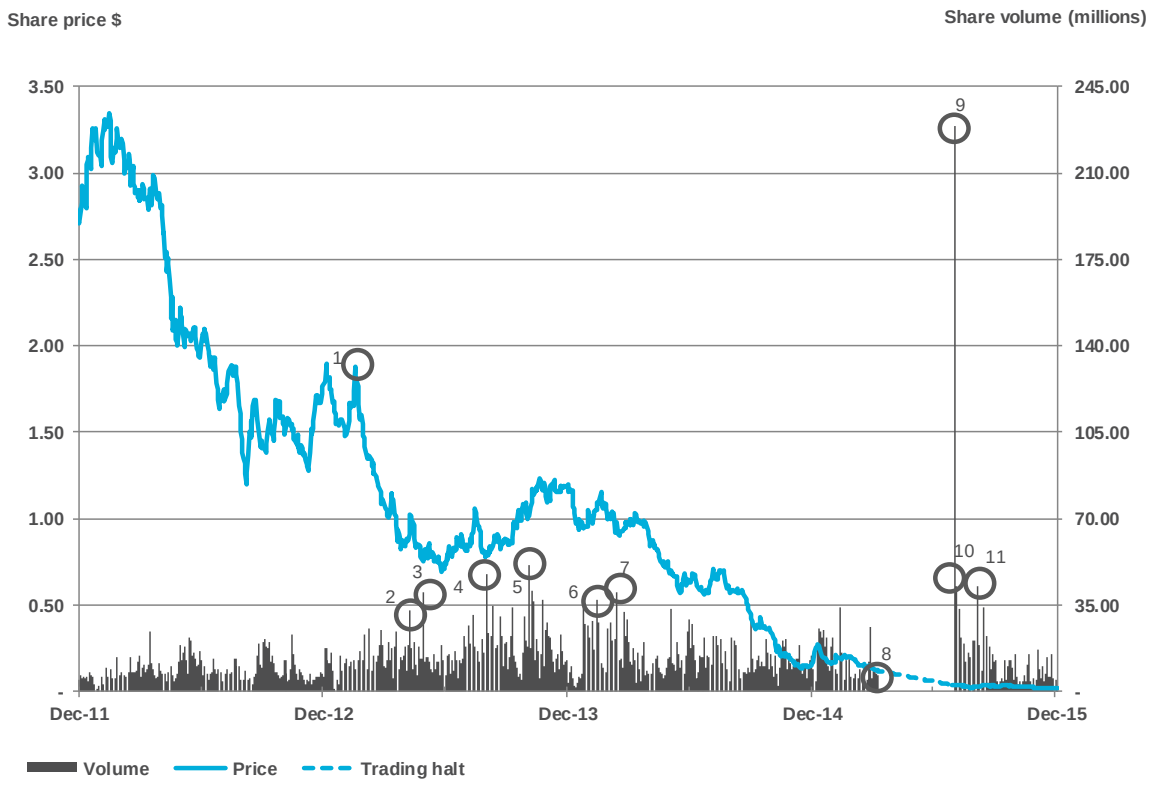
McAleese provides Atlas with specialised bulk commodity haulage services.

MACA provides Atlas with mining and crushing services.

2.9. Share price performance

The share prices and volumes of the Company's ordinary shares from 1 November 2011 to 31 December 2015 are summarised in the following figure:

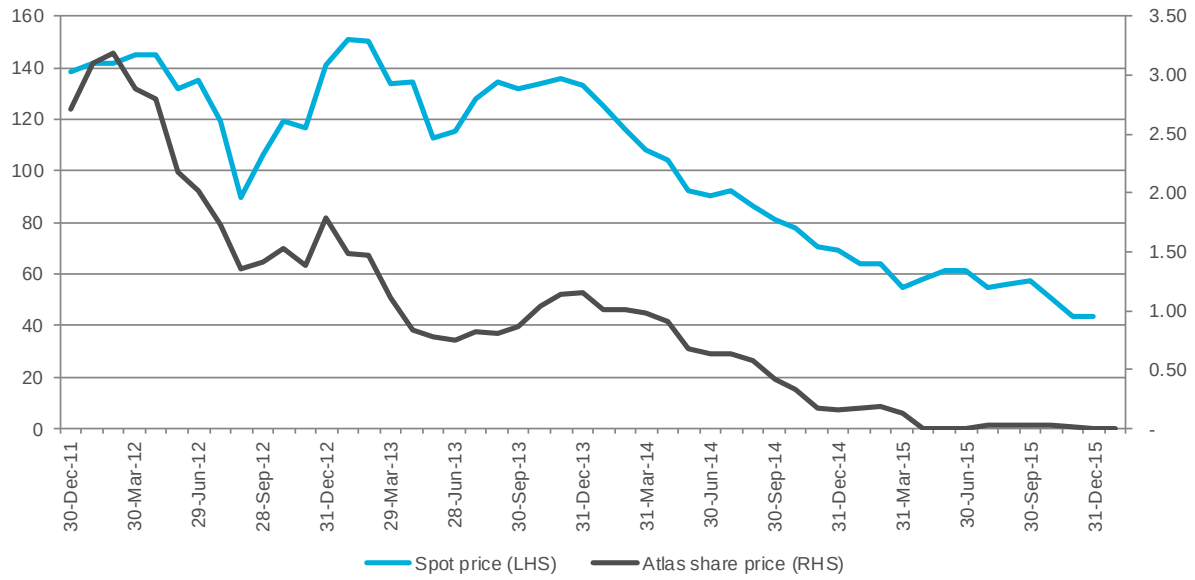
Figure 5 Summary of share price performance



Source: Capital IQ, PPB Advisory analysis
Refer to Table 13 for a summary of the events that may have impacted the share price and trading volumes

The share price of Atlas has been significantly influenced by the decrease in the iron ore price.

Figure 6 Summary of share price performance compared to the iron ore spot price (62% Fe)



Source: Capital IQ, Bloomberg, PPB Advisory analysis

Other events that may have impacted the share price and volumes of shares traded are:

Table 13 Summary of events

Note	Date	Event
1	4-Jan-13	Production commences at Mt Dove
2	17-Apr-13	Atlas March 2013 quarterly activities report
3	3-May-13	Atlas investor presentation May 2013
4	6-Aug-13	Diggers and Dealers presentation - Five mines in five years
5	17-Oct-13	September 2013 quarterly activities report
6	29-Jan-14	North Pilbara exploration and resource development success
7	25-Feb-14	Half yearly report and statutory accounts, growing production and robust prices drive strong profits, Atlas investor presentation on half year results, Mt Webber expansion to 6Mtpa approved
8	7-Apr-15	Voluntary suspension
9	24-Jul-15	Request to lift suspension, reinstatement to official quotation
	29-Jul-15	MCS: Business update and FY15 results
10	31-Jul-15	Quarterly activities report
11	28-Aug-15	Production update

Source: ASX announcements, Atlas website

Table 14 summarises the Volume Weighted Average share Price ("VWAP") of the ordinary shares for between 1 and 60 days through to 30 November 2015.

Table 14 VWAP of the Company's ordinary shares at 30 November 2015

Trading period to 30-Nov-15	VWAP value $	Maximum value $	Minimum value $	VWAP $	Cumulative volume traded	% of issued shares
1 day	57,560,609	58,735,315	56,065,528	0.0216	4,789,320	0.18%
15 days	64,590,350	74,754,037	56,065,528	0.0242	69,396,300	2.60%
30 days	72,964,064	88,102,973	56,065,528	0.0273	155,821,770	5.84%
60 days	79,982,790	90,772,760	56,065,528	0.0300	418,780,710	15.69%

Source: Capital IQ, PPB Advisory analysis

We note the following with regard to the table above:

- the shares were voluntarily suspended on 7 April 2015 and resumed trading on 27 July 2015
- the average bid-ask spread percentage has ranged from 0.25% to 8.33% with an average of 1.2% for the period observed, which indicates a low level of liquidity in the share trading
- the weekly traded volume as a percentage of average shares outstanding was 3.60%.

The shares appear to be thinly traded given the low level of volume turnover and the relatively large bid-ask spread.

3. Industry overview

We have used the latest appropriate IBISWorld report, Reserve Bank of Australia reports, Bloomberg and other publicly available market publications as sources for our commentary on the iron ore industry, as summarised in this section.

3.1. Introduction

The iron ore industry has been a key driver of Australian economic growth and national income in recent times. It has also been strongly affected by global market movements.

Australia has developed a global reputation as an efficient, competitive, stable and reliable supplier of iron ore. Australia currently accounts for approximately one third of world iron ore production.

Industry revenue (ie the value of iron ore sales, in AUD) primarily depends on:

- the level of iron ore demand
- the level of supply (including any supply bottlenecks and other short and long term constraints on production)
- the market price of iron ore
- the Australian dollar.

The level of iron ore demand is closely tied to levels of steel production, particularly the level of steel production in China. Steel production is in turn influenced by demand from downstream industries that purchase steel. The largest downstream steel-using industries in China and around the world are construction, motor vehicle manufacturing, shipbuilding, plant and equipment manufacturing, and consumer goods manufacturing.

Strong activity in some or all of these industries flows through to rising steel demand and output, which boosts demand for iron ore.

Like all commodities, iron ore prices are set by global demand and supply. The iron ore market is well developed and has significant depth of buyers and sellers. Buyers, for example, can negotiate with numerous countries and their producers for exports of iron ore.

Iron ore is produced and graded based on its iron content and the content of deleterious elements such as silica, phosphorous and alumina (among other elements). Therefore, iron ore can be sold for different prices per tonne based on its grade. Grades generally range from 55% Fe to 67% Fe.

Ore containing very high quantities of hematite (greater than ~55% iron) is known as DSO, meaning it can be fed directly into blast furnaces. Iron ore is the raw material used to make pig iron, which is one of the main raw materials used to make steel. Up to 98% of the iron ore mined is used to make steel.

The pricing of iron ore has historically been quoted in United States Dollars ("USD") although some products have, more recently, been quoted in Chinese Yuan.

The price is generally specified in USD per dry metric tonne unit ("dmtu"). One dmtu represents 1% Fe contained in one metric tonne of dry ore (ie excluding moisture). One dmtu is therefore equivalent to 10kg of Fe.

In order to calculate the price per tonne of ore (on a dry basis) it is necessary to multiply the price per dmtu by the grade (% Fe).

Every iron ore product produced in Australia and around the world is different. Prices are negotiated between buyer and seller based on the quality and specific features of each particular ore, with reference to published price indices.

The key considerations taken into account in negotiating price include:

- the concentration or percentage of Fe contained in the ore (lower grade ores are sold at a discount to higher grade ores)
- the concentration or % of other deleterious elements contained in the ore such as silica, aluminium and phosphorus
- whether the product is lump or fines (or some other product such as a pellet)
- whether the customer purchases the ore on FOB or CFR terms (or some other terms)
- the moisture content of the ore as this affects the cost of freight
- the quantity purchased and whether it is a one off (spot) sale or long term agreement
- the consistency of product quality over time
- the continuity of ore product supply over time (ie the life of the mine)
- the alternatives available to customers to blend one grade of ore with another.

The level and nature of market price discovery for iron ore has evolved over time. Historically, the key sources of market pricing were industry publications which provided market intelligence on prices (known as journalistic pricing) and the annual or quarterly benchmark prices typically set by Rio Tinto or BHP Billiton in negotiation with the major steel mills.

Benchmark pricing was overtaken by index pricing which is now the most common market price tool. Iron ore indices are typically based on daily reference prices for the iron ore spot market. They are a tonnage-weighted calculation of actual transactions that have been normalised to a base specification of Fe content (eg Fe 62%) and delivery point (eg Tianjin, China).

Since the establishment of a number of iron ore indices, there has been an increase in the availability and transparency of prices.

The evolution of the iron ore market pricing has advanced over the past few years with financial market participation (eg iron ore swaps and futures being traded on a number of exchanges).

However, iron ore pricing is still not as advanced as it is for other commodities such as gold or copper cathode which can be sold to a physical warehouse through the London Metals Exchange or where trades can be settled for cash, again through the London Metals Exchange.

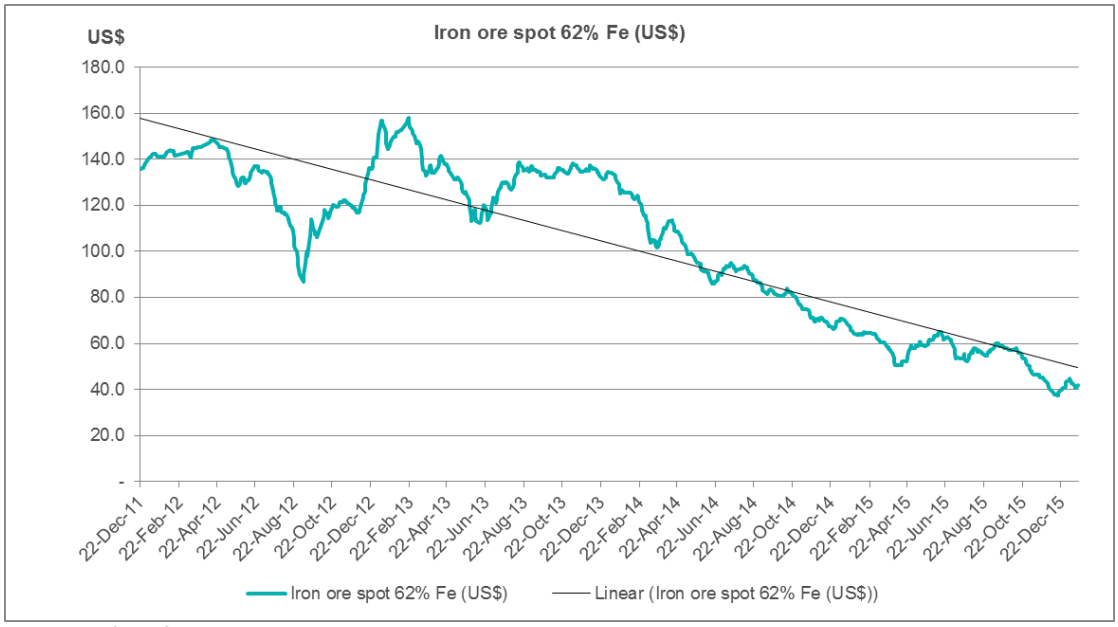
3.2. Recent performance and outlook

From about 2003, strong economic growth in China has caused an increase in the demand for iron ore. That iron ore has been used primarily to produce the steel needed to construct buildings, transport infrastructure and other development projects.

Greater demand for iron ore led to a spike in world iron ore prices. In turn, higher demand and higher prices saw a significant increase in the development of iron ore supply, including through new mine development.

The supply response, which coincided with a slowdown in Chinese demand and economic growth has led to a global oversupply and, from 2011, a significant fall in world iron ore prices, as illustrated in Figure 7.

Figure 7 Summary spot price for iron ore (62% Fe)



Source: Bloomberg

The financial performance of Atlas has been heavily influenced by these global market movements.

Market predictions are mixed and continue to change, however there appears to be some general expectation that prices could remain around USD40/dmt (CFR China 62% Fe) with potential downside risk over the next 6-12 months before a rebalancing of supply and demand provides support for prices to increase over the medium term to plus USD60/dmt (CFR China 62% Fe).

As a result of the steady decline in prices since 2011, a number of smaller producers have exited the market while the profits of those remaining producers (large and small) are significantly lower than average levels over the preceeding five years or so.

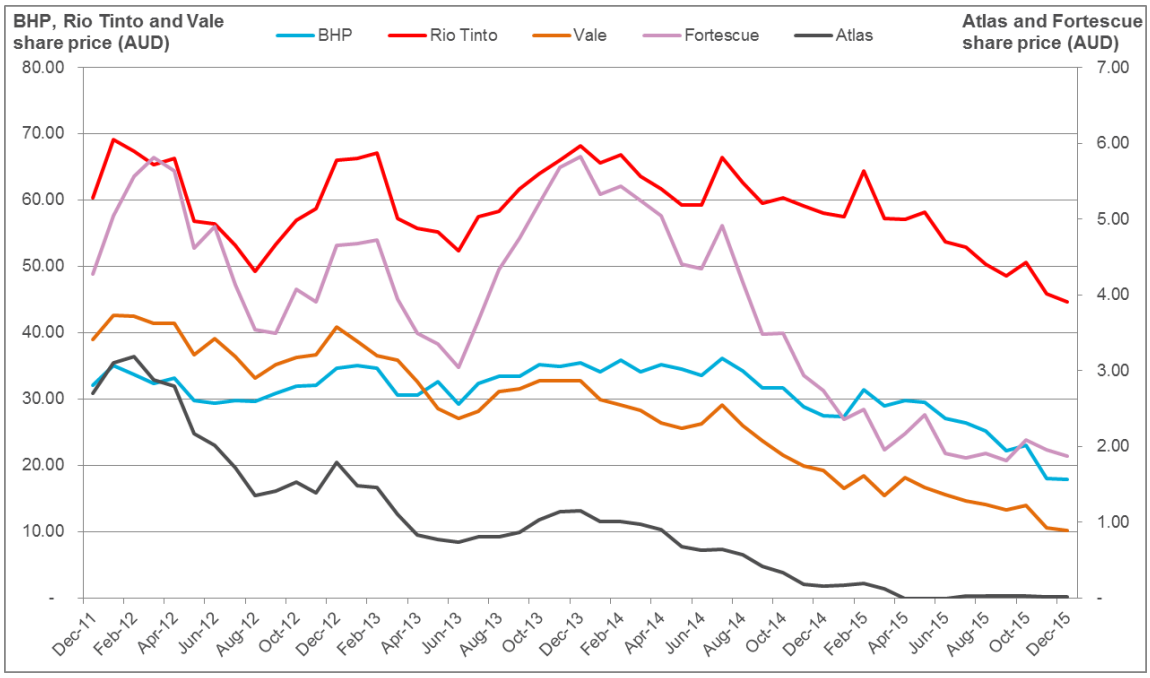
Shipping rates have also fallen significantly over the same period.

Australia's Department of Industry in its December report estimated global trade in iron ore increased by 1.8% in 2015 to 1.4 billion tonnes.

3.3. Competitors

Figure 8 shows the share price of Atlas and the major iron ore producers between December 2011 and December 2015. As noted from Figure 7 above, there is a correlation between the iron ore price the share prices below.

Figure 8 Summary of share price performance



Source: Capital IQ and Bloomberg

Rio Tinto and BHP Billiton are the lowest cost producers, followed by FMG and Vale.

3.4. China as a key influencer

In China, the industrial sector accounts for around 40 per cent of GDP, and represents a key source of demand for Australian resource commodities. Growth in Chinese industrial activity has weakened noticeably since late 2014, although it remains above the lows observed during the global financial crisis.

As has been the case for some time, there is considerable uncertainty regarding the outlook for growth in China. This has contributed to uncertainty surrounding the outlook for economic growth and trade in Asia more generally, and has implications for iron ore demand and prices.

Ongoing weakness in Chinese residential and non-residential construction activity has contributed to a deterioration of conditions in the Chinese industrial sector since late 2014, particularly in the mining and manufacturing industries.

Chinese policymakers have responded to concerns about lower economic growth by easing monetary policy and approving additional infrastructure investment projects, and they have scope to provide further support. However, investment growth is reportedly stagnant in response to the initiatives and there is uncertainty about how effective current policies will be in supporting growth in the near future.

3.5. Exchange rate impacts

The iron ore mining industry is export oriented and trades in USD in world markets. The value of the Australian dollar plays a key role in determining the earnings of iron ore producers.

A weaker Australian dollar reduces the price of Australian iron ore overseas, boosting its price competitiveness and demand. A weaker Australian dollar also increases industry revenue, as local miners receive more Australian dollars per tonne sold.

Forecast consensus data (comprising of 74 brokers) published by Bloomberg on 1 December 2015 indicates that the Australian dollar is expected to remain at current levels during 2016 at between 0.69 and 0.70 USD.

However, the longer outlook term suggest an appreciation of the Australian dollar against the US dollar from 2017 to 2020. The forecast exchange rates are summarised in Table 15.

Table 15: Forecast consensus AUD/USD rates

Period	Number of brokers	Forecast AUD/USD rate		
		Mean	High	Low
Q1 2016	69	**0.70**	0.76	0.64
Q2 2016	70	**0.69**	0.79	0.63
Q3 2016	67	**0.69**	0.81	0.61
Q4 2016	65	**0.70**	0.83	0.62
2017	46	**0.73**	0.90	0.63
2018	15	**0.77**	0.90	0.67
2019	11	**0.79**	0.95	0.68
2020	9	**0.82**	1.05	0.72

Source: Bloomberg consensus data as at 13 January 2016

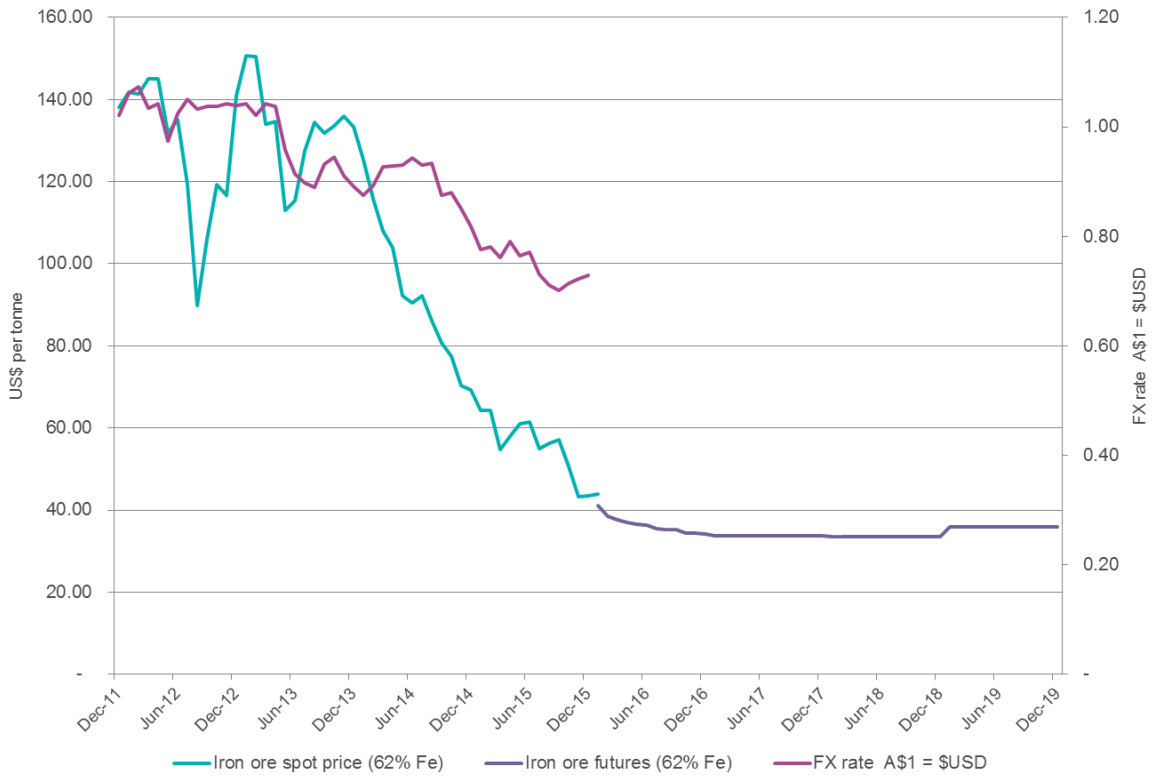
The above broker reports were dated between October 2015 and January 2016. The average forecast AUD/USD for Q1 2016 and Q2 2016 from the broker reports dated October 2015 (up to the Valuation Date) was 0.68.

3.6. Forecast iron ore prices

There are a number of sources that provide forecast iron ore prices including iron ore futures, brokers and independent forecasters.

The iron ore spot and futures prices (62% Fe) are shown in Figure 9.

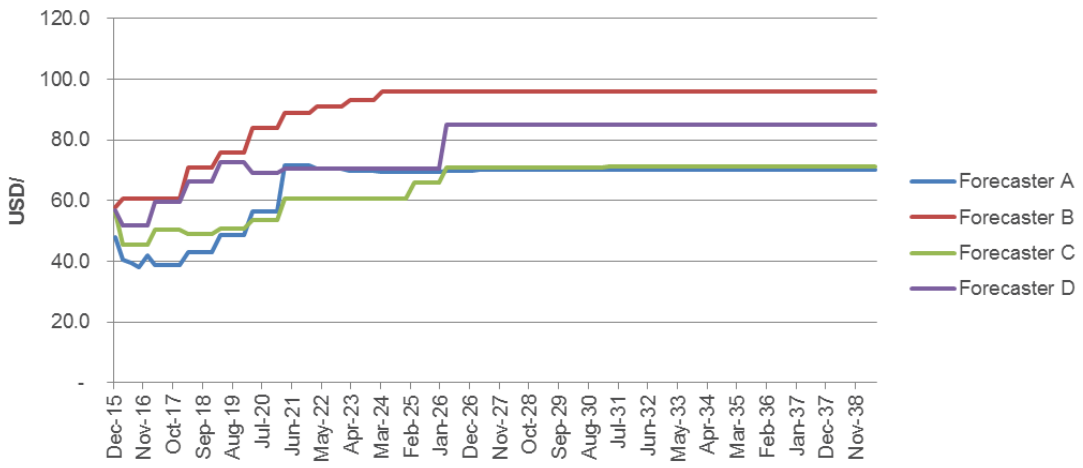
Figure 9 Summary Fe 62% spot and futures prices and the spot AUD:USD exchange rate



Sources: http://www.budget.gov.au/2015-16/content/overview/html/overview-04.htm
IBISWorld Industry Report B0804 Gold, Ore Mining in Australia, September 2015
RBA Statement on Monetary Policy, November 2015

We have also obtained the forecast iron ore prices from four Independent Forecasters, whose forecast iron ore prices are summarised in Figure 10:

Figure 10 Summary Fe 62% spot and futures prices and the spot AUD:USD exchange rate



Source: Management, Independent Forecasters

The dates of the reports of the Independent Forecasters were:

- forecaster A – January 2016 report
- forecaster B – October 2015 report
- forecaster C – December 2015 report
- forecaster D – December 2015 report

Given the material decline in prices between October 2015 and December 2015, the forecast by forecaster B (report is dated) does not provide a reasonable estimate.

3.7. Conclusion

Like all Australian iron ore producers, Atlas operates in a competitive and increasingly sophisticated global market. That market has seen a dramatic fall in prices in recent years, which has reduced industry profitability and placed higher cost producers under significant pressure. The price fall has also significantly reduced the market value of Australian iron-ore producers.

Iron ore prices are driven by the global balance of supply and demand. Depending on future demand levels, the exit of higher cost producers in China and elsewhere may improve the supply-demand balance for Australian producers in the short to medium term, supporting an increase in iron ore prices. However, such impacts are likely to be modest given the global competitiveness of supply, and the ability of large producers to significantly ramp-up output.

In 2016, there do not seem to be any compelling signs in the market that prices are likely to be sustainably re-set at much higher levels. Currently, prices are moving within a range that is the best indicator of price levels in the short term.

4. Historical financial information

4.1. Summary historical income statement

The Company's earnings for the financial years ended 30 June 2014 ("FY14"), 30 June 2015 ("FY15") and the 5 months ended 30 November 2015 ("YTD16") based on the Management accounts, are presented in Table 16 below. Management accounts can vary from the statutory accounts due to the classification of some line items.

Table 16 Summary historical income statement

$ million		Management accounts		
Period ended	**Note**	**FY14**	**FY15**	**YTD16**
Revenue Net CFR	4.2.1	1,097.6	740.8	316.5
Sales ocean freight		(139.1)	(133.9)	(54.2)
Revenue FOB		**958.6**	**606.9**	**262.3**
Cost of goods sold - production		(551.4)	(548.0)	(210.9)
Cost of goods sold - inventory		(13.6)	(14.5)	9.1
Cost of Goods Sold		**(565.0)**	**(562.5)**	**(201.8)**
Sales royalties / infrastructure		(92.0)	(55.8)	(24.4)
Other operating costs - operations		(17.0)	(12.1)	(3.4)
Mt Webber JV		-	5.7	-
Gross Margin		**284.6**	**(17.9)**	**32.7**
Development costs - EEA - expensed		(11.5)	(5.2)	(2.0)
Corporate and other expenses	4.2.2	(37.7)	(85.3)	(16.8)
Cash EBITDA		**235.4**	**(108.3)**	**13.8**
Other financial investments gain/(loss)		(3.0)	(3.7)	1.2
EBITDA		**232.4**	**(112.0)**	**15.0**
Depreciation and amortisation – operations, mine and port	4.2.3	(196.7)	(112.8)	(37.1)
Depreciation and amortisation – corp, admin and other		(5.3)	(4.9)	(1.5)
EBIT		**30.5**	**(229.8)**	**(23.7)**
Net finance income/expense		(24.8)	(31.5)	(16.2)
Net foreign exchange gain/(loss)		.0	(39.3)	(21.4)
Profit/(Loss) before Tax		**5.7**	**(300.7)**	**(61.3)**
Impairment		(18.8)	(1,010.1)	-
Net Profit/(Loss) before Tax		**(13.1)**	**(1,310.8)**	**(61.3)**
Growth / (decrease) in revenue		*57.90%*	*(32.51%)*	*nm*
Gross margin%	4.2.4	*25.93%*	*(2.41%)*	*10.32%*
EBITDA margin %	4.2.4	*21.18%*	*(15.12%)*	*4.74%*
EBIT margin %	4.2.4	*2.78%*	*(31.02%)*	*(7.47%)*

Source: Management accounts, statutory accounts
Note: EBIT is defined as earnings before interest and tax
May not add due to rounding
Nm – not meaningful

4.2. Comments on historical income statement

Our comments on the historical income statement are as follows:

4.2.1. Revenue

A summary of revenue is as follows:

Table 17 Summary revenue

	Management accounts		
Period ended	**FY14**	**FY15**	**YTD16**
Revenue			
Tonnes sold ('000) wmt	10,921	12,175	5,547
Revenue ($ 000)	1,097,617	718,474	316,508
Average price per tonne (including fines ($ wmt) CFR	**100.51**	**59.01**	**57.06**
Atlas fines (wmt million)	9.6	11.6	4.7
Atlas lump (wmt million)	0	0.5	0.8
Value fines (wmt million)	1.3	0	0.0
Total (wmt million)	**10.9**	**12.1**	**5.5**

Source: Management accounts and statutory accounts
EEA = exploration, evaluation and approvals

Table 16 has been extracted from the statutory accounts, whereas Table 17 has been extracted from the management accounts. The difference in revenue in FY15 was as a result of gross up in revenue/freight for FOB shipments sold that were not included in the statutory accounts.

The Company generally sells all its production that can be transported to the port. Sales volumes therefore depend on mine performance and the logistics of haulage and shipping.

The increase in FY15 tonnes is as a result of Mt Webber commencing production in mid-2014.

Revenue in FY15 decreased significantly due to the decreases in the market prices for iron ore. As noted in Table 17 above, the average price per tonne decreased in FY15, despite tonnes sold increasing by 11%.

4.2.2. Corporate costs and other expenses

Corporate and other expenses in FY15 include:

- restructuring costs comprising onerous lease of $19.5 million and other costs of $8.6 million
- suspension costs of $24.7 million.

4.2.3. EBITDA

EBITDA in YTD16 has been adversely impacted by an unfavourable sublease arrangement for the head office in Perth and a shortfall between the lease obligation and the sublease rent of $4.9 million until the end of the lease in FY24.

4.2.4. Margins

The Company's margins are reliant on commodity prices and exchange rates. As noted in FY15, the iron ore price decreased significantly by an average of 40.3%. The Company has been pursuing cost reductions and achieved a 37.5% reduction in its full cash cost per tonne. The Company has reduced its full cash cost per tonne from $89.93 per tonne in FY14 to $68.95 per tonne in FY15 and to $56.16 per tonne in YTD16 (before contractor profit share arrangements).

The full cash cost includes the all-in cash cost, interest expense and capital expenditure (excluding development spend principally relating to Corunna and Mt Webber and contractor profit share).

4.3. Summary historical balance sheet

The balance sheet of Atlas as at 30 June 2014, 30 June 2015 and 30 November 2015 based on the management accounts are presented in Table 18 below

Table 18 Summary balance sheet

$ million		Management accounts		
As at	Note	30-Jun-14	30-Jun-15	30-Nov-15
Current Assets				
Cash		264.2	73.3	94.3
Accounts receivable		78.2	24.0	34.8
Inventory		53.4	15.6	27.6
Financial assets		3.4	.6	1.8
Prepayments		20.1	15.2	18.8
Assets held for sale		29.9		
Total Current Assets		**449.2**	**128.7**	**177.2**
Non Current Assets				
Other receivables		41.5	12.0	14.7
Prepayments non-current		17.4	6.9	3.1
Investment in equity accounted investees	4.4.1	30.6	0.4	0.4
Property, plant and equipment	4.4.2	143.8	129.1	130.6
Intangible assets	4.4.3	135.3	1.6	1.1
Mine development costs	4.4.4	515.2	338.2	314.3
Evaluation expenditure - reserve development	4.4.5	49.6	17.1	19.4
Mining tenements capitalised	4.4.6	716.9	141.4	141.4
Deferred tax asset		67.0	-	-
Total Non Current Assets		**1,717.4**	**646.7**	**625.0**
Total Assets		**2,166.6**	**775.4**	**802.2**
Current Liabilities				
Trade and other payables current		(187.8)	(110.3)	(82.9)
Employee benefits current		(4.4)	(1.8)	(1.4)
Current interest bearing liabilities		(17.3)	(3.6)	(5.7)
Provisions current		(3.9)	(7.2)	(7.4)
Current liabilities held for sale		(7.5)	-	-
Total Current Liabilities		**(220.9)**	**(122.9)**	**(97.3)**
Non Current Liabilities				
Trade and other payables non-current		-	(4.0)	(12.3)
Employee benefits non-current		(.7)	(.6)	(.6)
Non-current interest bearing liabilities		(271.1)	(335.9)	(367.0)
Provisions non-current		(66.8)	(91.4)	(95.4)
Total Non Current Liabilities		**(338.6)**	**(431.9)**	**(475.2)**
Net Assets		**1,607.2**	**220.7**	**229.7**

Source: Management accounts and statutory accounts

May not add due to rounding

4.4. Comments on the historical balance sheet:

There were significant impairments during FY15 which impacted on the carrying values of numerous assets. Atlas identified the following two impairment indicators during the year ended 30 June 2015:

- a significant reduction in the iron ore price (in US dollars), partially offset by the weakening Australian dollar exchange rate during the year, which impacts the cash flows capable of being generated by the Company's mining assets
- the widening gap between the Company's net asset carrying values and its market capitalisation until the date on which Atlas shares were suspended on 7 April 2015.

4.4.1. Investment in equity accounted investees

Investments in equity accounted investees comprise:

- investment of 63% in NWI Pty Ltd ("NWI"), a port development joint venture. NWI (formerly the North West Iron Ore Alliance) is an incorporated joint venture company which represents the interests of its two shareholder companies: Atlas (and FerrAus acquired by Atlas); and Brockman Mining.

  NWI has been conferred the right to develop a port facility capable of annually exporting 50 Mtpa of iron ore from the South-West Creek location in the Inner Harbour at Port Hedland. The WA State Government made this conferral to support the development plans of emerging iron ore miners in the Pilbara region.

  NWI had negative net assets at 30 November 2015 of $26.7 million, net loss YTD 30 November of $1.8 million including an interest expense of $1.6 million. The shareholder loan owing to Atlas was $17 million.

  Atlas has written its interest in NWI to nil.

- Atlas has 60,320,264 shares or 11.567% interest in Centaurus Metals Limited ("Centaurus") at 31 December 2015. The share price was $0.004 as at 30 November 2015.

  Centaurus is an Australia-based company engaged in the exploration and pre-development activities related to iron ore Mineral Resources. The Company's projects include Candonga, Conquista, Jambreiro and other projects.

  - the Candonga Iron Ore Project is located in the State of Minas Gerais, Brazil, approximately 33 kilometres south of the Company's Jambreiro Iron Ore Project, for which a sale process was concluded during 2015
  - the Conquista DSO Project is located approximately five kilometres from the Company's Candonga Project
  - the Jambreiro Iron Ore Project is located in the State of Minas Gerais, Brazil, approximately 130 kilometres from Ipatinga
  - the Company also has other projects, including the Passabem project, which is located approximately 100 kilometres north-east of Belo Horizonte, and the Itambe Project, which is located in the State of Minas Gerais in south-eastern Brazil.

  Atlas recognised a $1.9 million impairment to write down the carrying value of its investment to fair value at FY15.

  During FY15, Atlas disposed of its investment in Shaw River Manganese Limited ("Shaw") at net book value and in December 2015 made provision for the write down of funds owing to Atlas under a loan agreement as Shaw has entered voluntary administration.

4.4.2. Property, plant and equipment

Property, plant and equipment decreased by $14.7 million during FY15. Additions in buildings of $11.1 million and plant and equipment of $3.7 million were largely offset by:

- disposals in property of $3.0 million and plant and equipment of $0.3 million
- impairment losses in property of $3.1 million and plant and equipment of $6.2 million.

The increase of $1.5 million between 30 June 2015 and 30 November 2015 was due to acquisitions of buildings and plant and equipment at Mt Webber.

Property plant and equipment by location are summarised as follows:

Table 19 Summary property plant and equipment

$000	Corporate	Other	Wodgina	Pardoo	Mt Webber	Port	Abydos	Mt Dove	Total
Property, plant and equipment (cost)	**15,424.5**	**26.2**	**8,439.7**	**11,453.5**	**67,705.3**	**80,754.8**	**2,859.6**	**3,483.4**	**190,147.0**
Accumulated depreciation	10,156.4	7.2	6,678.3	9,626.1	3,068.1	25,860.6	2,744.5	1,635.5	59,776.7
Property, plant and equipment (NBV)	**5,268.1**	**19.0**	**1,761.4**	**1,827.4**	**64,637.1**	**54,894.2**	**115.1**	**1,847.9**	**130,370.4**

Source: Management accounts, statutory accounts and fixed asset register

4.4.3. Intangible assets

Intangible assets relate to port access rights of $11.2 million and IT software $9.5 million. Port access rights have been written off and IT software has been written down to $1.1 million.

4.4.4. Mine development costs

Mine development costs by location are summarised as follows:

Table 20 Summary mine development costs

$000	Corporate	Wodgina	Pardoo	Mt Webber	Port	Abydos	Mt Dove	Total
Mine development (cost)	**(2.2)**	**196,034.0**	**127,085.7**	**297,588.7**	**13,284.9**	**82,710.9**	**46,501.6**	**763,203.7**
Accumulated depreciation	-	166,658.3	127,085.7	32,906.6	5,854.7	82,359.3	34,071.6	448,936.1
Mine development (NBV)	**(2.2)**	**29,375.8**	**-**	**264,682.2**	**7,430.2**	**351.6**	**12,430.0**	**314,267.6**

Source: Management accounts, statutory accounts and fixed asset register

4.4.5. Evaluation expenditure - reserve development

Reserve development costs are summarised as follows:

Table 21 Summary evaluation expenditure

Project	Net Book Value $000
Corunna	14,675.7
McPhee	4,013.6
Mt Webber	-
Davidson Creek (including Jigalong)	744.8
Evaluation expenditure - reserve development	**19,434.1**

Source: Management accounts, statutory accounts and fixed asset register

4.4.6. Mining tenements costs capitalised

Capitalised mining tenement carrying values are summarised as follows:

Table 22 Summary mining tenement project carrying values

Tenement	Carrying value $000
Western Shaw	1,092.9
McPhee	40,750.5
Jimblebar	10,545.4
Anthiby Well	6,648.1
Corktree	527.6
Blue Rose	949.7
Warrawanda	3,333.8
Jigalong	65,677.0
Western Creek	11,888.5
Total	**141,413.7**

Source: Management accounts, statutory accounts and fixed asset register

5. Forecast financial information

Management has provided a financial model ("Corporate Model") with monthly cash flows from 1 December 2015 to 30 June 2037 for the following projects:

- Pardoo – completed project, therefore no revenue cash flows in the valuation period
- Mt Dove – completed project, therefore no revenue cash flows in the valuation period
- Wodgina – revenue cash flows to October 2018
- Abydos - revenue cash flows to April 2017
- Mt Webber - revenue cash flows to August 2023
- McPhee - revenue cash flows from November 2018 to October 2028.

Management provided a separate financial model for Corunna ("Corunna Model") with quarterly cash flows from January 2017 to December 2023.

The Corporate Model and the Corunna Model (together referred to as the "Financial Models") include forecast cash flows.

The Corporate Model includes income statements, balance sheets and cash flow statements on a consolidated basis, excluding Corunna and including corporate costs.

5.1. Management's key assumptions

Management's key assumptions in the Financial Models are summarised in Table 23:

Table 23 Summary of Management's key assumptions

General	▪ Projections are in nominal terms, assuming an inflation rate of 2.5% pa from FY19 onwards ▪ Projections commence 1 December 2015 ▪ Royalties payable: • 10.5% at Wodgina • 8.0%-8.5% at Corunna • 8.0%at Mt Webber • 8.0%-10.5% at Abydos ▪ Working capital assumption based on current Contractor Collaboration Deed terms ▪ Post re-financing the terms for payment of creditors assumed to revert closer to historical average of 45 payable days ▪ Working capital unwind assumption upon completion of mining at Abydos, Wodgina and Mt Webber as follows: • Abydos – 0% • Wodgina – 0% • Mt Webber – 50%
Pricing / FX	▪ Commodity price: Forward spot price for 6 months to 30 June 2016 increasing on a straight line basis to 30 September 2016, following which the average price of three Independent Forecasters futures has been assumed. ▪ FX: Has been based on the same logic used under the commodity price assumption.
Physicals / operational	▪ Costs based on nominal production run-rate of 15Mt pa, assuming: • Abydos – 230-300kt/mth • Wodgina – 480-550kt/mth • Mt Webber – 450-580kt/mth • Corunna – 333kt/mth • McPhee - 333kt/mth) ▪ Assumes average expected moisture over the next 24 months: • Abydos – 3.8% • Wodgina – 5.7% • Mt Webber – 4.5% • Corunna – 4.5% • McPhee– 4.5% ▪ Average assumed grade of Atlas ore of approximately 57% Fe, compared with benchmark grade of 62% Fe ▪ Average assumed lump premium of USD6.50/dmt, with lump contributing 66% of Abydos and 50% of Mt Webber, 57% of Corunna and 50% of McPhee product. No lump product assumed to be produced at Wodgina ▪ Average 'Other' contractual penalties of USD0.30/dmt assumed to provide for impurities not specified in contracts
General / other	▪ Collaboration Agreement Profit Share included for Wodgina and Abydos ▪ No Contractor Collaboration Deed cost savings assumed for Mt Webber, however 10-12% mining cost savings are being realised (via the BGC Agreement) and haulage savings provided by McAleese subject to cost uplift tied to received iron ore prices ▪ No Contractor Collaboration Deed cost savings assumed for Corunna and McPhee ▪ Corporate, administration, exploration and evaluation costs of USD2.0 million per month.

Source: Management and Financial Models

5.2. Forecast income statement

The forecast financial results for the period ending 30 June 2018, using Management's key assumptions (Section 5.1), are presented in the table below:

Table 24 Summary forecast financial information

		Audited			Forecast			
Year ended/ending 30 June	**Unit**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Iron ore shipped	kwmt	-	12,175	14,307	12,774	12,672	14,633	15,011
Full cash costs (Expenditure/Iron shipped)	$/wmt	-	60.4	52.1	52.2	52.0	54.8	57.9
Revenue	**$ million**	**1,110**	**718**	**726**	**689**	**702**	**896**	**994**
Expenditure	$ million	884	735	745	667	659	801	869
EBITDA	**$ million**	**255**	**(142)**	**2**	**39**	**59**	**112**	**139**
EBIT	**$ million**	**59**	**(259)**	**(86)**	**(37)**	**(28)**	**25**	**71**

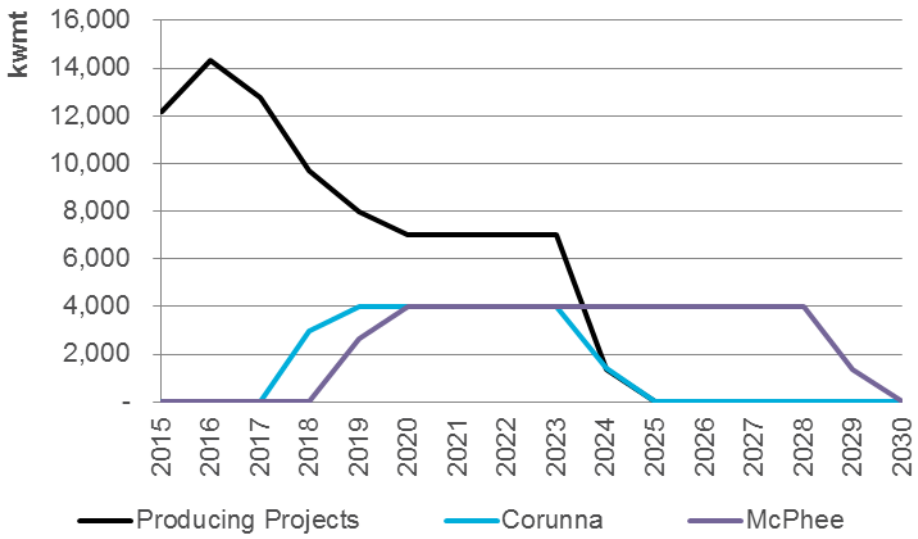
Source: Corporate Model and Corunna Model
Note: EBIT is defined as earnings before interest and tax
May not add due to rounding

5.3. Comments to the forecast income statement

5.3.1. Revenue

The Financial Models assume the following volumes of iron ore, lump and fines are shipped for each project over their lives:

Figure 11 Forecast ore shipments



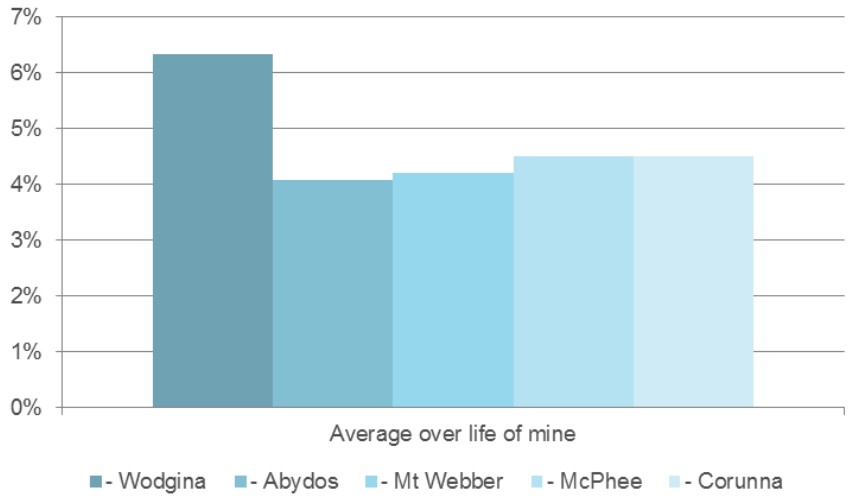
Source: Financial Models

Total ore shipped in tonnes is relatively stable at between 12 Mwmt and 15 Mwmt.

Management is of the view that lump premiums have been unseasonably weak in January 2016 and this has reduced the uplift received by Atlas. Industry forecasters, however, expect this to be a temporary change and strong premiums should return to be at least equate to the cost savings at the mills from not having to sinter the ore.

The moisture content has been assumed as follows over the life of the mines:

Figure 12 Forecast moisture content



Source: Financial Models

Revenue and profitability is impacted almost entirely by iron ore prices, exchange rates and shipping costs

5.4. Forecast balance sheet

The forecast balance sheet as extracted from the Corporate Model for the Production Projects including McPhee, using Management's key assumptions (Section 5.1), is summarised in Table 25. The Corporate Model excludes the balance sheet for Corunna because there is no balance sheet for Corunna in the Corunna Model.

Table 25 Summary forecast balance sheets

$ million	Nov-15	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Cash and cash equivalents	94.3	46.9	54.2	34.2	75.0	75.0
Trade receivables	34.8	32.3	31.9	31.3	32.5	32.8
Inventories	27.6	22.5	17.2	20.0	28.8	29.3
Other	20.5	20.5	20.5	20.5	20.5	20.5
Total Current Assets	**177.2**	**122.2**	**123.7**	**106.0**	**156.8**	**157.6**
Fixed assets	605.8	564.0	491.7	462.8	412.3	359.8
Intangible assets	1.1	1.1	1.1	1.1	1.1	1.1
Other	17.8	17.8	17.8	17.8	17.8	17.8
Total Non Current Assets	**624.6**	**582.9**	**510.5**	**481.6**	**431.2**	**378.6**
Total Assets	**801.8**	**705.1**	**634.2**	**587.6**	**588.0**	**536.2**
Trade payables	80.2	91.8	83.5	82.2	84.4	85.3
Other provisions	104.7	102.7	97.3	96.2	90.4	88.0
Payables non-cash	5.7	5.7	5.7	5.7	5.7	5.7
Provisional pricing payable	0.1	0.1	0.1	0.1	0.1	0.1
Current portion of royalty payable	9.1	9.1	3.0	0.0	0.0	0.0
Total debt	372.7	195.1	198.0	201.0	202.7	108.8
Total Liabilities	**572.6**	**404.5**	**387.6**	**385.1**	**383.2**	**287.9**
Net Assets	**229.3**	**300.5**	**246.6**	**202.5**	**204.7**	**248.3**

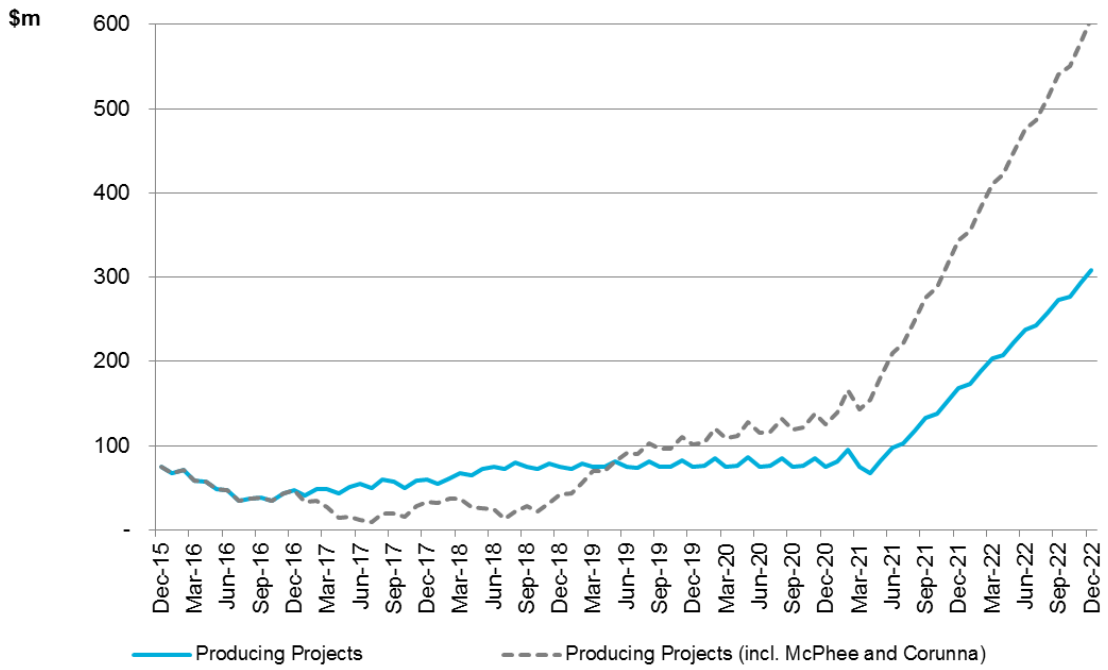
Source: Corporate Model
May not add due to rounding

5.5. Comments to the forecast balance sheet

5.5.1. Cash and cash equivalents

Cash at bank is forecast and summarised in Figure 13

Figure 13 Summary forecast bank balance



Source: Corporate Model

Management assumes that the costs of commencing production at Corunna and McPhee will be funded from operating cash flows.

5.5.2. Fixed assets

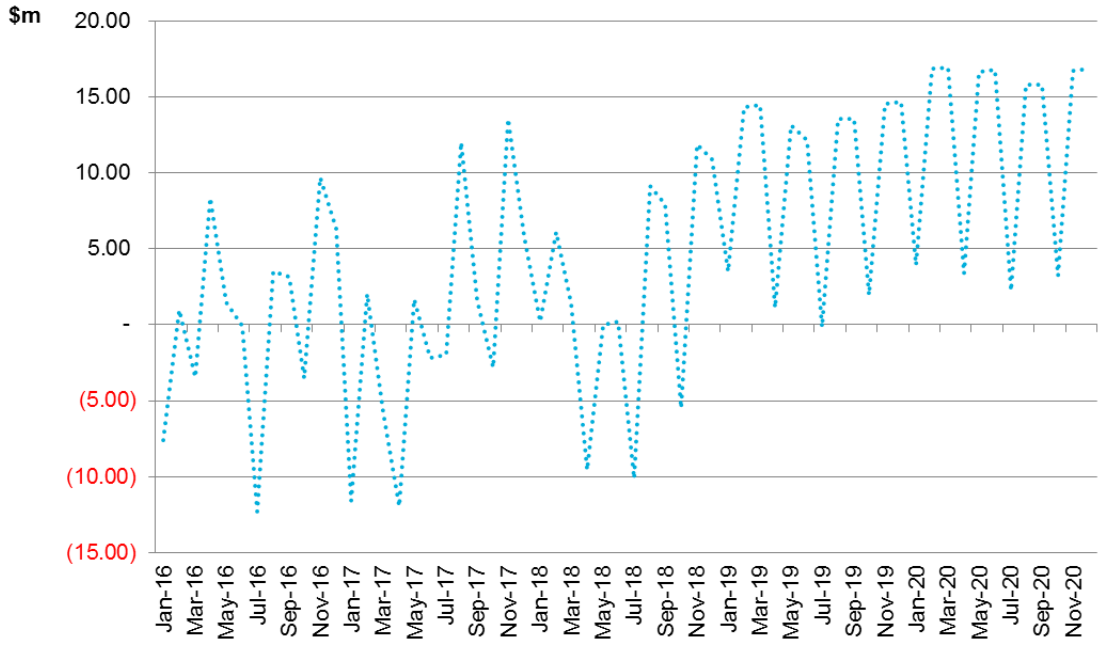
Fixed assets comprise

- property, plant and equipment
- mine development costs
- evaluation expenditure, reserve development
- mining tenements capitalised.

5.6. Forecast cash flows:

Based on Management's assumptions summarised in Section 5.1 above, the monthly cash flow forecasts are summarised in Figure 14:

Figure 14 Summary forecast free cash flows



Source: Corporate Model

6. Valuation methodology

6.1. Overview

There are a number of approaches available to assess the value of a business which we have considered in the preparation of this report. These approaches are summarised below:

- market approach, including comparable transaction and farm-in transaction data
- income approach, including discounted cash flow ("DCF") and expected monetary value analysis
- cost approach, including amounts spent to date.

Appendix B sets out the common valuation approaches and methodologies which have been considered for the valuation of Atlas.

The valuation has been based on the sum of the parts due to the nature of the operations of Atlas including Production Projects, Development Projects, Exploration Projects, Pre-Development Projects, investments, cash balances and other assets and liabilities.

6.2. Selection of primary valuation methodologies

The Company's key assets are a combination of Production Projects, Development Projects, Exploration Projects and Pre-Development Projects.

In selecting the appropriate methodology with which to assess the value of the assets of Atlas, we have considered the various valuation methodologies available, the nature of the assets and the nature of the financial information available.

6.2.1. Valuation of Production Projects and Development Projects

Management has prepared the Corporate Model with long term financial projections for the Production Projects including Wodgina, Abydos and Mt Webber as well as the McPhee Development Project. There is a separate Corunna Model prepared for the PFS announced 23 December 2015, which is in a similar format to the Corporate Model, except the projections are quarterly and it does not include a balance sheet.

The Financial Models include cash flows for the remaining life of each mine/project. For the valuation of the Production Projects and the Development Projects, we have used the income approach, specifically the DCF method, because it explicitly considers the timing and amount of the cash flows for each of the projects which have finite lives and they have significant capital costs and variable production and cost profiles.

6.2.2. Valuation of Exploration Projects

We have not used the DCF to value the Exploration Projects because of the early stage of development of these assets and the high level of risk and uncertainty of the development plans. Management has not prepared long term financial projections for the Exploration Projects.

A number of significant risks and uncertainties need to be mitigated prior to the development of the Exploration Projects including building the necessary infrastructure, further exploration analysis and preparation of the site for mining activities.

The selection of the appropriate valuation method is primarily dependent on the availability and reliability of relevant information. The available information is usually related to the classification or development status of the mineral asset. Early stage projects typically have less information available compared to later stage projects because projects tend to advance as more work is carried out and therefore more information is generated.

Based on the VALMIN Code classification for the exploration assets, we have used the cost approach, specifically the Multiple of Exploration Expenditure ("MEE"). This approach considers the costs incurred in connection with the exploration and development of a project and applies a Prospectivity Enhancement Multiplier ("PEM") which adjusts the exploration expenditure base depending on the degree to which the past exploration expenditure has improved (or diminished) the prospectivity of the asset.

We have reviewed the feasibility studies and scoping studies for these assets. Some of the scoping studies include net present value calculations. These do not necessarily represent fair market value because they are de-risked financial projections that assume the commencement of the project development after the resolution of the key risks and uncertainties. They do, however, provide useful information of the potential value of the asset on a stand-alone basis against which we bench marked our fair market value assessments using our valuation approach.

Since Corrunna and McPhee are expected to become Production Projects in October 2017 and August 2018 respectively, and require funding beyond the operating cash flows of the Production Projects, we have also valued them using the MEE and the Geoscience Matrix method. We have used these values as a cross check to our values derived using the DCF.

6.2.3. Valuation of Pre-Development Projects

In valuing the Pre Development Projects, we have used a combination of the cost approach (as per the Exploration Projects) and the market approach, specifically, we have used the comparable trading methodology, which estimates the value of the subject asset or project based on a comparison of the market value of publicly traded companies and the contained Fe in their Mineral Resources.

6.2.4. Valuation of Investments and other assets

Atlas has investments in the port development joint venture and a listed exploration company.

The fair market value of the shares in the listed company has been based on the current market prices of the shares having regard to the marketability of the level of interest held.

The fair market value of the port development joint venture has been based on our analysis of its net assets in its recent financial statements because the port development joint venture is loss-making with negative earnings.

6.3. Selection of cross checks

We have cross-checked the reasonableness of the valuation of Atlas using our primary methodology, by:

- calculating the implied EBITDA multiples of Atlas and comparing them to potentially comparable listed companies
- calculating the net asset values of the Company
- considering the prices at which the Company's shares have traded on ASX.

The prices at which a company's shares trade on a securities market are typically at a discount to the fair market value of a company as a whole. The difference in value is commonly referred to as the "premium for control". Our valuation of Atlas as a whole therefore includes a control premium.

6.4. Definition of fair market value

For the purpose of our opinion, fair market value is defined as:

> *"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."*

Fair market value, as defined above, is a concept of value which may or may not equal the "purchase/sale price" that could be obtained if the shares were sold to a special purchaser in an actual transaction in the open market.

Special purchasers may be willing to pay higher prices to gain control or obtain the capacity to reduce or eliminate competition, ensure a source of material supply or sales, achieve cost savings arising on business combinations following acquisitions or other synergies which could be enjoyed by the purchaser. Special value is typically defined as:

> *"The additional value that a purchaser is prepared to pay, which reflects such factors as a potential economies of scale, reduction in competition, the securing of a source of supply or outlet for products, and which additional value is unique to that purchaser."*

Our valuation will not be premised on the existence of a special purchaser.

7. Valuation of the Production Projects and the Development Projects

7.1. Introduction

In determining the fair market value of Atlas using the sum of the parts, we have valued the Production Projects and the Development Projects using the income approach, specifically the DCF method.

7.2. DCF method

The DCF method estimates the fair market value by discounting future cash flows to their present value.

To value Production Projects and the Development Projects using the DCF method requires the determination of the following:

- forecast after tax free cash flows
- an appropriate discount rate to be applied to the cash flows.

Our considerations on each of these factors are presented below.

7.3. Forecast cash flows

Management has prepared the Financial Models (Corporate Model and the Corunna Model) for the Production Projects and the Development Projects. The Financial Models include projections of nominal after tax cash flows. These cash flow projections, which formed the basis of our valuation, are summarised in Appendix F and Appendix G.

There are a number of key assumptions adopted by Management in the preparation of their financial projections. These key assumptions are summarised in Section 5.1. We have adopted most of Management's assumptions other than the assumptions in relation to:

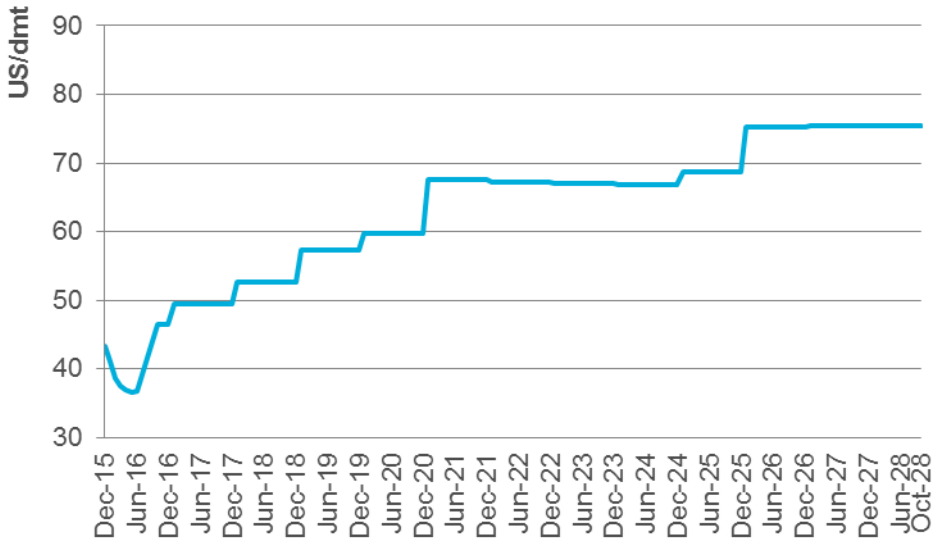
- forecast iron ore pricing, where Management used the forecast spot price provided by the three independent forecasters, we have forecast the iron ore price the Bloomberg futures price for 6 months to June 2016. Both Management forecast and the valuation scenario assume the average of the forecasts of three of the Independent Forecasters from October 2016.
- forecast exchange rates, where Management used the forecast values provided by the three independent forecasters. We have used the current rate of AUD/USD0.69 to June 2016 then used a flat rate of AUD/USD0.72 for the remainder of the forecast period
- forecast lump premium, where Management used $6.50 over the life of the mines. We have use a percentage of 12.5% of the assumed iron ore price
- working capital, capital expenditure and taxation.

These key assumptions are discussed below:

7.3.1. Forecast iron ore pricing

We have forecast the iron ore price using a spot price of USD43.30, the futures price for 6 months to June 2016 and then used the average of the forecasts of three of the Independent Forecasters. The Independent Forecasters have stated that the forecast commodity prices are in nominal terms and typically commodity prices move independently to inflation. Our assumption on the forecast iron ore pricing is summarised in Figure 15:

Figure 15 Assumed forecast iron ore prices (nominal)



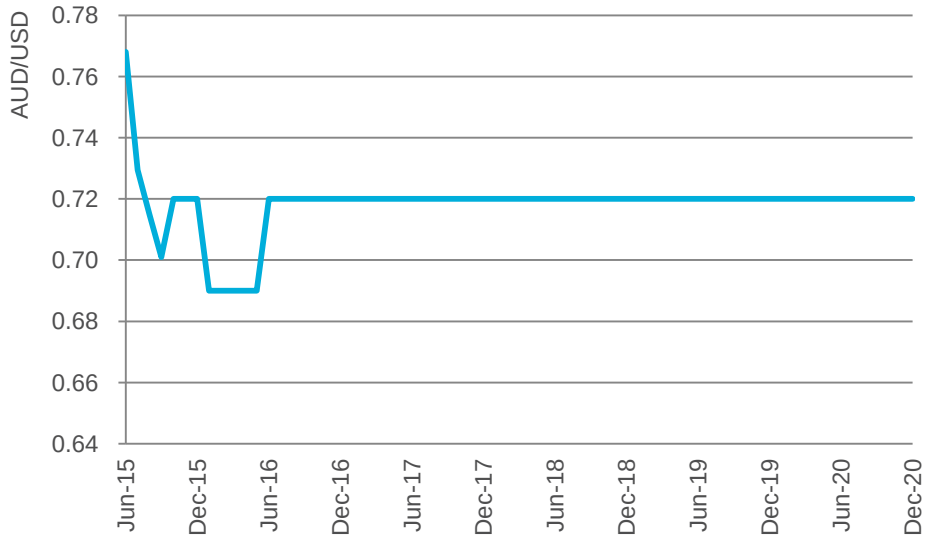
Source: PPB Advisory analysis and Independent Forecasters data, Atlas Management

7.3.2. Forecast exchange rates

We have the current rate of AUD/USD0.69 to June 2016 then used a constant rate of AUD/USD0.72 for the remainder of the forecast period.

Our assumption on the forecast exchange rates is summarised in Figure 16:

Figure 16 Assumed forecast exchange rates



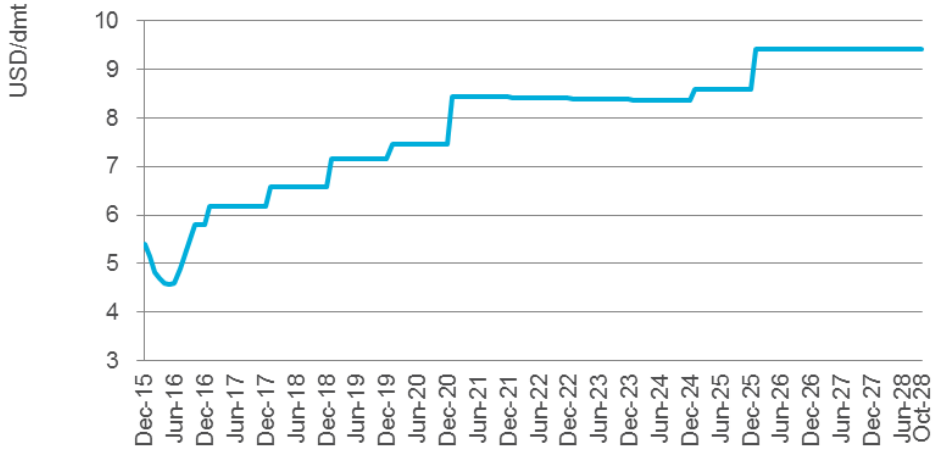
Source: PPB Advisory analysis and Bloomberg

7.3.3. Forecast lump premium

Atlas commenced producing lump in 2015 and has achieved attractive premiums since. Based on our review of premiums achieved for lump by Atlas and its competitors, we note that the premium has been approximately 12.5% of the iron ore price at the time. We have therefore assumed a lump premium of 12.5% of the forecast iron ore price for the valuation of Atlas.

Our assumption on the forecast lump premium is summarised in the following chart Figure 17:

Figure 17 Assumed forecast lump premium

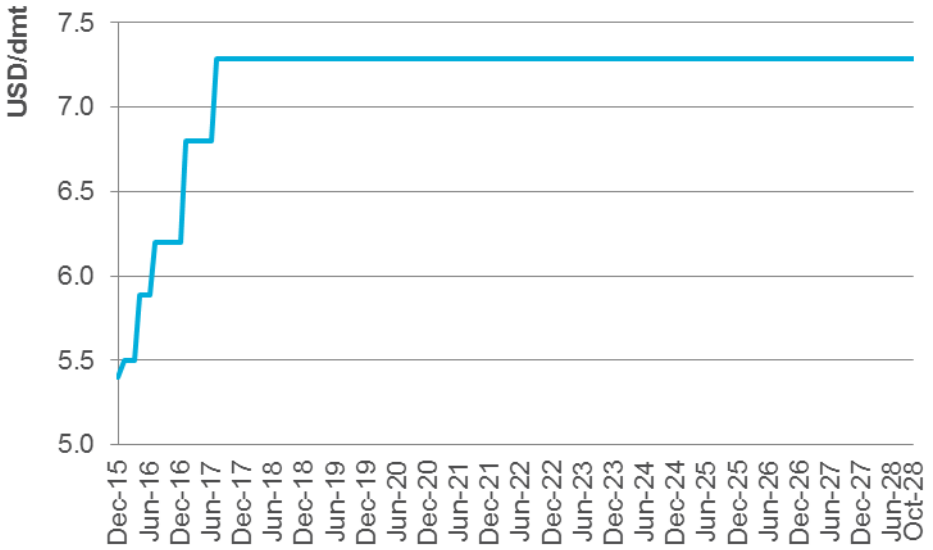


Source: PPB Advisory analysis and research

7.3.4. Forecast shipping rates

We have assumed shipping rates to be as depicted in Figure 18:

Figure 18 Assumed shipping rates



Source: PPB Advisory analysis and research

7.3.5. Other assumptions

Working capital

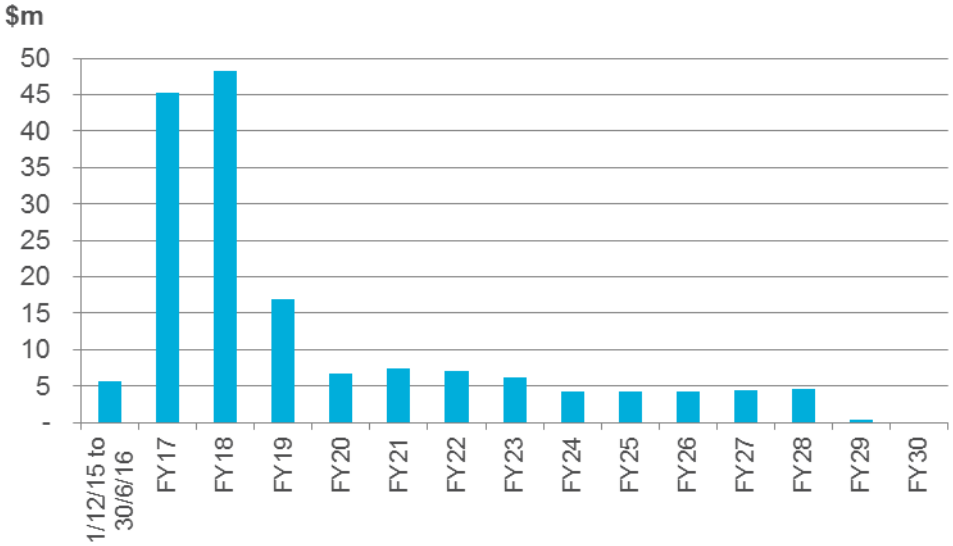
We have adopted the working capital assumptions in Management's Financial Models, without further adjustment, specifically:

- **Receivables**: 3 days from date of sale
- **Inventory:** reflect the timing differences between forecast production and sale (shipping) volumes, and
- **Payables:** 45 days from date of expense.

Capital expenditure

We have assumed capital expenditure peaks in FY18 at $45.2 million and then reduces to between $4 million and $7 million per annum during the period 1 July 2019 to 30 June 2030 (as shown in Figure 19). Total capital expenditure between 1 December 2015 and 30 June 2030 is $166 million, with the majority of the expenditure ($116 million) being incurred by 30 June 2019.

Figure 19 Summary capital expenditure



Source: PPB Advisory analysis

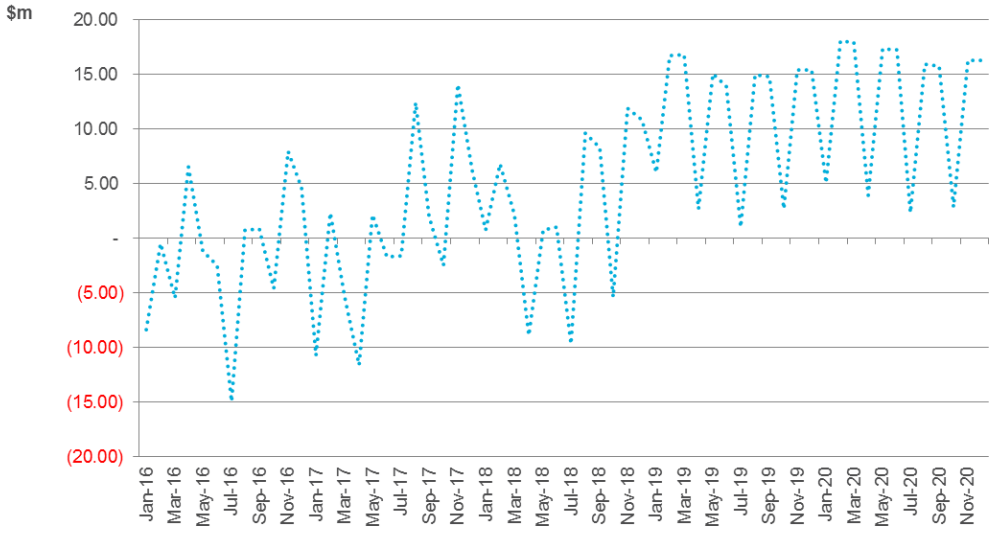
Taxation: We have assumed the company's carried forward tax losses of $1.55 billion as at June 2015, will be sufficient to absorb any tax payable during the forecast period. Under our assumptions, the tax losses will decrease to approximately $1.46 billion by 2030.

7.3.6. Summary forecast cash flows

Detailed cash flow forecasts are presented in Appendix F and Appendix G.

A summary of the forecast cash flows for the Production Projects and the Development Projects between 1 December 2015 and 30 November 2020 are as follows:

Figure 20 Summary monthly forecast free cash flows



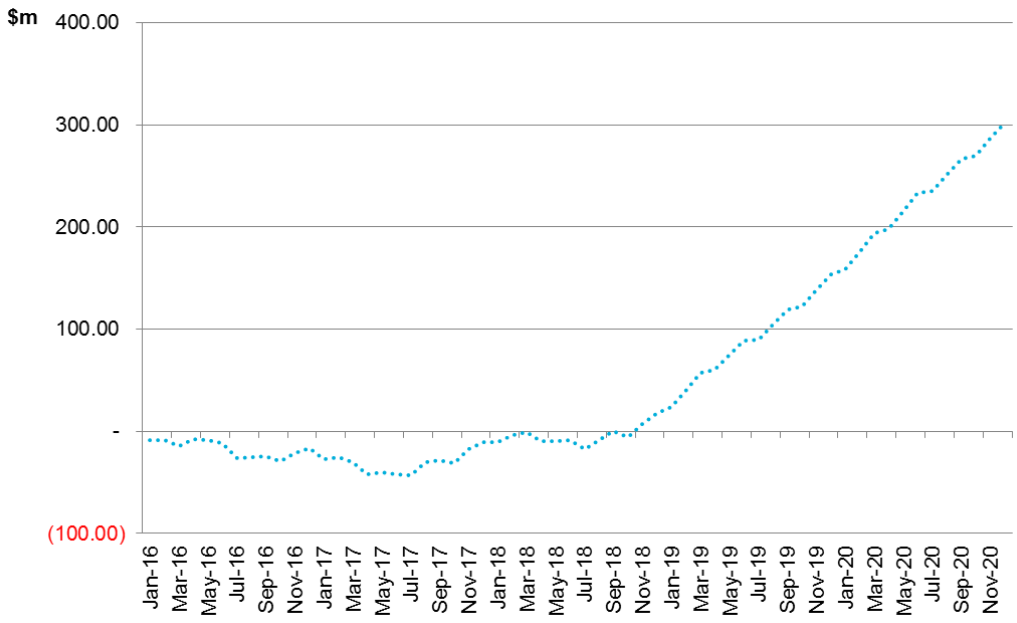
Source: Corporate Model

The monthly cash flows are reasonably stable, but increase as Corunna and McPhee commence and increase production.

The negative peaks in cash flows are generally as a result of the royalty payments which are approximately $10 to $16 million per quarter as well as expenditure required to bring McPhee into production in August 2018.

The cumulative cash flows for the Production Projects and the Development Projects are summarised in Figure 21 below:

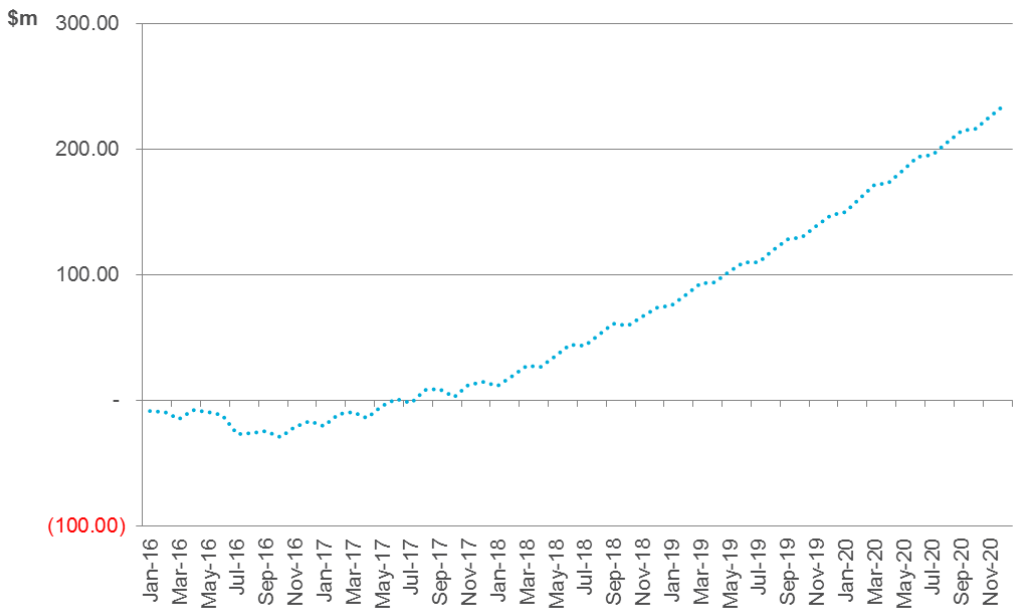
Figure 21 Summary cumulative cash flows including Corunna and McPhee



Source: Corporate Model

The monthly cash flows of the Production Projects excluding Corunna and McPhee are summarised in Figure 23

Figure 22 Summary cumulative cash flows excluding Corunna and McPhee



Source: Corporate Model

From Figure 21 and Figure 22, it appears that the Producting Projects, Corunna and McPhee will require external funding in FY17 as operating cash flows will not be sufficient to support their funding requirements.

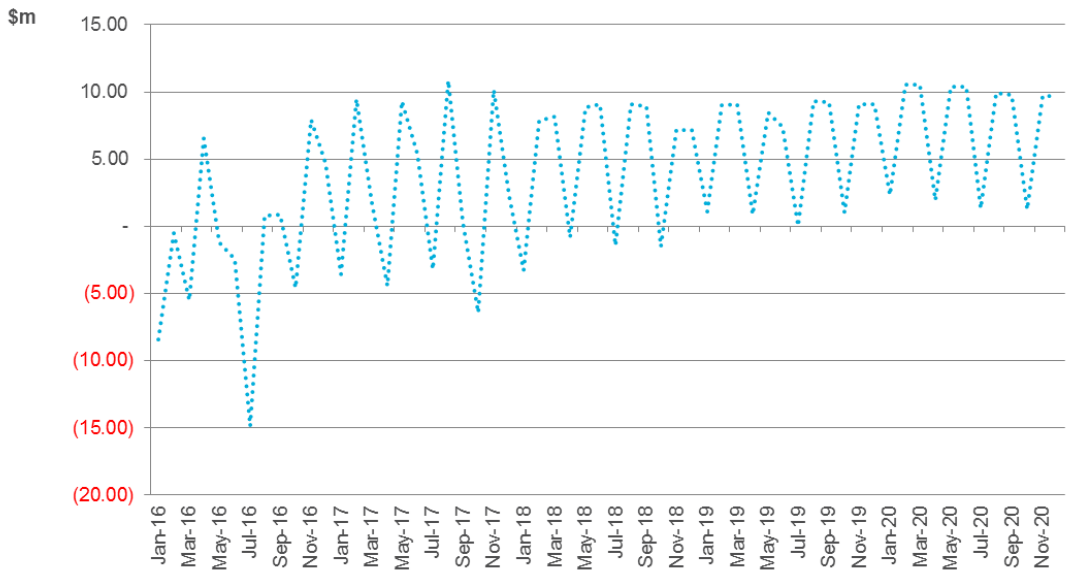
The above figures are based on PPB Advisory's assumptions as summarised in Section 7.3 above.

We note that Management is forecasting sufficient cash flows to commence operations at Corunna and McPhee (refer section 5.5.1).

If Management's assumptions are incorrect, the Company will need to seek additional funding, especially to commence production at Corunna and McPhee. Management believes that there are a number of options in the event operations do not generate sufficient cash flows to cover the funding deficiency, including:

- profit / development cost sharing arrangement with the mining contractors
- equity funding at a project or a corporate level
- short term debt funding including prepayments
- short delay in production commencement at Corunna.

Figure 23 Summary forecast monthly free cash flows excluding Corunna and McPhee



Source: Corporate Model

7.4. Discount rates

The discount rate used to equate the forecast cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected a nominal after tax discount rate in the range of 12% to 13% to discount the forecast cash flows of the Production Projects and the Development Projects to their present value.

We note that the Company used a discount rate of 11% in its impairment testing model for accounting purposes.

In selecting this range of discount rates, we considered the following:

- the required rates of returns on listed companies in a similar business
- the specific business and financing risks of Atlas and the Production Projects and the Development Projects.

The detailed discussions on these matters are provided in Appendix E.

7.5. Terminal value

Since the Financial Models represents the cash flows for the Production Projects and the Development Projects over their estimated useful lives that are finite, there is no terminal value.

7.6. Valuation summary - Production Projects and Development Projects

The value of Production Projects and the Development Projects derived using the DCF method is summarised below. Detailed calculations are included in Appendix H and Appendix I.

Table 26: Summary valuation - Production Projects and Development Projects

Present value of forecast cash flows	Appendix	Low Value $ million	High Value $ million
Production Projects	H	286.79	298.92
Development Project - McPhee	I	120.64	130.23
Development Project - Corunna	I	81.17	91.62
Present value of forecast cash flows – Total		**494.60**	**520.77**

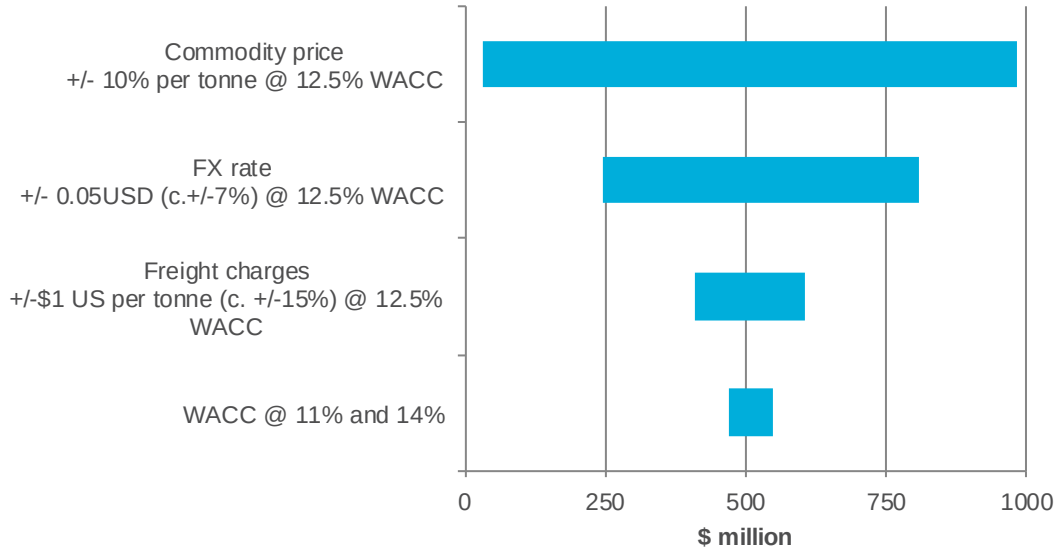
Source: PPB Advisory analysis

The above values are highly sensitive to the changes in the iron ore prices assumed in the forecast cashflows. This sensitivity arises because ore prices as assumed in Figure 15 increase from approximately USD43/dmt to USD75/dmt (74%) between November 2015 and October 2028.

The present value calculated for the Production Projects is inclusive of the cash flows for corporate overheads.

Our sensitivity analysis is summarised below in Figure 24.

Figure 24 Summary of sensitivity analysis



Source: PPB Advisory analysis

The valuation is somewhat sensitive to exchange rates as indicated in Figure 24, which demonstrates the effect of applying a flat (+/-) 0.05USD to the forecast exchange rates. The valuation assumes the average of forecast future prices between December 2015 and June 2016 being AUD/USD0.69 and AUD/USD0.72 thereafter.

Our valuation is not particularly sensitive to changes in the discount rate due to the relatively short (albeit varying) lives of each project and relatively stable annual cash flows, with minimal growth.

8. Valuation of Pre-Development Projects, Exploration Projects and Investments

8.1. Introduction

In determining the fair market value of Atlas using the sum of the parts, we have assessed the value of the Pre-Development Projects and Exploration Projects based on:

- historical acquisition and expenditure information provided by Management
- report prepared by Golder & Associates on McPhee Hub and Davidson Creek Hub Iron ore Projects dated July 2015
- report prepared by Ravensgate on the technical review and independent valuation of Giralia Resources dated 5 January 2011
- report prepared by Agricola Mining Consultants on the independent valuation of the exploration assets held by Warwick Resources dated 22 September 2009
- comparable company information sourced from Capital IQ and public reports
- our own experience and knowledge of exploration, mining and valuation of mineral projects.

Selected Methodology

For the reasons outlined in the previous section of this report, we consider the most appropriate methodology to value the Exploration Projects (ie those early stage projects where no resources have been defined) is the MEE methodology (Cost Approach).

For the Pre-Development Projects (ie those projects where resources have been defined but no feasibility study has been completed and/or a decision to mine has not been made) we consider a combination of the MEE methodology and Comparable Trading methodology (Market Approach) to be most appropriate.

8.2. Cost Approach – Multiple of Exploration Expenditure

Exploration expenditure

The MEE methodology considers the costs incurred in connection with the exploration and development of an exploration tenement or mining licence. The costs can be generally categorised as acquisition costs (ie the cost of acquiring the tenement from third party) and expenditure costs (ie the cost of undertaking exploration, evaluation and development activities). Together, these costs and expenditures comprise the expenditure base.

It is widely accepted that only relevant and effective past exploration expenditure should be considered in a MEE valuation assessment.

In order for exploration to be considered relevant and effective, the expenditure must:

- relate specifically to the tenement being assessed
- enhance or contribute to the value of the relevant tenement which is consistent with the prospectivity for which it is currently being evaluated.

Set out below are the criteria which should be met in order for exploration expenditure to be considered relevant and effective:

- **Relevant** – past exploration is related to the perceived exploration potential of the tenement or project at the date of the valuation.
- **Effective** – past exploration adequately fulfilled its intended purpose to identify and test relevant targets.

Below are examples of when expenditure may not be considered relevant and effective. In these circumstances the expenditure may be reduced or excluded entirely from the Expenditure Base.

- Exploration which is not undertaken correctly/efficiently or properly reported.
- Historic exploration which has been superseded, become redundant, or can now be undertaken more efficiently due to technological advances.
- Historical exploration which related to a mineral which is not the current focus of the tenement should be excluded.
- Expenditure associated with travel and administration may be excluded or limited (together with other overhead expenditure) to 10% - 15% of total expenditure.

We have assumed all expenditure undertaken in the past five years to be relevant and effective.

In our opinion, any activities undertaken prior to this period are not likely to be relevant to our assessment on the basis that it is out dated and no longer considered effective. This is in line with generally accepted valuation practice.

There are instances where budgeted expenditure may also be included in the exploration base. However, in our experience it is more common to consider budgeted expenditure when there is limited historical exploration. As at the Valuation Date, there had been no exploration expenditure attributable to Atlas on the following tenements:

- EL5129 (Atlas is a minority JV partner)
- E52/3306 (still under application)
- E36/1040.

Accordingly, we have assumed that the budgeted expenditure will be equivalent to the annual expenditure commitment and we have included this figure for 2015 in the expenditure for these three tenements.

We have ignored any potential future expenditure for the remaining tenements on the basis there was no committed expenditure on the Valuation Date and the outcome of any exploration is likely to be uncertain.

Expenditure base

We have relied on historical cost information provided to us by Management for the purposes of our valuation assessment.

The acquisition costs represent the carrying value of each tenement at the next applicable reporting date following the acquisition.

The exploration expenditure represents total expenditure by Atlas from the date that Atlas acquired the tenement or where Atlas applied for the tenement, from the date the tenement was granted.

A summary of the expenditure base comprising acquisition costs and exploration expenditure (in real terms) for each of the Pre-Development Projects and Exploration Projects is set out in Table 27. Further details in relation to the date of acquisition and cost for individual tenements comprising each project area are provided at Appendix J.

Table 27: Summary of expenditure base by Pre-Development Projects and Exploration Projects (in AUD)

Project	Acquisition Cost $	Expenditure Cost $	Expenditure Base $
Anthiby Well	6,301,000	168,317	**6,469,317**
Blue Rose (JV PacMag)	904,000	-	**904,000**
Corktree	500,000	504,730	**1,004,730**
Farrell's Well	1,125,000	2,871,260	**3,996,260**
Hickman	-	4,606,534	**4,606,534**
Jigalong	63,899,000	19,867,915	**83,766,915**
Jimblebar	8,340,000	3,975,958	**12,315,958**
Mount Gould	7,105,545	649,903	**7,755,448**
Upper Ashburton	3,840,000	2,993,541	**6,833,541**
Warrawanda	3,770,000	1,950,702	**5,720,702**
Watershed	600,000	571,800	**1,171,800**
Weld Range	9,302,391	546,130	**9,848,521**
Western Creek	53,240,000	3,728,901	**56,968,901**
Western Shaw	575,000	422,650	**997,650**
Yuinmery	-	1,833,812	**1,833,812**
Total	**159,501,936**	**44,692,152**	**204,194,088**

Source: PPB Advisory analysis

Prospectivity Enhancement Multiplier

We have multiplied the expenditure base by the Prospectivity Enhancement Multiplier ("PEM"). The PEM adjusts the expenditure base depending on the degree to which the past exploration expenditure has improved (or diminished) the prospectivity of the tenement as a whole for each prospect within the tenement.

The valuation methodology is based on the economic principal of replacement cost whereby the purchaser of a non-cash-generating asset will pay a price equivalent to the cost of securing the tenement plus the value of any exploration carried out on that tenement (which the buyer would also have had to expend in order to advance the project to the same stage as at the valuation date) plus or minus a premium/discount to account for the increased or decreased prospectivity of that project as a result of the work carried out.

We note that the assessment as to whether or not there is increased prospectivity is subjective and there is no standard guideline which correlates the prospectivity of a project to a particular PEM. However, the methodology itself is widely adopted, for example as described by the VALMIN code and the Australian Taxation Office.

We note that the assessment as to whether or not there is increased prospectivity is subjective and there is no standard guideline which correlates the prospectivity of a project to a particular PEM. However, the methodology itself is widely adopted, for example as described by the VALMIN code and the Australian Taxation Office.

M.J. Lawrence (past President of the Australasian Institute of Mining and Metallurgy) has published a set of widely accepted guidelines to assist with the selection of an appropriate PEM. These generally accepted PEM schemas are set out in Table 28 below and we have adopted them in our valuation.

Table 28 Generally Accepted PEM Schema

PEM	Description
0	No further exploration is justified. The tenement should be relinquished.
0 - 0.5	Exploration has significantly downgraded the tenement's prospectivity. The tenement remains at the grass roots stage in spite of considerable past and current exploration expenditure. Further exploration is not justified and a JV based upon a future royalty, or disposal (by sale or relinquishment) are the best options.
0.5 - 1.0	Past and recent exploration has maintained (rather than enhanced) or slightly downgraded the prospectivity of the tenement. Further field exploration is not justified without deposit model and geological reassessment. A non-contributory JV would be the best alternative.
1.0 - 1.3	Further exploration is justified, based on previous exploration results and the potential prospectivity of the deposit, which is based upon the geological model adopted. Recent exploration has maintained or slightly enhanced (but not downgraded) the prospectivity of the tenement. Contributory JVs should be considered.
1.3 - 1.5	The available data has considerably increased the prospectivity of the tenement by identifying and defining geochemical or geophysical anomalies and other exploration targets. Further exploration is justified. Contributory JVs could still be considered, but it may be worth taking it to the next stage alone, if the results are so encouraging.
1.5 - 2.0	Recent exploration has enhanced the prospectivity of the tenement. The results from the target area(s) due to past expenditure have identified some drill target(s); and reconnaissance drilling has found some interesting intersections of mineralisation. Further exploration is definitely justified to evaluate the target area(s). The PEM rises with the number of targets now involved and economic interest of any intersections.
2.0 - 2.5	Exploration has defined a target(s) with some drill intersections of economic interest and infill drilling is justified to attempt to define a Resource. Continue exploration alone or negotiate a very favourable JV deal.
2.5 - 3.0	A small Resource is very likely to be defined by the current drilling with potential for extension down dip or along strike by further infill drilling and other exploration. Evaluation does not yet include a prefeasibility study. Any JV should include being free-carried to the bankable feasibility study stage.
3.0 - 5.0	A Resource of variable significance has been defined with economic features (indicated by prefeasibility study) that make early conversion to Reserves probable. Additional Resources are also likely to be found by more drilling. Consider preparation of a feasibility study before selling any equity.

Source: Lawrence, M J, 2007. Valuation Methodology for Iron Ore Mineral Properties —Thoughts of an Old Valuer; Iron ore Conference, Perth WA, 20 – 22 August 2007

Asset Specific Factors

In order to select an appropriate PEM, we have considered project specific factors in addition to the exploration results. Project specific factors which may enhance or diminish the prospectivity of the Exploration Projects include:

- proximity of project area to available infrastructure
- occurrence of prospective geological units, which contain potentially economic concentrations of iron ore
- relative depth of occurrence of prospective geological units
- primary grade of identified resources and potential to concentrate iron ore through beneficiation.

Generally accepted valuation principles dictate that project specific factors do not include corporate strategic factors or synergies available to individual parties. For example, the owner of a project adjacent to one of the Exploration Projects may value them higher than other potential acquirers due to the proximity of the projects to their own projects. This company specific strategic value should not be taken into account when valuing an asset on a fair market value basis.

Section 2.3 provides a brief summary of the geology and location of each project.

PEM Ranges

Based on a detailed evaluation of exploration results and taking into account project specific factors, we have selected PEM ranges for each of the tenements comprising the Exploration Projects. A summary of our selected PEM ranges for each project area is set out in Table 29. Further details on a tenement by tenement basis are set out in Appendix K.

Table 29: Selected PEM Ranges by Project

Project	PEM Low	PEM High
Anthiby Well	0.75	1.25
Blue Rose (JV PacMag)	0.75	1.25
Corktree	0.25	0.75
Farrell's Well	0.50	1.75
Hickman	1.00	1.75
Jigalong	0.25	1.50
Jimblebar	0.25	1.75
Mount Gould	0.75	1.25
Upper Ashburton	0.25	0.75
Warrawanda	0.50	1.00
Watershed	0.25	0.75
Weld Range	0.75	1.25
Western Creek	0.75	1.25
Western Shaw	0.25	0.75
Yuinmery	0.25	1.00

Source: Management
Note: No value was attributed to Tenement E52/3306 from the Jimblebar project on the basis it is still in application.

Market adjustments

The product of the base value and PEM provides an underlying value, but not necessarily a fair market value. It is generally accepted that the value of an asset on one date may be different to the value of the same asset on another date due to a number of reasons, including:

- the time value of money
- information or demand relating to the asset or asset class
- prevailing economic conditions
- market sentiment.

In order to account for the above factors, we have adjusted the Underlying Value in accordance with the change in iron ore prices between the time of acquisition/expenditure and the Valuation Date.

Historically, the market value or fair market value of iron ore assets is strongly correlated to the prevailing iron ore price.

The prevailing iron ore price and hence market sentiment towards iron ore assets, as at the Valuation Date, is very low in comparison to the prevailing iron ore price over at least the past 5 years. This is evidenced in Figure 6 above which shows the iron ore price has declined by over 75% from January 2011 to the Valuation Date.

Valuation summary

The fair market values we have assessed based on the MEE methodology for the Pre-Development and Exploration Projects are summarised as:

Table 30: Fair market value based on MEE Methodology

Project	Low	High	Midpoint
Anthiby Well	1,567,242	2,612,070	**2,089,656**
Blue Rose (JV PacMag)	218,074	363,457	**290,766**
Corktree	93,154	279,462	**186,308**
Farrell's Well	2,774,093	4,167,110	**3,470,601**
Hickman	1,714,287	2,476,679	**2,095,483**
Jigalong	26,478,903	39,187,616	**32,833,260**
Jimblebar	3,933,451	5,807,171	**4,870,311**
Mount Gould	3,959,591	6,599,319	**5,279,455**
Upper Ashburton	594,153	1,782,459	**1,188,306**
Warrawanda	881,092	1,762,183	**1,321,637**
Watershed	96,366	289,099	**192,733**
Weld Range	4,374,491	7,290,819	**5,832,655**
Western Creek	13,749,817	22,916,361	**18,333,089**
Western Shaw	125,834	368,785	**247,310**
Yuinmery	153,566	460,697	**307,131**
Total	**60,714,115**	**96,363,287**	**78,538,701**

Source: PPB Advisory analysis

8.3. Market Approach – Comparable Trading Analysis

In order to value the Pre-Development Projects, we have also considered the comparable trading analysis methodology.

Comparable trading analysis estimates the value of the subject asset or project based on the current market value of publicly traded companies which hold similar assets or projects. The value of publicly traded companies is determined based on the trading of shares in the company by multiple buyers and sellers on an organised exchange, such as the ASX. On this basis, the comparable company trading values are assumed to reflect the fair market value of the underlying assets and projects on a minority interest basis.

We have identified nine ASX listed companies (refer Table 31) that have iron ore projects at similar stages of development to the Pre-Development Projects. Accordingly, we have applied a standard 30% premium to the market capitalisation of these companies to reflect their equity value on a control basis.

Table 31 : Comparable pre-development companies

Ticker	Company	Market Capitalisation $	Net Debt $	EV $
ASX:AZQ	Ascot Resources Limited*	1,264,614	(1,436,710)	(172,096)
ASX:BCK	Brockman Mining Limited	291,256,745	(98,297,000)	192,959,745
ASX:CTM	Centaurus Metals Limited	4,322,149	(277,410)	4,044,739
ASX:FMS	Flinders Mines Limited.	46,797,101	(3,770,160)	43,026,941
ASX:IRD	Iron Road Limited	75,651,797	(3,440,750)	72,211,047
ASX:MDX	Mindax Limited	1,527,773	711,530	2,239,303
ASX:RAD	Radar Iron Limited	13,324,051	391,410	13,715,461
ASX:RHI	Red Hill Iron Limited	31,792,137	(532,110)	31,260,027
ASX:WFE	Winmar Resources Limited	2,214,732	(453,770)	1,760,962

** Ascot Resources Limited delisted on 24 December 2015, approximately one month after the valuation date.*
Source: Capital IQ

We have analysed the enterprise value ("EV") per tonne of iron contained in the total Mineral Resource of each identified comparable company as at the Valuation Date ("Resource Multiple"). The Resource Multiple for the comparable companies as at the Valuation Date range from 0.009 to 0.210 with an average of 0.084, as set out in Table 32 below. Further information on each comparable company is contained in Appendix L.

Table 32: Comparable pre-development companies

Company	EV $	Total Resource (Mt)	Grade (Fe %)	Resource Multiple (EV/Contained Fe)
Ascot Resources Limited	(172,096)	97.8	57.1	N/A
Brockman Mining Limited	192,959,745	1,988.9	46.2	0.210
Centaurus Metals Limited	4,044,739	214.5	30.0	0.063
Flinders Mines Limited.	43,026,941	1,218.8	50.5	0.070
Iron Road Limited	72,211,047	4,510.0	15.9	0.101
Mindax Limited	2,239,303	1,737.8	31.9	0.004
Radar Iron Limited	13,715,461	742.9	27.5	0.067
Red Hill Iron Limited	31,260,027	388.0	55.9	0.144
Winmar Resources Limited	1,760,962	343.2	54.7	0.009
Average				**0.084**

Source: CapitalIQ, Comparable Pre-Development companies' annual reports and announcements

In our opinion, Red Hill Iron Limited is the most comparable Pre-Development and Exploration company based on the maturity, size and grade of its projects. Accordingly, we have placed a greater weighting on the Resource Multiple of Red Hill Iron Limited when selecting an appropriate Resource Multiple in the range of 0.1 to 0.2 to apply to the Pre-Development Projects.

The fair market value of the Pre-Development Projects, based on our comparable trading analysis, is summarised in Table 33 Below. We note that the resource estimates used reflect estimates as at 30 June 2015.

Table 33: Fair Market Value range of Pre-Development Projects based on comparable trading analysis

	Total Resources		Resource Multiple			Value		
Project	Mt	Grade Fe %	Low	High	Preferred	Low	High	Preferred
Anthiby Well	38.00	53.60	0.10	0.20	0.15	2,036,800	4,073,600	3,055,200
Farrell's Well	4.00	57.60	0.10	0.20	0.15	230,400	460,800	345,600
Hickman	70.00	55.40	0.10	0.20	0.15	3,878,000	7,756,000	5,817,000
Jimblebar	69.10	57.10	0.10	0.20	0.15	3,944,710	7,889,420	5,917,065
Jigalong	476.30	56.06	0.10	0.20	0.15	26,702,170	53,404,340	40,053,255
Warrawanda	24.00	56.80	0.10	0.20	0.15	1,363,200	2,726,400	2,044,800
Weld Range	12.00	60.00	0.10	0.20	0.15	720,000	1,440,000	1,080,000
Western Creek	79.00	56.00	0.10	0.20	0.15	4,424,000	8,848,000	6,636,000

Source: CapitalIQ, Comparable Pre-Development companies' annual reports and announcements

Valuation Summary

The values we have assessed for both the Exploration Projects and Pre-Development Projects are summarised in Table 34 below.

Table 34: Fair Market Value of Exploration Projects and Pre-Development Projects

Project	Low $	High $	Midpoint $
Anthiby Well	1,567,242	4,073,600	2,820,421
Blue Rose (JV PacMag)	218,074	363,457	290,766
Corktree	93,154	279,462	186,308
Farrell's Well	230,400	4,167,110	2,198,755
Hickman	1,714,287	7,756,000	4,735,144
Jigalong	26,478,903	53,404,340	39,941,622
Jimblebar	3,933,451	7,889,420	5,911,436
Mount Gould	3,959,591	6,599,319	5,279,455
Upper Ashburton	594,153	1,782,459	1,188,306
Warrawanda	881,092	2,726,400	1,803,746
Watershed	96,366	289,099	192,733
Weld Range	720,000	7,290,819	4,005,409
Western Creek	4,424,000	22,916,361	13,670,181
Western Shaw	125,834	368,785	247,310
Yuinmery	153,566	460,697	307,131
Total	**45,190,114**	**120,367,328**	**82,778,721**

Source: CapitalIQ, Comparable Pre-Development companies' annual reports and announcements

Using the comparable trading analysis methodology, we calculated a fair market value for Corunna between $3.7 million and $7.4 million and a fair market value for McPhee between $13.9 million and $27.8 million.

We note that these ranges of values are significantly lower that the values derived for Corunna and McPhee using the DCF methodology of $87.1 million to $91.6 million and $120.6 million and $130.2 million, respectively because the DCF mythology is based on long term cash flows of over the life of the mines of 5-6 years for Corunna and 10 years for McPhee to extract the total resource compared to the resource multiples applied of between 0.1 and 0.2.

8.4. Valuation of the investments

In determining the fair market value of Atlas using the sum of the parts, we have valued the Investments using the market approach, current market prices and analysis of financial statements.

Based on the share prices of Centuarus as at 30 November 2015, the value of the Company's interest in Centuarus is approximately $241,281.

9. Valuation cross checks and conclusion

We have determined the fair market value of Atlas using the sum of the parts. Our range of values of the sum of the parts and the enterprise value of Atlas is summarised in Table 35.

9.1. Summary of enterprise value

Table 35: Summary valuation

	Section	Low Value $ million	High Value $ million
Present value of forecast cash flows – Production Projects	7.6	286.79	298.92
Present value of forecast cash flows – McPhee	7.6	120.64	130.23
Present value of forecast cash flows – Corunna	7.6	87.17	91.62
Present value of forecast cash flows – Total	7.6	**494.60**	**520.77**
Pre-Development Projects and Exploration Projects	8.3	45.2	120.4
Investments	8.4	0.2	0.2
Enterprise value		**540.0**	**641.4**

Source: PPB Advisory analysis, Management

Atlas has significant tax losses carried forward. Over the period of the financial forecast, the Company does not utilise all of its tax losses.

Since the tax losses carried forward could continue to be applied to taxable income beyond the forecast cash flows, we have not attributed any value to the tax losses carried forward beyond the period of the cash flows.

9.2. Cross checks

We have cross-checked the reasonableness of our valuation of Atlas using our primary methodology, by:

- calculating the implied EBITDA multiples of Atlas and comparing them to potentially comparable listed companies
- calculating the net asset value of Atlas
- considering the prices at which the Company's shares have traded on ASX.

9.2.1. Cross check - implied EBITDA multiples

The enterprise value of Atlas as summarised in Section 9.1 assumes the following implied multiples:

Table 36: Summary – implied multiples

$ million	Low value	High value
Enterprise value	**540.0**	**641.4**
EBITDA – FY14	232.4	232.4
Implied EBITDA multiple	2.32	2.76
EBITDA – FY15	(142.0)	(142.0)
Implied EBITDA multiple	nm	nm
EBITDA - FY16	(5.0)	(5.0)
Implied EBITDA multiple	nm	nm

Source: Financial Model, Management accounts and PPB Advisory analysis
Nm – not meaningful

Since EBITDA for FY15 and FY16 are negative, the implied multiples are meaningless.

We have compared the FY14 implied EBITDA multiples for Atlas to the trading multiples for the potentially comparable companies.

Share market trading multiples

The share market valuation of listed companies provides evidence on an appropriate earnings multiple for Atlas. The share price of listed companies represents the value of a minority interest in a company.

We compiled share market trading multiples for listed companies comparable to Atlas. These companies, together with their earnings multiples, are summarised in the following table.

Table 37: Earnings multiples - share market trading

Company Name As at	Market Cap 30 Nov 15 AUDm	Enterprise Value 30 Nov 15 AUDm	EBIT Multiple LTM Actual	EBIT Multiple NTM Forecast	EBITDA Multiple LTM Actual	EBITDA Multiple NTM Forecast
Arrium Limited	232	1,991	nmf	13.41	nmf	5.19
BC Iron Limited	47	(14)	0.00	nmf	nmf	nmf
Fortescue Metals Group Limited	6,103	15,460	13.56	9.42	5.58	4.81
Grange Resources Limited	139	29	nmf	1.29	8.98	0.91
Mount Gibson Iron Limited	207	119	nmf	nmf	nmf	14.73
Atlas Iron Limited	*56*	*322*	*nmf*	*nmf*	*nmf*	*3.66*
Average (all)			**6.78**	**8.04**	**7.28**	**6.41**
Median			**6.78**	**9.42**	**7.28**	**5.00**
Average excluding outliers			**13.56**	**11.42**	**7.28**	**8.24**

Source: Capital IQ
Average and median do not include Atlas, LTM = last 12 months, NTM = next 12 months
Nmf = not meaningful

Specific details regarding the above companies and the calculation of the earnings multiples are provided at Appendix C and Appendix D.

General comments regarding the multiples, together with the historic growth, margins and operations of the above companies, are listed below:

- enterprise values were calculated by summing the total of the net borrowings at the company's most recent reporting date and the market capitalisation at 30 November 2015. Earnings were extracted from the last available annual reports
- many of the above companies are considerably larger than Atlas. In general, larger companies have higher earnings multiples than smaller companies
- some of the companies are loss making at some point in time
- some of the above companies are more diversified than Atlas. Despite these differences, their trading multiples do provide some evidence for our selection of an appropriate range of EBITDA multiples for the valuation of Atlas
- the trading multiples, above have been adjusted to reflect a 30% premium for control
- the historical FY15 EBITDA multiples range between 5.6 times and 9.0 times, and average 7.3 times (including above control premium)
- the forecast FY16 EBITDA multiples range between 4.8 times and 14.7 times, and average 8.2 times excluding outliers (including above control premium)
- Fortescue and Grange's EBITDA margin for FY16 of 38.2% and 41.5 % are higher than the average EBITDA margin of 20.3% of the selected comparable listed companies and the Company's of 11.3%
- The Company's historical and forecast revenue growth is in line with the selected comparable listed companies which have all been negative. This is attributable to the declining iron ore prices
- all of the selected comparable listed companies engage in iron ore production in Australia. Northern Iron has operations in Norway.
- Based on our analysis, although selected comparable listed companies are all generally larger, they are broadly comparable to Atlas, for the purpose of the implied multiple cross check.

Our search for recent transactions did not reveal any meaningful results with most of the transactions being dated and occurring when the iron ore price was favourable and hence we considered that they were not relevant for the purposes of our valuation.

Conclusion on EBITDA multiple cross check

Based on our analysis of the trading multiples of potentially comparable listed companies, our enterprise value for Atlas is not unreasonable.

9.2.2. Cross check - net asset value

We have calculated the net asset value of Atlas on an ungeared basis by adjusting the balance sheet as set out in Section 4.3 for net debt. The net asset value of Atlas, on an ungeared basis as at 30 November 2015, is summarised as follows:

Table 38: Summary net asset value

$ million	Section	30-Nov-15
Net assets at book value	4.3	**229.7**
Less Cash	4.3	(94.3)
Less Financial assets	4.3	(1.8)
Less Intangible assets	4.3	(1.1)
Add Current interest bearing liabilities	4.3	5.7
Add Non-current interest bearing liabilities	4.3	367.0
Total ungeared net assets		**505.2**
PPB Advisory calculated enterprise value (mid-point)	7.6	**590.7**
Difference (%)		*16.9%*

Source: PPB Advisory analysis, Management

The net asset value generally provides the minimum value for an asset. The difference represents between a valuation undertaken using a DCF methodology and Market Approach compared to the net asset value generally reflects potential goodwill. In the case of Atlas the goodwill would represent managements know how and that Atlas comprises a combination of Production, Development, Pre Development and Exploration Projects that could contribute to synergies or efficiencies rather than stand alone assets as assumed in a net asset valuation.

Conclusion on net asset value cross check

Based on our analysis in Table 38, above, our enterprise value for Atlas is not unreasonable.

9.2.3. Cross check - recent share price trading

As a further cross check of the fair market value of Atlas, we have considered the:

- 15 day VWAP for the Company's shares as at 30 November 2015
- last traded price of the Company's shares as at 30 November 2015.

Table 39: Summary recent share trading

Share price cross check		Low	High
Enterprise value	$ million	**540.0**	**641.4**
15 day VWAP as at 30 November 2015	$	0.0242	
Average shares outstanding	#	2,669,787,050	
Implied market capitalisation	$ million	65	
Add control premium	*30.0%*	84	
Add net debt	$ million	278	
Implied enterprise value	$ million	**427**	
Difference		*113*	*214.44*
Difference %		*20.9%*	*33.4%*
Last traded price at 30 November 2015	$	0.0216	
Average shares outstanding	#	2,669,787,050	
Implied market capitalisation	$ million	58	
Add control premium	*30.0%*	75	
Add net debt	$ million	278	
Implied enterprise value	$ million	**411**	
Difference		*129*	*230.4*
Difference %		*23.9%*	*35.9%*

Source: PPB Advisory analysis, Management

We would expect the implied enterprise value derived using the market capitalisation to be lower than the enterprise value calculated using the discounted cash flow method for the following reasons:

- the share prices incorporate financial information as announced by the Company, which is generally short term, whereas we have used long term forecast cash flows in our valuation of up to 27 years
- we have included a value for the Exploration Projects, when it is highly likely that the share price does not incorporate any value for these assets.

9.2.4. Summary of cross checks

As summarised above, we have cross-checked the reasonableness of the valuation of Atlas using our primary methodologies by considering:

- calculating the implied EBITDA multiples of Atlas and comparing them to potentially comparable listed companies
- calculating the net asset value of Atlas
- considering the prices at which the Company's shares have traded on ASX.

Based on our cross checks as summarised above, our valuation Atlas does not appear unreasonable.

9.3. Valuation conclusion

Based on our analysis, we have determined that the fair market value of the business of Atlas, on an ungeared basis, is in the range of $540.0 million to $641.4 million as at 30 November 2015.

No value within the range is any more or less appropriate than any other value in the range. In the event that a single value is required, we would recommend the adoption of the mid-point of our valuation range of $590.7 million.

10. Qualifications and declarations

10.1. Qualifications

PPB Advisory provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities.

Campbell Jaski, BSc (Hons) Geology, MBA, FAusIMM (CP), is a Partner of PPB Advisory. Campbell is the Partner responsible for this report.

Campbell has in excess of 20 years of mining and corporate advisory experience and has undertaken numerous corporate finance assignments such as infrastructure valuations, independent expert reports, other type of valuations, due diligences and financial modelling.

Fiona Hansen, CA, has a B.Com and Hons in Accounting Science, and is a Director of PPB Advisory. Fiona is the Director responsible for the preparation of this report.

Fiona has in excess of 20 years' experience in corporate finance and has undertaken numerous corporate finance assignments involving acquisitions, divestments, infrastructure valuations, independent expert reports and financial due diligence.

10.2. Limitations

By its very nature, the formulation of a valuation opinion necessarily contains significant uncertainties and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgement. Therefore, there is no indisputable value, and we normally express our opinion as falling within a likely range.

We have not considered special value in forming our opinion. Special value is the amount that a potential acquirer may be prepared to pay for an asset in excess of the fair market value. This premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the asset not available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchases.

10.3. Valuation Date

Our opinion is based on economic, market and other conditions prevailing at the Valuation Date. Such conditions can change significantly over relatively short periods of time.

Accordingly, changes in those conditions may result in the valuation becoming quickly out-dated and in need of revision. PPB Advisory reserves the right to revise any valuation, or other opinion, in the light of material information existing at the Valuation Date that subsequently becomes known to PPB Advisory.

10.4. Use of report

Our report is prepared solely for the purpose set out in the letters of engagement in the Independent Expert's Report.

PPB Advisory does not accept any responsibility for its use outside this purpose or by any other parties. Except in accordance with the stated purpose, no extract, quote, or copy of our report, in whole or in part, should be reproduced without the prior written consent of PPB Advisory, as to the form and context in which it may appear.

10.5. Sources of information

Information used in the preparation of this valuation included historical and prospective financial information for Atlas, discussions with the Management of Atlas regarding the nature of Atlas, its operations, financial performances and prospects, and a number of external sources, such as Capital IQ.

Appendix A to this report sets out sources of information referred to and relied upon by PPB Advisory during the course of preparing this report and forming our opinion.

10.6. Prospective financial information

The information provided to PPB Advisory includes prospective financial information prepared by Management.

PPB Advisory has not been engaged to undertake an independent review of the budgets prepared by Management, and has not undertaken such a review. Accordingly, we do not express an opinion on the reasonableness of the assumptions underlying the budgets, or their achievability.

PPB Advisory has assumed that any prospective financial information provided by Atlas has been prepared fairly and honestly based on the information available to Management at the time and within the practical constraints and limitations of such prospective financial information. We have assumed that the prospective financial information does not reflect any material bias, either positive or negative. The achievability of the prospective financial information is not warranted or guaranteed by Atlas or PPB Advisory.

Prospective financial information is dependent on the outcome of many assumptions, some of which are outside the control of Atlas. Assumptions relating to prospective financial information can be reasonable at the time of their preparation, but can change materially over a relatively short time. If there is a change in any of the assumptions, our valuation opinion will change, perhaps materially.

10.7. No verification

PPB Advisory's procedures, in the preparation of this report, may involve an analysis of financial information and accounting records. As set out in this report, the work undertaken does not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards issued by the Australian Auditing and Assurance Standards Board. Accordingly, PPB Advisory does not warrant that its inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

10.8. Reliance on information

In preparing this report, we have relied on information provided by the Management. We have not undertaken any verification of the financial or other information provided by them, or other parties, as set out in this report. PPB Advisory's believes the information provided to be reliable, complete and not misleading and has no reason to believe that any material facts have been withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of satisfying ourselves that there were reasonable grounds for believing that the information was appropriate for use by us in forming our opinion. Where PPB Advisory's has relied on the views and judgement of the Management, the information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

10.9. APES 225

Our valuation report has been prepared in accordance with the requirements of APES 225 issued by the Accounting Professional & Ethical Standards Board. As required under APES 225, we confirm that we are independent of Atlas for the purpose of this valuation and our fee is not contingent on the conclusion, content or future use of this report.

Appendix A. Sources of information

In preparing this report, we have used the following information:

- Corporate Model
- Corunna Model
- Statutory financial statements for Atlas Iron Limited
- ASX announcements
- Capital IQ, Bloomberg, IBISWorld
- RBA website for exchange rates, inflation rates and 10 year Commonwealth Government Bond
- Company announcements and investor presentations for BHP Billiton, Vale, Fortescue, Rio Tinto
- Draft Explanatory Statement for the creditors scheme of arrangement and draft scheme of arrangement
- Project feasibility studies as announced to ASX by Atlas
- NMI JV Management accounts 31 December 2015
- Independent expert's reports and target statements for the acquisition of Giralia and Ferraus
- Atlas prospectus and supplementary prospectus dated 11 June 2015
- Annual report for Centaurus 31 December 2014
- BHP investor presentation October 2014
- Various broker equity research reports on the mining, iron ore sector
- Atlas board reports
- Syndicated facility agreement
- Atlas website

We have also had discussions with Management of Atlas and the financial advisor to Atlas, Lazard Ltd.

Appendix B. Valuation methodologies

To estimate the fair market value of the Company, we have considered the common market practice and the valuation methodologies recommended by Australian Securities and Investments Commission ("ASIC") Regulatory Guide 111, that provide guidance in respect of the content of independent expert's reports. The common valuation methods are as follows:

- market based methods
- income based methods
- asset based methods.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the company or asset being valued, the methodology most commonly adopted in valuing such companies or assets and the availability of appropriate information.

These methodologies are summarised below:

Market based methods

Market based methods estimate a company fair market value by considering the market price of transactions in its shares or the market value of comparable companies. The market based methods include:

- capitalisation of earnings
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of earnings method estimate the fair market value based on a company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings is appropriate where a company's earnings are relatively stable and it is assumed that the business will continue trading as a going concern indefinitely.

The most recent share trading history provides evidence of the market value of the shares of the company where they are publicly traded in an informed market.

Industry specific methods estimate the market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods, because they do not account for company specific factors. Industry specific methods are typically used as cross checks in specific industries.

Income based methods

DCF methods estimate the fair market value by discounting a company's future cash flows to a net present value using an appropriate discount rate. The DCF method is appropriate where there are long term projections of future cash flows of at least five to ten years and the projections can be made with a reasonable level of confidence.

DCF methods are appropriate where:

- the business' earnings are capable of being forecast for a reasonable period (preferably five to 10 years) with reasonable accuracy
- earnings or cash flows are expected to fluctuate significantly from year to year
- the business or asset has a finite life
- the business is in a 'start up' or in early stages of development
- the business has irregular capital expenditure requirements
- the business involves infrastructure projects with major capital expenditure requirements
- the business is currently making losses but is expected to recover.

Asset based methods

Asset based methods estimate the fair market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets
- liquidation of assets
- net assets on a going concern basis.

The orderly realisation of assets method estimates the fair market value of the net assets by estimating the amount that would be distributed to its shareholders after the payment of all liabilities are satisfied including realisation costs and taxation, assuming that the company is wound up in an orderly manner.

The liquidation of assets method is similar to the orderly realisation of assets method except that the liquidation method assumes that the assets are sold in a shorter timeframe. Since wind up or liquidation of the company may or may not be contemplated, this method in its strictest form may not necessarily appropriate.

The net assets on a going concern basis estimates the fair market value of the net assets of the company but does not take into account realisation costs.

The net asset value of a trading will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The assets based methods are relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business.

The net realisable assets methodology is also used as a cross check for the values derived using other methods.

For exploration assets, the VALMIN Code classifies mineral assets into five categories:

- Exploration Areas - properties where mineralisation may or may not have been identified, but where a Resource has not been identified.
- Advanced Exploration Areas - properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation. A Resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect.
- Pre-Development Projects - properties where Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made.
- Development Projects - properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels.
- Operating Mines - mineral properties, particularly mines and processing plants that have been commissioned and are in production.

Appendix C. Comparable listed companies - descriptions

An initial search identified five Australian companies which operate in the same industry as Atlas. These companies are listed below:

Company Name	Business Description
Arrium Limited	Arrium Limited engages in the mining and supply of iron ore and other steelmaking raw materials to steel mills in Australia and internationally. The company operates through Mining, Mining Consumables, Steel, and Recycling segments. The Mining segment owns and operates the Middleback Ranges and Southern Iron projects located in South Australia; and exports hematite iron ore. The Mining Consumables segment manufactures and supplies consumables, such as grinding media, grinding rods, grinding media feed, rebar and chemicals, and wire ropes, as well as rail wheels, axles, and wheel sets for the rail transport and mining sectors. The Steel segment manufactures and distributes steel long products, billets, and rail and structural steel products; and distributes steel and metal products, including structural steel sections, steel plates, angles, channels, reinforcing steel, and carbon products to the construction, manufacturing, and resource markets. The Recycling segment supplies steelmaking raw materials to foundries, smelters, and steel mills; and recycles ferrous and non-ferrous scrap metal. The company was formerly known as OneSteel Limited and changed its name to Arrium Limited in July 2012. Arrium Limited is headquartered in Sydney, NSW.
BC Iron Limited	BC Iron Limited primarily explores for, develops, and produces iron ore deposits in the Pilbara region of Western Australia. The company also explores for hematite and magnetite ores. Its principal projects include the Nullagine iron ore project located to the north of Newman; the Iron Valley project situated in the Central Pilbara; and the Buckland project located in the West Pilbara region. The company was founded in 2006 and is based in West Perth, WA.
Fortescue Metals Group Limited	Fortescue Metals Group Limited produces and sells iron ore in Australia, China, and internationally. It owns and operates the Chichester Hub that consists of the Cloudbreak and Christmas Creek mines located in the Chichester Ranges in the Pilbara, Western Australia; and the Solomon Hub comprising the Firetail and Kings Valley mines located in the Hamersley Ranges in the Pilbara, Western Australia. The company was founded in 2003 and is headquartered in East Perth, WA.
Grange Resources Limited	Grange Resources Limited owns and operates integrated iron ore mining and pellet production business in the north-west region of Tasmania. It is involved in the mining, processing, and sale of iron ore deposits. The company primarily owns interests in the Savage River magnetite iron ore mine located to the southwest of the city of Burnie. It is also involved in the exploration, evaluation, and development of the Southdown Magnetite project located near Albany, Western Australia; and associated Pellet Plant projects in Port Latta located to the northwest of Burnie. In addition, the company explores for copper and gold deposits. Grange Resources Limited is based in Burnie, TAS.
Mount Gibson Iron Limited	Mount Gibson Iron Limited, together with its subsidiaries, engages in the mining, exploration, development, transportation, and sale of hematite iron ore deposits in Australia. The company primarily operates the Koolan Island hematite mine situated in the northern Kimberley coast of Western Australia; and the Extension Hill hematite project located in the Mount Gibson range, southeast of Geraldton. Mount Gibson Iron Limited was founded in 1996 and is based in West Perth, WA.

Source: Capital IQ

Appendix D. Comparable listed companies – multiples and betas

The EBIT and EBITDA of the selected comparable listed companies with other relevant metrics are summarised below:

Company Name	Latest Financial Year End	Market Cap as at 30/11/15 AUDm	Enterprise Value as at 30/11/15 AUDm	EBIT Multiple LTM Actual	EBIT Multiple NTM Forecast	EBITDA Multiple LTM Actual	EBITDA Multiple NTM Forecast	EBITDA Margin LTM Actual	EBITDA Margin Forecast
Arrium Limited	30/06/2015	232	1,991	nmf	13.41	nmf	5.19	-1.1%	7.1%
BC Iron Limited	30/06/2015	47	-14	0.00	nmf	nmf	nmf	1.8%	9.7%
Fortescue Metals Group Limited	30/06/2015	6,103	15,460	13.56	9.42	5.58	4.81	27.8%	38.2%
Grange Resources Limited	31/12/2014	139	29	nmf	1.29	8.98	0.91	42.3%	41.5%
Mount Gibson Iron Limited	30/06/2015	207	119	nmf	nmf	nmf	14.73	0.0%	4.8%
Atlas Iron Limited	*30/06/2015*	*56*	*322*	*nmf*	*nmf*	*nmf*	*3.66*	*-16.3%*	*11.3%*
Average (all)				**6.78**	**8.04**	**7.28**	**6.41**	**12.1%**	**20.3%**
Median (all)				**6.78**	**9.42**	**7.28**	**5.00**	**1.8%**	**9.7%**
Average excluding outliers				**13.56**	**11.42**	**7.28**	**8.24**		

Company Name	Revenue LTM Actual	Revenue NTM Forecast	EBITDA LTM Actual	EBITDA NTM Forecast	Revenue Growth LTM Actual	Revenue Growth NTM Forecast	Revenue Growth NTM +1 Forecast	EBITDA Growth LTM Actual	EBITDA Growth NTM Forecast
Arrium Limited	5896.30	5918.91	-64.80	407.49	-9.3%	-10.2%	-0.5%	-108.0%	19.2%
BC Iron Limited	278.59	290.52	3.87	-4.40	-40.3%	-9.4%	7.0%	-96.6%	-217.2%
Fortescue Metals Group Limited	11,140.29	8476.89	3088.55	2384.93	-27.0%	-20.6%	-0.9%	-57.1%	7.8%
Grange Resources Limited	297.16	235.25	125.58	43.24	5.7%	-23.3%	5.5%	102.7%	-56.4%
Mount Gibson Iron Limited	315.64	166.25	-0.26	-17.02	-52.2%	-19.0%	-37.0%	-100.0%	-67.6%
Atlas Iron Limited	*718.47*	*821.81*	*-113.05*	*6.40*	*-34.5%*	*3.5%*	*-13.9%*	*-148.9%*	*-308.9%*
Average	**3025.13**	**2514.64**	**526.12**	**469.04**	**-22.4%**	**-16.5%**	**-5.2%**	**-57.5%**	**-62.9%**
Median	**306.40**	**262.88**	**3.81**	**21.62**	**-19.0%**	**-19.0%**	**-0.5%**	**-91.2%**	**-56.4%**

Source: Capital IQ and PPB Advisory analysis and median calculations *Nmf – not meaningful* *LTM – Last twelve months* *NTM – Next twelve months* *Atlas is not included in the average*

Comparable listed companies – betas

Beta Type	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly	Adjusted Weekly
Time Period	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**5 Year**	**5 Year**
Average Gearing	**Equity Beta**	**Equity Beta**	**Equity Beta**	**Equity Beta**	**Equity Beta**	**Asset Beta**	**Asset Beta**	**Asset Beta**	**Asset Beta**	**Asset Beta**	**R-Squared**	**T-Test**
End Date	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**
Arrium Limited	1.05	1.37	1.52	1.86	1.69	0.31	0.63	0.68	0.82	0.87	0.19	Positive
BC Iron Limited	1.59	1.53	1.49	1.35	1.21	1.59	1.53	1.49	1.35	1.21	0.09	Positive
Fortescue Metals Group Limited	1.20	1.34	1.32	1.30	1.34	0.72	0.90	0.87	0.90	0.99	0.20	Positive
Grange Resources Limited	0.89	1.02	0.87	0.95	1.25	0.89	1.02	0.87	0.95	1.25	0.11	Positive
Mount Gibson Iron Limited	0.45	0.61	0.82	1.12	1.37	0.45	0.61	0.82	1.12	1.37	0.15	Positive
Atlas Iron Limited	*0.62*	*0.80*	*0.95*	*1.16*	*1.25*	*0.26*	*0.68*	*0.90*	*1.16*	*1.25*	*0.07*	*Positive*
Median	1.05	1.34	1.32	1.30	1.34	0.72	0.90	0.87	0.95	1.21	0.15	
Mean	1.04	1.17	1.21	1.32	1.37	0.79	0.94	0.95	1.03	1.14	0.15	
Time Period	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**5 Year**	**5 Year**
Average Gearing	**Debt-to-Equity**	**Debt-to-Equity**	**Debt-to-Equity**	**Debt-to-Equity**	**Debt-to-Equity**	**Debt-to-Value**	**Debt-to-Value**	**Debt-to-Value**	**Debt-to-Value**	**Debt-to-Value**	**R-Squared**	**T-Test**
End Date	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**	**30-Nov-15**
Arrium Limited	3.37	1.69	1.77	1.82	1.34	0.77	0.63	0.64	0.65	0.57	0.19	Positive
BC Iron Limited	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.09	Positive
Fortescue Metals Group Limited	0.96	0.71	0.75	0.64	0.50	0.49	0.41	0.43	0.39	0.34	0.20	Positive
Grange Resources Limited	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	Positive
Mount Gibson Iron Limited	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	Positive
Atlas Iron Limited	*1.91*	*0.26*	*0.07*	*0.00*	*0.00*	*0.66*	*0.21*	*0.06*	*0.00*	*0.00*	*0.07*	*Positive*
Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	
Mean	0.87	0.48	0.50	0.49	0.37	0.25	0.21	0.21	0.21	0.18	0.13	

Source: Capital IQ & PPBA Analysis. Outliers shaded in grey are based on 80% deviation confidence level, R-Squared < 0.05, and negative T-tests with 95.0% confidence

Appendix E. Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor. Discount rates are determined based on the cost of its debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the Weighted Average Cost of Capital ("WACC"). The WACC can be derived using the following formula:

WACC = ((E/V) * Ke) + (((D/V) * Kd)*(1-tc))

The components of the formula are:

Ke	=	cost of equity capital
Kd	=	cost of debt
tc	=	corporate tax rate
E/V	=	proportion of company funded by equity
D/V	=	proportion of company funded by debt

The adjustment of Kd by (1-tc) reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 30%.

Cost of equity capital

The cost of equity ("Ke") is the rate of return that investors require to make an equity investment in a firm.

We have used the Capital Asset Pricing Model ("CAPM") to estimate the Ke for Atlas. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

Under the "classical" system of double taxation of dividends which existed in Australia until the introduction of dividend imputation in 1987 (and which still applies in many countries), the cost of equity capital under CAPM is determined using the following formula:

Ke = Rf + β (Rm – Rf) + a

The components of the formula are:

Ke	=	required return on equity
Rf	=	the risk-free rate of return
Rm	=	the expected return on the market portfolio
β	=	beta, the systematic risk of a stock which can be objectively measured by the responsiveness of company returns to movements in returns earned on the market portfolio
a	=	specific company risk premium

Each of the components is discussed below.

Risk-free rate

The risk-free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk-free rate is the long-term government bond rate.

Australian CGB is typically used as a proxy for the risk-free asset.

The increased level of global market uncertainty over recent years has led to investors seeking lower risk investments. As such, government securities have experienced increased funds inflow, which has depressed the yields being returned. The falling risk-free (government securities) rates currently observed are the result of market factors and equity prices, and do not necessarily mean that investors are seeking lower rates of return for longer term investments.

As such, it is necessary to review the risk-free rate over a longer period, rather than select a spot or current observed rate, to reflect longer term expectations.

Specifically, we have had regard to inflation adjusted Australian government bonds over short and long-term periods.

In determining Rf we have used the 10 year CGB yield of 4.5% (which represents the average rate over a 10 year period to the valuation date). The CGB is generally used and is an accepted benchmark for the risk-free rate. This rate represents a nominal rate and therefore includes inflation.

Specifically, we have considered:

- The yield on inflation adjusted CGB over a 10-year period, which is a proxy for the real risk free rate. We then applied forecast inflation, based on the financial model, to determine the nominal risk free rate.
- The nominal yield on CGB over a 10 year period, ie. including inflation, and therefore providing a proxy for the nominal risk-free rate.

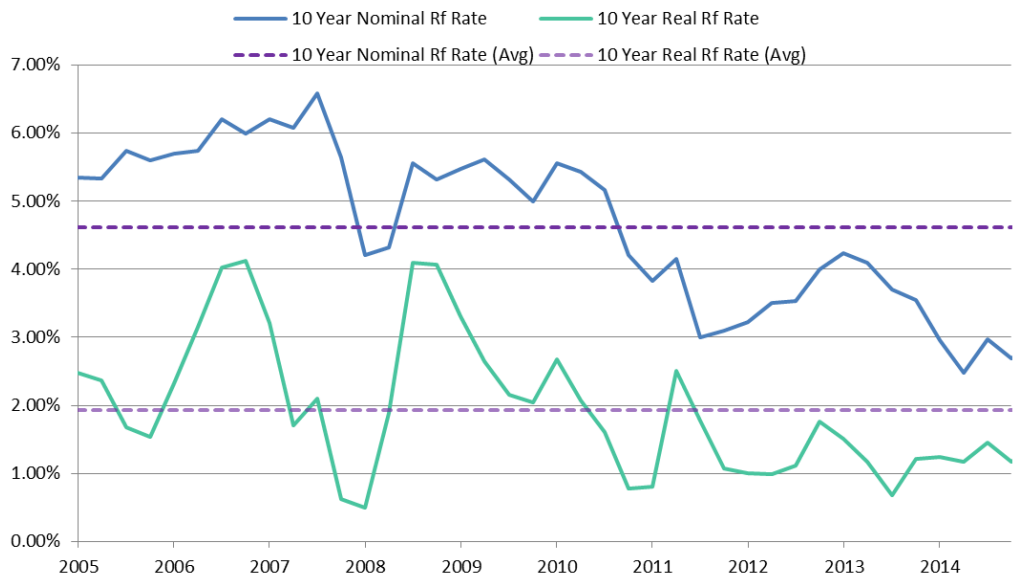
Based on our analysis, we have used a risk free rate of 4.5% as summarised below:

CGB	Average real yield	Forecast Inflation (CPI)	Adjusted nominal yield
10-year	1.93%	2.5%	4.48% (rounded 4.5%)

Source: Bloomberg, RBA, Capital IQ, PPB Advisory analysis
Notes:
1. *The average real yield is calculated using the monthly annualised yield over the term of the CGB to 30 November 2015.*
2. *CPI is based on the long term assumptions in the financial models*
3. *The adjusted nominal yield is calculated using the Fischer equation, being (1 + real yield) x (1^0 + inflation) - 1*

The risk-free rate has been considered in conjunction with the other inputs as discussed below and the overall discount rate that we have calculated.

Table 40: Australian 10 Year Commonwealth Government Bond rates



Source: Reserve Bank of Australia's (RBA) website

Corporate tax rate

There is some contention as to whether the statutory corporate tax rate or an effective tax rate should be used when calculating the discount rate.

In practice, the statutory corporate tax rate is often used given the difficulties of estimating an effective rate of tax, particularly in future years.

Market risk premium

The Market Risk Premium ("MRP") (Rm – Rf) represents the risk associated with holding a market portfolio of investments, that is, the difference between the expected return on holding the market portfolio and the risk free rate. It represents the additional return above the risk free rate that investors seek to invest in the equity securities.

Whilst in the short term, MRPs are known to change as investors seek to price the overall equity market, based on the perceived risks associated with it at the time, the long term MRP has generally been found to be quite stable.

We have used a MRP of 6.0%.

Equity Beta

The beta coefficient is a measure of the expected volatility, and is therefore the risk of a company's stock relative to the market portfolio. The expected beta cannot be observed, therefore the historical beta is usually used as a proxy for the expected beta. A beta can be estimated by regressing the excess returns of the stock against the excess returns of the index representing the market portfolio.

There are significant measurement issues with beta, which means that only limited reliance can be placed on such statistics. Even measurement of historical betas is subject to considerable variation and requires a considerable degree of judgement.

Unlevered and Re-levered Beta

The beta is measured on the cash flows returned to equity holders and is therefore after interest. Accordingly, a firm's beta also reflects its capital structure. Since financial leverage is likely to alter between firms it is generally erroneous to make comparison of betas between firms without regard to each firm's leverage.

The betas can all be de-geared (or 'de-levered') to remove the impact of leverage. The method is set out below:

$$\beta\ (ungeared) = \beta\ (geared)/(1 + (D/E) \times (1-t))$$

The un-levered or 'asset' betas can then be analysed to determine an appropriate asset beta for the subject of the valuation, and it can be re-geared (or 're-levered') to reflect the appropriate capital structure. The re-levered betas are also known as 'equity' betas.

The following formula calculates the equity beta:

$$\beta\ (geared) = \beta\ (ungeared)(1 + D/E(1-t))$$

As limited reliance can be placed on the historical betas measured for comparable companies, at best the data may be regarded as relevant and informative, but not determinate.

Comparable Company Betas

To estimate an appropriate beta for Atlas, we have observed the historical equity betas and capital structures for the selected companies with broadly comparable operations to Atlas over a five year period prior to the Valuation Date.

Limited reliance can be placed on the observed betas as there are few listed comparable companies with reliable data available in the valuation period.

In addition, as the operations, products and risks of the selected companies may differ significantly to Atlas, we have:

- selected an asset beta range based on the observed data
- considered the betas for iron ore mining companies generally and, where appropriate, given greater weighting to the companies we considered most comparable to Atlas
- considered the differences between the broadly comparable companies and Atlas when calculating a specific risk premium (discussed below).

The selected asset beta range for Atlas is provided in the following tables. We have provided further detail on the broadly comparable companies and the historic betas at Appendix C and Appendix D.

Specific company risk premium (a or alpha)

The specific company risk premium adjusts the cost of equity for company specific factors. The CAPM assumes, amongst other things, that rational investors seek to hold efficient portfolios, that is, portfolios that are fully diversified. One of the major conclusions of the CAPM is that investors do not have regard to specific company risks (often referred to as unsystematic risk).

We have included an alpha range for Atlas primarily based on my high level review and assessment of the associated risks relating to relative size and perceived operating risks, geographic risks, and product offerings of Atlas compared to the potentially comparable listed companies.

The alpha does not consider any potential risk associated with the projected cash flows and any potential of them not being achieved.

The major considerations in identifying the specific operational and financial risks for Atlas are:

- **Short term mines:** the Company's production and development mines are projected to operate for a relatively short time period. The longest projected mine, McPhee is expected to be complete within 13 years (August 2028).
- **Transportation cost:** All transportation is by road. This is primarily because of the short mine lives, making rail transportation uneconomic.
- **Number of mines in production:** Atlas is reasonably small with a total of 8 mines, only 3 of which are currently in production.

Summary

Based on the above factors the WACC is calculated as follows:

Table 41: Weighted Average Cost of Capital (WACC)

	Low	High
Cost of Equity (CAPM)		
Risk Free Rate of Return	4.5%	4.5%
Market Risk Premium	6.0%	6.0%
Geared Beta Estimate	1.43	1.56
Asset Beta	1.10	1.20
CAPM based Cost of Equity	**13.1%**	**13.9%**
Small Company Premium	0.0%	0.0%
Specific Risk Premium	2.0%	3.0%
Cost of Equity	**15.1%**	**16.9%**
Cost of Debt		
Risk Free Rate of Return	4.5%	4.5%
Country Credit Spread	0.0%	0.0%
Company Credit Spread	2.5%	2.5%
Cost of Debt	**7.0%**	**7.0%**
Capital Structure		
Debt / Value	30.0%	30.0%
Equity / Value	70.0%	70.0%
Debt-to-Equity Ratio	**42.9%**	**42.9%**
WACC		
Local Corporate Tax Rate	30.0%	30.0%
Weighted Post Tax Cost of Equity	10.6%	11.8%
Weighted Post Tax Cost of Debt	1.5%	1.5%
$WACC_{Post\ Tax}$ (Nominal)	**12.0%**	**13.3%**
Nominal WACC (rounded)	**12.0%**	**13.0%**

Source: Capital IQ, Bloomberg and PPB Advisory analysis

Appendix F. Forecast cash flows – Corporate Model

Forecast cash flows (excluding Corunna)

$m	1 Dec 15 to 30 Jun 16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Profit and loss															
Revenue	335.0	567.2	453.1	577.5	655.3	721.1	767.1	762.6	369.1	276.7	273.1	287.1	281.9	97.3	-
EBITDA	(19.5)	29.3	51.9	94.9	123.6	172.6	203.1	186.3	60.7	42.1	33.5	40.9	30.6	9.5	-
EBIT	(69.2)	(46.2)	(22.5)	30.3	66.9	118.4	150.4	134.4	45.5	37.2	28.8	36.3	26.1	7.3	(1.0)
Cash flow															
Receipts from customers	404.7	678.6	548.3	682.0	767.4	835.5	885.2	883.6	433.1	322.7	320.3	335.5	331.6	116.8	-
Payments to suppliers	(372.7)	(600.7)	(459.3)	(554.8)	(593.9)	(611.3)	(623.7)	(637.9)	(378.9)	(258.6)	(265.8)	(272.4)	(286.4)	(91.5)	(2.5)
Royalty payments	(32.8)	(62.9)	(43.4)	(45.1)	(52.3)	(56.3)	(62.2)	(62.3)	(40.7)	(23.4)	(23.0)	(24.5)	(24.0)	(14.2)	-
Notional Tax (30% of EBIT)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex	(5.6)	(2.5)	(46.9)	(14.7)	(4.2)	(4.3)	(4.4)	(4.5)	(4.2)	(4.2)	(4.3)	(4.4)	(4.6)	(0.4)	-
Free cash flow	**(6.5)**	**12.6**	**(1.3)**	**67.4**	**117.0**	**163.6**	**194.9**	**179.0**	**9.4**	**36.6**	**27.1**	**34.2**	**16.6**	**10.8**	**(2.5)**

Source: Corporate Model

Appendix G. Forecast cash flows – Corunna Model

$'m	1 Dec 15 to 30 Jun 16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Profit and loss															
Revenue	-	-	162.7	231.1	244.7	266.0	283.7	281.0	99.6	-	-	-	-	-	-
EBITDA	-	-	13.9	30.9	27.4	43.6	57.7	49.6	16.2	(4.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)
EBIT	-	-	0.9	8.6	15.7	39.0	54.7	47.8	16.2	(4.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)
Cash flow															
Receipts from customers	-	-	160.9	230.9	244.6	265.8	283.8	281.0	101.8	-	-	-	-	-	-
Payments to suppliers/royalties	-	-	(125.0)	(199.1)	(214.8)	(222.5)	(225.4)	(231.3)	(110.2)	(5.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)
Notional Tax (30% of EBIT)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex	-	(42.7)	(1.3)	(2.2)	(2.6)	(3.2)	(2.7)	(1.7)	-	-	-	-	-	-	-
Free cash flow	-	(42.7)	34.6	29.6	27.2	40.1	55.6	48.0	(8.4)	(5.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)

Source: Corunna Model

Appendix H. DCF – Corporate Model

	Discount factor	1 Dec 15 to 30 Jun 16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	Total
Free cash flow		(6.5)	12.6	(1.3)	67.4	117.0	163.6	194.9	179.0	9.4	36.6	27.1	34.2	16.6	10.8	(2.5)	(3.1)	(1.2)	(1.3)	**852.9**
NPV low	13.00%	(6.2)	9.7	(0.4)	44.8	70.1	86.4	92.0	74.7	3.2	11.9	7.7	8.7	3.7	2.3	(0.5)	(0.5)	(0.2)	(0.2)	**407.4**
NPV high	12.00%	(6.2)	9.9	(0.4)	46.1	72.8	90.5	97.1	79.6	3.5	12.9	8.4	9.7	4.2	2.5	(0.5)	(0.6)	(0.2)	(0.2)	**429.1**
NPV (mid point)	**12.50%**	**(6.2)**	**9.8**	**(0.4)**	**45.5**	**71.4**	**88.5**	**94.6**	**77.2**	**3.3**	**12.4**	**8.1**	**9.2**	**4.0**	**2.4**	**(0.5)**	**(0.5)**	**(0.2)**	**(0.2)**	**418.3**

Source: Corporate Model

Appendix I. DCF – Corunna Model

$'m	Discount factor	1 Dec 15 to 30 Jun 16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	Total
Free cash flow		-	(42.7)	34.6	29.6	27.2	40.1	55.6	48.0	(8.4)	(5.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)	(0.7)	**168.3**
NPV low	13.00%	-	(35.7)	26.4	19.9	16.2	20.9	26.1	19.9	(2.8)	(2.0)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	**87.2**
NPV high	12.00%	-	(36.2)	26.9	20.4	16.8	21.9	27.6	21.2	(3.0)	(2.1)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	**91.6**
NPV (mid point)	**12.50%**	**-**	**(35.9)**	**26.7**	**20.2**	**16.5**	**21.4**	**26.8**	**20.5**	**(2.9)**	**(2.0)**	**(0.3)**	**(0.3)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.1)**	**(0.1)**	**(0.1)**	**89.4**

Source: Corunna Model

Appendix J. Date of acquisition and cost for individual tenements comprising each project area

Project	Tenement	Acquisition date	Acquisition cost (A$)
Anthiby Well	E08/1712	5/04/2011	6,301,000
Blue Rose (JV PacMag)	EL5129	5/04/2011	904,000
Corktree	E52/2056	5/04/2011	200,000
Corktree	E52/2057	5/04/2011	300,000
Farrell's Well	E45/3511	n/a	-
Farrell's Well	E45/3601	n/a	-
Farrell's Well	E45/3858	20/11/2006	1,125,000
Farrell's Well	E45/4351	n/a	-
Farrell's Well	P45/2775	n/a	-
Farrell's Well	P45/2776	n/a	-
Hickman	E47/2052	n/a	-
Hickman	E47/2053	n/a	-
Hickman	E47/2054	n/a	-
Jigalong	M52/1043	18/12/2009	25,539,000
Jigalong	E52/1658	18/12/2009	17,571,000
Jigalong	E52/1630	18/12/2009	3,035,000
Jigalong	M52/1034	18/12/2009	16,657,000
Jigalong	E52/1812	18/12/2009	346,000
Jigalong	E52/1813	18/12/2009	751,000
Jimblebar	E52/1772	18/12/2009	6,240,000
Jimblebar	E52/2303	18/12/2009	150,000
Jimblebar	E52/3306	18/12/2009	-
Jimblebar	M52/0211	18/12/2009	360,000
Jimblebar	M52/0790	18/12/2009	1,010,000
Jimblebar	M52/0799	18/12/2009	580,000
Mount Gould	M52/0236	28/08/2007	7,105,545
Upper Ashburton	E52/2317	18/12/2009	410,000
Upper Ashburton	E52/2327	18/12/2009	410,000
Upper Ashburton	E52/2328	18/12/2009	450,000
Upper Ashburton	E52/2329	18/12/2009	450,000
Upper Ashburton	E52/2330	18/12/2009	340,000
Upper Ashburton	E52/2337	18/12/2009	450,000
Upper Ashburton	E52/2351	18/12/2009	430,000
Upper Ashburton	E52/2429	18/12/2009	900,000
Upper Ashburton	E52/2803	n/a	-
Warrawanda	E52/1771	18/12/2009	2,730,000
Warrawanda	E52/1815	18/12/2009	1,040,000
Watershed	E52/2283	18/12/2009	600,000
Weld Range	E51/0933	5/04/2011	2,500,000
Weld Range	M20/0118	28/08/2007	6,802,391
Western Creek	E52/1483	5/04/2011	42,000,000
Western Creek	E52/1604	5/04/2011	11,000,000
Western Creek	E52/1912	5/04/2011	-
Western Creek	E52/2160	18/12/2009	210,000
Western Creek	E52/2300	18/12/2009	30,000
Western Shaw	E45/2768	14/11/2008	575,000
Western Shaw	P45/2733	n/a	-
Yuinmery	E57/0681	5/04/2011	-
Yuinmery	P57/1130	5/04/2011	-
Yuinmery	P57/1131	5/04/2011	-

Appendix K. Selected PEM ranges for individual tenements comprising each project area

Project	Tenement	PEM low	PEM high	Preferred PEM
Anthiby Well	E08/1712	0.75	1.25	1.00
Blue Rose (JV PacMag)	EL5129	0.75	1.25	1.00
Corktree	E52/2056	0.25	0.75	0.50
Corktree	E52/2057	0.25	0.75	0.50
Farrell's Well	E45/3511	1.00	1.50	1.25
Farrell's Well	E45/3601	1.25	1.75	1.50
Farrell's Well	E45/3858	0.75	1.25	1.00
Farrell's Well	E45/4351	0.50	1.00	0.75
Farrell's Well	P45/2775	0.75	1.25	1.00
Farrell's Well	P45/2776	0.75	1.25	1.00
Hickman	E47/2052	1.25	1.75	1.50
Hickman	E47/2053	1.00	1.50	1.25
Hickman	E47/2054	1.00	1.50	1.25
Jigalong	M52/1043	1.25	1.75	1.50
Jigalong	E52/1658	1.00	1.50	1.25
Jigalong	E52/1630	0.25	0.75	0.50
Jigalong	M52/1034	1.00	1.50	1.25
Jigalong	E52/1812	1.00	1.50	1.25
Jigalong	E52/1813	1.00	1.50	1.25
Jimblebar	E52/1772	1.25	1.75	1.50
Jimblebar	E52/2303	1.25	1.75	1.50
Jimblebar	E52/3306	1.00	1.50	1.25
Jimblebar	M52/0211	0.25	0.75	0.50
Jimblebar	M52/0790	0.25	0.75	0.50
Jimblebar	M52/0799	0.25	0.75	0.50
Mount Gould	M52/0236	0.75	1.25	1.00
Upper Ashburton	E52/2317	0.25	0.75	0.50
Upper Ashburton	E52/2327	0.25	0.75	0.50
Upper Ashburton	E52/2328	0.25	0.75	0.50
Upper Ashburton	E52/2329	0.25	0.75	0.50
Upper Ashburton	E52/2330	0.25	0.75	0.50
Upper Ashburton	E52/2337	0.25	0.75	0.50
Upper Ashburton	E52/2351	0.25	0.75	0.50
Upper Ashburton	E52/2429	0.25	0.75	0.50
Upper Ashburton	E52/2803	0.25	0.75	0.50
Warrawanda	E52/1771	0.50	1.00	0.75
Warrawanda	E52/1815	0.50	1.00	0.75
Watershed	E52/2283	0.25	0.75	0.50

Project	Tenement	PEM low	PEM high	Preferred PEM
Weld Range	E51/0933	0.75	1.25	1.00
Weld Range	M20/0118	0.75	1.25	1.00
Western Creek	E52/1483	0.75	1.25	1.00
Western Creek	E52/1604	0.75	1.25	1.00
Western Creek	E52/1912	0.75	1.25	1.00
Western Creek	E52/2160	0.75	1.25	1.00
Western Creek	E52/2300	0.75	1.25	1.00
Western Shaw	E45/2768	0.25	0.75	0.50
Western Shaw	P45/2733	0.50	1.00	0.75
Yuinmery	E57/0681	0.25	0.75	0.50
Yuinmery	P57/1130	0.25	0.75	0.50
Yuinmery	P57/1131	0.25	0.75	0.50

Appendix L. Comparable Pre-Development companies

CIQ Ticker	Company Name	Business Description
ASX:AZQ	Ascot Resources Limited	Ascot Resources Limited explores for and develops iron ore and coal properties in Australia and Colombia. It primarily holds 100% interest in the Wonmunna Iron Ore Project that comprises three mining leases and one exploration licence covering an area of 230 square kilometres located in the Pilbara region, Australia; and a 90% interest in the Titiribi Coal Project, which consists of three mining concessions, such as El Silencio, El Balsal, and Lara, located in the Department of Antioquia, Colombia. The company was formerly known as Epic Resources Limited and changed its name to Ascot Resources Limited in December 2012. Ascot Resources Limited was incorporated in 2010 and is based in Subiaco, Australia.
ASX:BCK	Brockman Mining Limited	Brockman Mining Limited, an investment holding company, engages in the acquisition, exploration, and development of iron ore tenements in Western Australia. It is also involved in the exploitation, processing, and sale of copper, silver, and other Mineral Resources in the Yunnan Province of the People's Republic of China. The company's flagship project is the Marillana iron ore project that covers 82 square kilometres located within the Pilbara region of Western Australia. It also engages in the rail and port infrastructure business. The company was formerly known as Wah Nam International Holdings Limited and changed its name to Brockman Mining Limited in September 2012. Brockman Mining Limited is based in Hong Kong.
ASX:CTM	Centaurus Metals Limited	Centaurus Metals Limited, an iron ore company, engages in the exploration and pre-development activities for iron ore Mineral Resources primarily in Brazil. It also explores for gold. The company's principal project is the Jambreiro iron ore project located in the State of Minas Gerais, Brazil. It also holds interests in Mombuca project, a gold and iron ore project located in Belo Horizonte. The company was formerly known as Glengarry Resources Limited and changed its name to Centaurus Metals Limited in April 2010. Centaurus Metals Limited is based in West Perth, Australia.
ASX:FMS	Flinders Mines Limited.	Flinders Mines Limited explores for and develops Mineral Resources properties in Australia. The company primarily explores for iron ore, gold, and base metals. It focuses on developing a 100% owned flagship project, the Pilbara Iron Ore Project, located in the Pilbara region of Western Australia. The company was formerly known as Flinders Diamonds Limited and changed its name to Flinders Mines Limited in July 2008. Flinders Mines Limited was incorporated in 2000 and is based in Rose Park, Australia.
ASX:IRD	Iron Road Limited	Iron Road Limited explores and evaluates iron ore properties in Australia. Its flagship project is the Central Eyre Iron project located on the Eyre Peninsula of South Australia. The company is based in Adelaide, Australia.
ASX:MDX	Mindax Limited	Mindax Limited explores for mineral properties in Western Australia. It operates through four segments: Uranium, Gold, Copper and Gold, and Iron Ore. The company's flagship project includes the Mt Forrest iron project located in the Yilgarn Province. It also has interests in a portfolio of uranium, gold, and copper projects located in the Yilgarn Avon, Meekatharra, and Mortlock regions. Mindax Limited is based in West Perth, Australia.
ASX:RAD	Radar Iron Limited	Radar Iron Ltd engages in the exploration and development of iron ore deposits in Western Australia and Para State, Brazil. It has three principal properties consisting of the Yerecoin Magnetite project that comprises five tenements covering an area of 320 square kilometres and is located to the north of Perth, Western Australia; the Uruara Hematite Project, which covers an area of 68,000 hectares located in Para State, Brazil; and the Central Yilgarn Project in Western Australia. The company was incorporated in 2010 and is based in Nedlands, Australia.
ASX:RHI	Red Hill Iron Limited	Red Hill Iron Limited engages in the iron ore exploration activities in Australia. The company's primary asset is the Pannawonica channel iron project located in West Pilbara, Western Australia. It also focuses on the development of rock quarrying opportunities in the Western Pilbara region of Western Australia. The company was founded in 2005 and is based in West Perth, Australia.
ASX:WFE	Winmar Resources Limited	Winmar Resources Limited, a junior Mineral Resources company, invests in, explores for, and develops mineral properties in Western Australia. It holds 70% interest in the Hamersley Iron project located in the Tom Price region of the Pilbara. The company is based in Sydney, Australia.

Source: Capital IQ

E

E. Solvency Definitions and Common Law Principles

Appendix E. Solvency Definitions and Common Law Principles

Statutory Definition

Section 95A of the Corporations Act gives the following definition of Solvency:

(1) A person is solvent if, and only if, the person is able to pay all the person's debts, as and when they become due and payable.

(2) A person who is not solvent is insolvent.

Common Law Principles

- Whether or not a company is insolvent is a question of fact to be ascertained from a consideration of the company's financial position taken as a whole. (*Southern Cross Interiors Pty Limited (in liquidation) v Deputy Commissioner of Taxation, 2001);*
- Insolvency, or a severe shortage of liquid assets to meet ongoing liabilities, must be distinguished from a temporary lack of liquidity. (*Hall v Poolman Pty Ltd, 2007);*
- In considering a company's financial position as a whole, the Court must have regard to commercial realities. Commercial realities will be relevant in considering what resources are available to the company to meet its liabilities as they fall due, whether resources other than cash are realisable by sale or borrowing upon security, and when such realisations are achievable. (*Southern Cross Interiors Pty Limited (in liquidation) v Deputy Commissioner of Taxation, 2001);*
- If, as a matter of commercial reality, the company has a resource available to pay all its debts as they become payable, it will not matter that the resource is an unsecured borrowing or a voluntary extension of credit by another party. (*Lewis v Doran, 2004);*
- The adoption of a cash flow test for solvency does not mean that the extent of the company's assets is irrelevant to the enquiry. The credit resources of a company must also be taken into account. (*Lewis v Doran, 2004);*
- In assessing whether a company's position as a whole reveals surmountable temporary illiquidity or insurmountable endemic illiquidity resulting in insolvency, it is proper to have regard to the commercial reality that, in normal circumstances, creditors will not always insist on payment strictly in accordance with their terms of trade but that does not result in the company thereby having a cash or credit resource which can be taken into account in determining solvency. (*Southern Cross Interiors Pty Limited (in liquidation) v Deputy Commissioner of Taxation, 2001);*
- The commercial reality that creditors will normally allow some latitude in time for payment of their debts does not, in itself, warrant an inclusion that the debts are not payable at the time contractually stipulated and have become debts payable only upon demand. (*Standard Chartered Bank v Antico, 1995);*
- In assessing solvency, the court acts upon the basis that a contract debt is payable at the time stipulated for payment in the contract unless there is evidence, proving to the courts satisfaction that:
  - there has been an express or implied agreement between the company and the creditor for an extension of the time stipulated for payment (*Southern Cross Interiors Pty Limited (in liquidation) v Deputy Commissioner of Taxation, 2001);* or
  - there is a course of conduct between the company and the creditor sufficient to give rise to an estoppel preventing the creditor from relying upon the stipulated time for payment (*Southern Cross Interiors Pty Limited (in liquidation) v Deputy Commissioner of Taxation, 2001*; or
  - there has been a well-established and recognised course of conduct in the industry in which the company operates, or as between the company and its creditors as a body, whereby debt are payable at a time other than that stipulated in the creditor's terms of trade or are payable only on demand (*Southern Cross Interiors Pty Limited (in liquidation) v Deputy Commissioner of Taxation, 2001).*

Appendix E. Solvency Definitions and Common Law Principles *continued*

Sources

Yeldam Price O'Brien Lusk – Directors Duties to Creditors and for Corporate Insolvency – 21 Aug 2008

Taylor v ANZ Bank, 1988
Hall v Poolman Pty Ltd, 2007
Southern Cross Interiors Pty Limited (in liquidation) v Deputy Commissioner of Taxation, 2001
Re Newark Pty Ltd (in liq), 1993
Hymix Concrete Pty Ltd v Garrity, 1977
Sandall v Porter, 1996
Lewis v Doran, 2004
Standard Chartered Bank v Antico, 1995

F

F. Expert Witness Code

Appendix F. Expert Witness Code

Schedule 7 Expert witness code of conduct

(Rule 31.23)

(cf SCR Schedule K)

1 Application of code

This code of conduct applies to any expert witness engaged or appointed:

(a) to provide an expert's report for use as evidence in proceedings or proposed proceedings, or

(b) to give opinion evidence in proceedings or proposed proceedings.

2 General duty to the court

(1) An expert witness has an overriding duty to assist the court impartially on matters relevant to the expert witness's area of expertise.

(2) An expert witness's paramount duty is to the court and not to any party to the proceedings (including the person retaining the expert witness).

(3) An expert witness is not an advocate for a party.

3 Duty to comply with court's directions

An expert witness must abide by any direction of the court.

4 Duty to work co-operatively with other expert witnesses

An expert witness, when complying with any direction of the court to confer with another expert witness or to prepare a parties' expert's report with another expert witness in relation to any issue:

(a) must exercise his or her independent, professional judgment in relation to that issue, and

(b) must endeavour to reach agreement with the other expert witness on that issue, and

(c) must not act on any instruction or request to withhold or avoid agreement with the other expert witness.

5 Experts' reports

(1) An expert's report must (in the body of the report or in an annexure to it) include the following:

(a) the expert's qualifications as an expert on the issue the subject of the report,

(b) the facts, and assumptions of fact, on which the opinions in the report are based (a letter of instructions may be annexed),

(c) the expert's reasons for each opinion expressed,

(d) if applicable, that a particular issue falls outside the expert's field of expertise,

(e) any literature or other materials utilised in support of the opinions,

(f) any examinations, tests or other investigations on which the expert has relied, including details of the qualifications of the person who carried them out,

(g) in the case of a report that is lengthy or complex, a brief summary of the report (to be located at the beginning of the report).

(2) If an expert witness who prepares an expert's report believes that it may be incomplete or inaccurate without some qualification, the qualification must be stated in the report.

(3) If an expert witness considers that his or her opinion is not a concluded opinion because of insufficient research or insufficient data or for any other reason, this must be stated when the opinion is expressed.

(4) If an expert witness changes his or her opinion on a material matter after providing an expert's report to the party engaging him or her (or that party's legal representative), the expert witness must forthwith provide the engaging party (or that party's legal representative) with a supplementary report to that effect containing such of the information referred to in subclause (1) as is appropriate.

6 Experts' conference

(1) Without limiting clause 3, an expert witness must abide by any direction of the court:

(a) to confer with any other expert witness, or

(b) to endeavour to reach agreement on any matters in issue, or

(c) to prepare a joint report, specifying matters agreed and matters not agreed and reasons for any disagreement, or

(d) to base any joint report on specified facts or assumptions of fact.

(2) An expert witness must exercise his or her independent, professional judgment in relation to such a conference and joint report, and must not act on any instruction or request to withhold or avoid agreement.

G

G. Summary output from the Daily Working Capital Models

Appendix G Summary output from the Daily Working Capital Models

Forward Curve Case, dated 1 February 2016

Cash Flow	April	May	June	July	August	September	October	November	December	January	February	March	April
USD Freight Payments (prov)	(10,213)	(2,164)	(3,260)	(9,548)	(9,504)	(9,125)	(9,053)	(8,438)	(6,809)	(8,606)	(8,812)	(9,040)	(9,541)
USD Freight Payments (Final)	(591)	(1,653)	(416)	(563)	(300)	(111)	(342)	(465)	(608)	(433)	(1,746)	(1,034)	(1,126)
USD Shipment Sale (prov)	56,307	20,866	30,741	43,509	62,809	72,155	62,380	62,671	58,346	65,471	51,867	60,313	57,880
USD Shipment Sale (Final)	(1,862)	0	239	(2,740)	(3,055)	(298)	(143)	(1,000)	(2,490)	(2,351)	189	5,452	(225)
Glencore adjusment	0	0	0	0	0	0	0	0	0	0	(873)	0	0
Hedge mark to market (IO leg)	0	1,184	0	0	(24)	(273)	(473)	(640)	1,380	(394)	(293)	0	0
Hedge mark to market (FX leg - US$ out)	(35,986)	0	0	0	0	0	0	0	0	0	0	0	0
Hedge mark to market (FX leg - AU$ in)	35,273	0	0	0	0	0	0	0	0	0	0	0	0
Term Loan B Payment & Revolver Fee	0	0	(8,857)	0	0	(9,813)	0	0	(19,747)	41	0	(8,556)	(3,521)
Other Financing	0	0	0	0	0	0	0	0	0	0	0	0	0
BAS Refund	4,902	0	10,977	0	13	16,404	5,085	4,837	5,163	0	9,274	4,099	4,091
GST Refund	0	0	0	0	0	0	0	0	0	0	0	0	0
Payroll	(1,627)	(2,545)	(1,600)	(1,716)	(1,781)	(1,632)	(1,810)	(1,749)	(1,576)	(2,142)	(1,643)	(1,757)	(1,700)
Redundancy	(1,250)	0	0	0	0	(898)	0	0	(117)	0	0	0	0
C&M Capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Investing	42	(750)	37	39	(2,373)	0	0	1,723	0	6	0	0	0
Royalty Rebate	0	0	0	0	12,634	3,201	0	5,676	0	0	0	(3,100)	0
Capital Raising	0	0	0	52,775	0	0	0	0	0	0	0	0	0
Capital Raising Costs	0	0	0	(5,322)	(1,584)	0	0	0	0	0	0	0	0
Refinancing costs	0	0	0	0	0	0	0	(243)	(1,206)	(1,042)	(635)	(600)	(630)
Bank Fees	(14)	(30)	(6)	(31)	(28)	(66)	(19)	(12)	(18)	(386)	0	0	0
Misc Income	837	369	312	281	466	216	580	194	320	351	0	0	0
AP Payments				0	0	0	0	0	0	0			
- Operations	(42,130)	(57,825)	(12,133)	(60,659)	(47,165)	(39,503)	(50,837)	(46,654)	(13,282)	(71,087)	(49,083)	(43,444)	(48,016)
- Royalties	(12,387)	(1,740)	0	(5,303)	(1,529)	(233)	(12,026)	(1,966)	(19)	(10,159)	(4,356)	(2,683)	(8,825)
- Profit Share	0	0	0	(982)	(2,203)	(3,662)	(2,652)	(2,170)	0	0	(258)	0	0
- Other	(4,419)	(7,423)	(1,426)	(5,942)	(4,599)	(3,764)	(7,563)	(5,387)	(4,887)	(3,909)	(7,203)	(3,873)	(6,373)
Foreign Currency	(4,621)	2,762	(6)	1,610	2,225	2,035	(1,543)	(945)	(890)	3,055	0	0	0
Movement	(17,738)	(48,949)	14,603	5,406	4,004	24,633	(18,416)	5,431	13,561	(31,585)	(13,572)	(4,223)	(17,987)
Opening Cash	125,390	107,652	58,703	73,305	78,712	82,716	107,349	88,933	94,365	107,926	76,341	62,769	58,546
Closing Cash	107,652	58,703	73,305	78,712	82,716	107,349	88,933	94,365	107,926	76,341	62,769	58,546	40,560

Appendix G Summary output from the Daily Working Capital Models

US$40 Case, dated 1 February 2016

Cash Flow	April	May	June	July	August	September	October	November	December	January	February	March	April
USD Freight Payments (prov)	(10,213)	(2,164)	(3,260)	(9,548)	(9,504)	(9,125)	(9,053)	(8,438)	(6,809)	(8,606)	(8,812)	(9,040)	(9,541)
USD Freight Payments (Final)	(591)	(1,653)	(416)	(563)	(300)	(111)	(342)	(465)	(608)	(433)	(1,746)	(1,034)	(1,126)
USD Shipment Sale (prov)	56,307	20,866	30,741	43,509	62,809	72,155	62,380	62,671	58,346	65,471	50,904	59,771	59,373
USD Shipment Sale (Final)	(1,862)	0	239	(2,740)	(3,055)	(298)	(143)	(1,000)	(2,490)	(2,351)	160	5,141	(1,026)
Glencore adjusment	0	0	0	0	0	0	0	0	0	0	(873)	0	0
Hedge mark to market (IO leg)	0	1,184	0	0	(24)	(273)	(473)	(640)	1,380	(394)	(293)	0	0
Hedge mark to market (FX leg - US$ out)	(35,986)	0	0	0	0	0	0	0	0	0	0	0	0
Hedge mark to market (FX leg - AU$ in)	35,273	0	0	0	0	0	0	0	0	0	0	0	0
Term Loan B Payment & Revolver Fee	0	0	(8,857)	0	0	(9,813)	0	0	(19,747)	41	0	(8,556)	(3,521)
Other Financing	0	0	0	0	0	0	0	0	0	0	0	0	0
BAS Refund	4,902	0	10,977	0	13	16,404	5,085	4,837	5,163	0	7,174	6,199	4,091
GST Refund	0	0	0	0	0	0	0	0	0	0	0	0	0
Payroll	(1,627)	(2,545)	(1,600)	(1,716)	(1,781)	(1,632)	(1,810)	(1,749)	(1,576)	(2,142)	(1,643)	(1,757)	(1,700)
Redundancy	(1,250)	0	0	0	0	(898)	0	0	(117)	0	0	0	0
C&M Capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Investing	42	(750)	37	39	(2,373)	0	0	1,723	0	6	0	0	0
Royalty Rebate	0	0	0	0	12,634	3,201	0	5,676	0	0	0	(3,100)	0
Capital Raising	0	0	0	52,775	0	0	0	0	0	0	0	0	0
Capital Raising Costs	0	0	0	(5,322)	(1,584)	0	0	0	0	0	0	0	0
Refinancing costs	0	0	0	0	0	0	0	(243)	(1,206)	(1,042)	(635)	(600)	(630)
Bank Fees	(14)	(30)	(6)	(31)	(28)	(66)	(19)	(12)	(18)	(386)	0	0	0
Misc Income	837	369	312	281	466	216	580	194	320	351	0	0	0
AP Payments				0	0	0	0	0	0	0			
- Operations	(42,130)	(57,825)	(12,133)	(60,659)	(47,165)	(39,503)	(50,837)	(46,654)	(13,282)	(71,087)	(39,083)	(43,444)	(45,466)
- Royalties	(12,387)	(1,740)	0	(5,303)	(1,529)	(233)	(12,026)	(1,966)	(19)	(10,159)	(4,356)	(2,683)	(8,659)
- Profit Share	0	0	0	(982)	(2,203)	(3,662)	(2,652)	(2,170)	0	0	(258)	0	0
- Other	(4,419)	(7,423)	(1,426)	(5,942)	(4,599)	(3,764)	(7,563)	(5,387)	(4,887)	(3,909)	(7,203)	(3,873)	(6,373)
Foreign Currency	(4,621)	2,762	(6)	1,610	2,225	2,035	(1,543)	(945)	(890)	3,055	0	0	0
Movement	(17,738)	(48,949)	14,603	5,406	4,004	24,633	(18,416)	5,431	13,561	(31,585)	(6,664)	(2,976)	(14,578)
Opening Cash	125,390	107,652	58,703	73,305	78,712	82,716	107,349	88,933	94,365	107,926	76,341	69,677	66,701
Closing Cash	107,652	58,703	73,305	78,712	82,716	107,349	88,933	94,365	107,926	76,341	69,677	66,701	52,123

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H. Summary Cash Flow Forecast from the Valuation Scenario for the period 1 January 2016 to 30 April 2017

Appendix H. Summary

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
CASH FLOW SUMMARY																
Cash receipts from customers (incl freight)	61.2	50.1	54.9	59.2	58.5	59.2	51.8	54.8	57.5	62.5	61.5	59.8	60.4	54.0	50.7	53.5
Provisional pricing effects	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Hedge book effects settled in period	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Payments to suppliers	(54.8)	(49.9)	(56.1)	(39.7)	(59.4)	(58.2)	(53.4)	(53.7)	(53.3)	(54.9)	(53.5)	(52.0)	(50.2)	(44.5)	(45.2)	(46.1)
Contractor Profit Share	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Royalty payments	(14.0)	–	–	(12.7)	–	–	(13.1)	–	–	(12.1)	–	–	(13.7)	–	–	(11.8)
Royalty relief received / repaid	–	–	(3.0)	–	–	(3.0)	–	–	(3.0)	–	–	(3.0)	–	–	(3.0)	–
GST	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest received	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Operating Cash Flow	**(7.6)**	**0.3**	**(4.3)**	**6.9**	**(0.8)**	**(2.0)**	**(14.7)**	**1.1**	**1.2**	**(4.4)**	**8.1**	**4.9**	**(3.5)**	**9.5**	**2.5**	**(4.4)**
Capital Expenditure	(0.7)	(0.7)	(1.1)	(0.3)	(0.3)	(0.4)	(0.1)	(0.3)	(0.3)	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)	(0.7)	(0.1)
Proceeds from bank guarantees	–	2.3	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Change in Financial Investments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of Mining Tenements	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total Investing Cash Flow	**(0.7)**	**1.6**	**(1.1)**	**(0.3)**	**(0.3)**	**(0.4)**	**(0.1)**	**(0.3)**	**(0.3)**	**(0.2)**	**(0.1)**	**(0.2)**	**(0.1)**	**(0.1)**	**(0.7)**	**(0.1)**
Debt Draw dow n / Repayment - Term Loan / Revolver	–	–	(1.0)	(178.9)	–	(0.3)	–	–	(0.5)	–	–	(0.5)	–	–	(0.5)	–
Interest payments on debt	–	–	(8.2)	(1.4)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Pre export finance cash flow s	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Equity Issued	–	–	–	175.2	–	–	–	–	–	–	–	–	–	–	–	–
Other financing cash flow s	(0.1)	(0.1)	(0.1)	(5.2)	(10.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Financing Cash Flow	**(0.1)**	**(0.1)**	**(9.3)**	**(10.2)**	**(11.2)**	**(1.4)**	**(1.0)**	**(1.0)**	**(1.5)**	**(1.0)**	**(1.0)**	**(1.5)**	**(1.0)**	**(1.1)**	**(1.5)**	**(1.1)**
Net Cash Flow pre forex adjustment	**(8.5)**	**1.7**	**(14.8)**	**(3.6)**	**(12.4)**	**(3.8)**	**(15.9)**	**(0.3)**	**(0.6)**	**(5.6)**	**6.9**	**3.2**	**(4.6)**	**8.4**	**0.2**	**(5.5)**

I. Risks to the Group’s Cash Flow Forecast

Appendix I Risks to the Group's Cash Flow Forecast

As noted in section 12 of Atlas's Shareholder Prospectus dated 11 June 2015, the future performance of Atlas will be influenced by a wide range of factors, including but not limited to:

- Cash flow constraints and going concern
- Indebtedness
- Debt covenants
- Asset impairment and write-down risk
- Debt servicing and refinancing risk
- Potential for suspension of certain mining activities
- Counterparty risk
- Reliance on key contractors
- Ongoing capital requires of Atlas
- Term Loan B – compliance generally
- Lump product and pricing
- Provisional pricing risk
- Mine life risk
- Economic risk and external market factors
- Profitability
- Hedging
- Regulatory and title risks
- Infrastructure access risks
- Operating and development risks
- Claims, liability and litigation
- Exploration and production
- Mine development, construction and commissioning
- Competition
- Personnel – loss of, and reliance on, key personnel and attracting personnel
- Insurance risks
- Equity market capital fluctuations
- Potential for dilution
- Joint venture risk
- Native title and Aboriginal heritage
- War and terrorist attacks
- Speculative nature of investment