

Media Release

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RCR's Equity Research Report: Junior and Mid Tier Iron Ore Companies March Quarter 2010

Key Points

Iron Ore Market:

- **The spot price of Chinese iron ore imports is currently double the 2009 contract price. This is predicted by industry stakeholders to trigger a rise of up to 90% for 2010/11 contract prices. RCR forecasts there will be a rise of 40% to US\$140/dmtu for fines.**
- **The current system of year-long contracts is very likely to be replaced in 2010, wholly or in part, by short contracts and/or an index based pricing system.**
- **The global economy's faster than expected, and ongoing, recovery from the GFC has created risk of overcapacity in the steel sector; however, the long term outlook for steel and iron ore is strong.**

Iron Ore Equities:

- **Australian listed iron ore stocks have gained an average 208% in 12 months, driven by the overall market recovery and rising iron ore prices, as well as progress towards infrastructure expansion and agreements (e.g. Ankatell Point and Pilbara rail access).**
- **Similarly, Canadian listed iron ore stocks have gained an average 149% in 12 months.**

Resource Capital Research ("RCR"), an equity research company which focuses on small and mid size resource companies, today published its quarterly research report covering iron ore exploration and development companies. RCR also publishes quarterly reviews of the Uranium and Gold sectors.

To access the free summary of the iron ore report or to purchase the 63 page comprehensive report, go to www.rcresearch.com.au/reports.

Analyst's Comment – Iron Ore Price Outlook:

"The main talking point in the iron ore industry at the moment is the spot price – that is, the average CFR value of non-contract ore imported by China," says RCR iron ore analyst, Dr Trent Allen.

"Not only is the spot price at or near a 12 month high but allowing for freight costs it is sitting at about twice the 2009 non-China contract price. This has led the big three miners (Vale, Rio and BHP) to argue that the spot value is the "true" value of iron ore and that the 2010/11 contract should be much more generous – increases as high as 90% are being flagged. Unsurprisingly, the steel mills are very resistant to such a hike.

"The impact to steel mills could actually be softened by the much discussed move from 12 month contracts to shorter contracts or an index-based pricing scheme. This new flexibility could suit both miners and steel producers, especially the smaller Chinese steel players that might previously have struggled to get cheaper contract ore. How such a system would affect prices is uncertain – but negotiations have started and the picture should clarify over the coming few months."

Overview and Investment Comment

Sector outlook and iron ore price forecast

The iron ore spot price is at a 12 month high ...

... which is forecast to trigger a rise of up to 90% in the 2010/11 contract price.

The Chinese internal spot price for iron ore is US\$153.3/t. Inventory levels and output have been flat in 1Q10.

The quick recovery has created medium term risks of some oversupply, both of iron ore and steel, but the long term outlook is strong.

The current iron ore fines contract price is US\$0.97/dmtu, or US\$62/t at 64% Fe.

RCR believes contract prices could increase by 40% in 2010/11 to US\$140/dmtu.

Australian iron ore stocks have gained an average 208% in 12 months, while Canadian stocks have gained 149%.

The spot price of iron ore imported to China has risen 51% in the past three months and is close to a 12-month high (US\$133.4/t; 62% Fe; CFR), and is approximately double the contract price of US\$60.1/t (at 62% Fe; FOB) settled between Australian iron ore miners (BHP, Rio) and non-Chinese steelmakers in 2009, during the financial crisis. This is placing pressure on the 2010 contract price negotiations, and in a broader sense on the contract system itself. Commentators and industry participants who were, in late 2009, forecasting 20% contract price increases are now discussing a jump of 50%, 60% and even 90%, as 2010 negotiations proceed. Such increases are being strongly resisted by the steel industry.

Since the Global Financial Crisis, a recovery in the iron ore sector has been supported by resurgent global steel production. Global steel prices increased in 2H09 but are levelling – the average for steel plate has risen 4.3% quarter on quarter and 28.4% year on year. Refined steel production has increased 3.8% quarter-on-quarter.

Chinese iron ore market statistics reflect the recovery. Aside from the jump in import spot price, the internal spot price (CNY1050 or ~US\$153.3/t) has risen 31.3% in three months. Imports in February 2010 were higher by 44.4% year-on-year but dropped 21% between January and February, while inventory levels and output have remained flat, consistent with a seasonal slowdown. China's iron ore output for 2009 is estimated to be ~900mt, a 9.2% increase over 2008.

In spite of the recovery, there are some short to mid-term downside risks for iron ore. These include possible oversupply in the steel sector as the result of cheap credit (especially in China); a decrease of stimulus-driven stockpiling and easing of global iron ore production cuts, and investment in new mines, which could lead to oversupply of iron ore. Iron ore spot prices are unlikely to rise further if steel production and iron ore output are flat.

Iron ore contract prices are below 2008 levels – e.g. Rio, US\$0.97/dmtu fines (US\$62/t at 64% Fe), a 33% reduction; and US\$1.12/dmtu lump, a 44% reduction – but 20% higher than in 2007. No China contract price was set for 2009 and it is possible the benchmark system will be partly abandoned in 2010 in favour of index-based pricing. In line with firming market sentiment, we have revised our near-term contract price forecast to US\$130-150/dmtu for fines (US\$62-US\$80/t for 62% Fe), a wide range of 30% to 50%, averaging 40%. RCR's long-term forecast remains US\$40/t at 62% Fe for fines and US\$48/t for lump.

Iron Ore Equity Performances

Yearly equity performances of Australian listed iron ore juniors (plus FMG) have been strong: prices have risen an average 208% in the past 12 months, 41% over the past six months, and 9% over the past 1 month. This is due to an overall market recovery (S&P/ASX200 up 50% in 12 months) and increases in the iron ore spot price (up 50.9% in 3 months). Canadian-listed stocks have performed similarly, up 3% in the past month but 149% for the year.

RCR March 2010 Featured Company Summary

Company Summary

AUSTRALIA

Company	Code	Comment
Apollo Minerals Limited	AON	Advanced Exploration The Mt Oscar Project (magnetite, Pilbara WA) has returned strong metallurgical results, with >60% Fe in some DTR concentrates at an average 42% mass recovery. Mt Oscar has an exploration target of >500mt iron ore; an initial resource is expected in 1H10.
Atlas Iron Limited*	AGO	Production AGO's merger with junior Warwick Resources (ASX:WRK) has injected SE Pilbara tenements with +100mt resource potential. Longer term production could accelerate beyond the 12mtpa planned from N Pilbara by 2013: AGO now targets 26mtpa by 2014.
BC Iron Limited	BCI	Advanced Exploration BCI's successful trial mining test pit at the Nullagine Joint Venture (50% FMG) confirmed project parameters exceeding feasibility study predictions. Utilising FMG's infrastructure, the 3.0mtpa, A\$51m Nullagine iron ore project is on track for a 4Q10 startup.
DMC Mining Limited	DMM	Advanced Exploration Drilling results are imminent at the Mayoko Iron Ore Project (Rep. of Congo), where DMC is testing an expanded 0.9-1.3 billion tonne exploration target (current resource 33mt). The project could produce 11mtpa at capex ~US\$486m with existing rail and upgraded port.
Fortescue Metals Group Limited*	FMG	Production The Chichester Hub (NT) recently shipped its 50 millionth tonne of iron ore. Current run rate is 36.6mtpa, with a target of 55mtpa by 2011. Mined tonnes in 4Q09 were 11% lower than 3Q09. Increased efficiency can be expected from roll out of new equipment in 2010.
IMX Resource Limited	IXR	Construction IMX has raised A\$48.1m in Hong Kong to fund the A\$20m start up of the 1.7mtpa Cairn Hill Project in SA (Fe, Au, Cu). Mining is set for 2Q10, with a full DSO offtake agreement in place (Jilin Tonghua). An expected resource expansion and upgrade in 1H10 could drive near-term value.
Iron Road Limited	IRD	Advanced Exploration The Central Eyre Iron Project (SA) has a resource of 110mt and drilling has started with the goal of increasing this to 500mt in 2010. The project has a target of 4 billion tonnes of magnetite mineralisation. Drilling is also planned for the Gawler Project (DSO).
Sphere Minerals Limited	SPH	Bankable Feasibility Study An initial resource and near-term development decision are expected in 2Q10 at the Askaf Magnetite Project in Mauritania (target of 350-500mt DSO). SPH is considering offers received in late 2009 for 51% of the Guelb el Aouj Magnetite Project (DFS for +7mt/yr DR pellets).
Sundance Resources Limited	SDL	Pre-Feasibility Study Resource expansion drilling is in progress at the 2.5bt Mbalam Iron Ore Project (Cameroon, ROC), funded by a ~A\$90m capital raising in 4Q09. This year could see reserve definition, a DFS and US\$3.3bn financing for the project, which could produce 35mtpa for 25 years.
Western Plains Metals Limited	WPG	Bankable Feasibility Study The Peculiar Knob DSO Project (SA) could produce 1.75mtpa from 2H10. NPV at the contract Fe price is A\$0.38/share, or A\$1.75/share at spot. The high quality A\$1-\$2bn Hawks Nest Magnetite Project requires Department of Defence approval to proceed.

CANADA

Consolidated Thompson Iron Mines Ltd	CLM	Commissioning Iron ore concentrate should commence shipping in 1Q10 from the 910mt Bloom Lake project, at the rate of 8mtpa and a cost of ~US\$25/t. Offtake agreements have been secured (WISCO, SK Networks) and there is potential for expansion to 16mtpa.
Macarthur Minerals Limited	MMS	Advanced Exploration The early stage Lake Giles Project has a magnetite resource of 1.117 billion tonnes (target 1.5bt) as well as potential for a haematite resource in 2Q10. MMS has an attractively low EV/resource ratio (C\$0.02/t), which could increase significantly as the project advances.
New Millenium Capital Corp*	NML	Feasibility Having submitted a positive Feasibility Study for its 63.5mt DSO Project, NML is awaiting a US\$300m investment decision by Tata Steel. Production of 4mtpa could commence in 3Q11. NML also controls a 5.6 billion tonne Reserve of magnetite ore, one of the world's largest.

UK

Baobab Resources PLC	BAO	Scoping Study BAO is focused on the developing African resources hub of Mozambique, where its 47.7mt Tete Fe-V-Ti Project is supported by the World Bank's International Finance Corporation (IFC). Scout drilling is in progress and a Scoping Study is expected in 1Q10.
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About Resource Capital Research

Resource Capital Research ("RCR") (www.rcresearch.com.au) was founded in 2004 and is based in Sydney. RCR provides investors with in-depth reports on current investment opportunities in the mining sector both in Australia and globally. The focus is on small and mid cap resource companies, within the iron ore, uranium, gold and tin/tungsten sectors, ranging from exploration stage, through development and production. John Wilson the principal of the firm and analyst has over ten years' experience analysing mining companies in Sydney and on Wall Street including for major investment banks. Dr Trent Allen, Iron Ore Analyst, joined RCR in 2006. Trent has extensive experience as a mine geologist, university academic and journalist.

For further information please contact:

Trent Allen, Iron Ore Analyst, (+61 (0) 438 873 682)
John Wilson, Managing Director.

Resource Capital Research,

Phone: (+61- 2) 9252 9405,

Email: trentallen@rcresearch.com.au
johnwilson@rcresearch.com.au

The report is available at www.rcresearch.com.au. The next Iron Ore Company Review will be of the June Quarter, 2010.