

Iron Ore Holdings Ltd

OCEAN EQUITIES Ltd

Is 191.5mt in the price? . . . we think not & the blue sky is only getting bigger

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News

Iron Ore Holdings ("IOH") provided a detailed exploration and company update before the Company's AGM that was held today (Nov 24th) in Perth. The Company announced:

- a major new discovery at Buckland Hills;
- a 20% increase in Iron Valley's JORC resource to 191.5mt @ 59.1% Fe;
- a final sales agreement with Rio Tinto ("RIO") for IOH's Phil's Creek project;
- an exploration update for recently complete and ongoing drilling programmes; and,
- a 6 month exclusive agreement between IOH and RIO that may lead to the purchase of part or all of the lease covering IOH's Iron Valley deposit.

The four resolutions put to the AGM were passed.

Analysis

IOH's comprehensive update is probably one of the most positive press releases you will ever see from a junior natural resource company and even though the stock has increased 180% from its two month lows, we expect the share price to continue to trade higher as the market fully digests today's announcements and the implications it has for IOH's value, especially in the light of the Company's favourable peer group valuation and upcoming catalysts.

Perhaps surprisingly, IOH is still valued at less than the A\$204m BHPB has offered in cash for UMC (refer to Exhibit 2). While comparable transaction multiples are not necessarily an accurate valuation metric, we believe BHPB's offer for UMC has set a new benchmark price for strategic undeveloped projects and based on this methodology Iron Valley alone is worth A\$250m which represents 125% of IOH's current market cap. We believe that it is clear that the current size of Iron Valley is not reflected in IOH's market cap of less than A\$200m and this does not even account for any further deposit increases, new discoveries or indeed Phil's Creek.

Today's update provides a clear picture for the likely development of the Company in the next year: IOH will create further significant value through its current business model of making grass roots discoveries and then striking appropriate commercial agreements for development. The Company has already executed this plan for its initial starter mine, Phil's Creek (which is on track for production commencing 2H'10), and is set to repeat this on a much larger scale for Iron Valley within the next 6 months. Subject to further resource definition, the Company could also achieve this on a significant scale through a number of their recent discoveries.

In our view it is highly likely that by mid 2010 IOH will have commercial agreements in place for at least 6mtpa of attributable production (via Phil's Creek & Iron Valley), with further blue sky coming from the development of the next "Iron Valley" (and the Buckland Hills discovery, amongst others, is already shaping up as that). It is again worth highlighting that Atlas (market cap ~A\$760m) has DSO resources of 138.6mt and is only currently producing 1mtpa from Pardoo (set to increase to 2.5mtpa in Mar'10) with total production expected to increase to 6mtpa by Dec'10 (subject to converting the FMG rail-and-port MoU into binding agreements with production commencing at Wodonga). In our view this implies that IOH's market cap should at least double again in the next 12 months if management executes its intended strategy, which we have high confidence they will.

Key positive developments from today's press releases/company presentation:

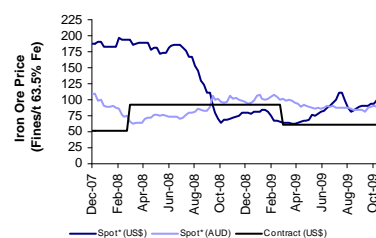
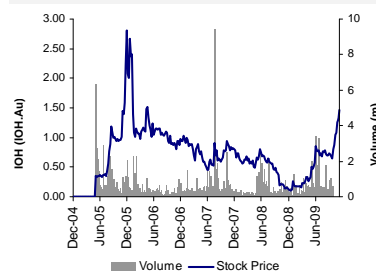
- **20% Iron Valley resource upgrade:** Iron Valley was already the largest high grade deposit in the Pilbara outside of the major players and despite the resource now standing at 191.5mt at 59.1% Fe (including a higher grade component of 120.2mt at 60.1% Fe), we believe there is scope for further resource growth in a project that was only discovered in Oct'08 (refer to Exhibit 6 for historical and future potential timeline for Iron Valley). In our view BHPB's acquisition of UMC and RIO's Mine Gate Sale agreement ("MGS") with IOH for Phil's Creek is recognition that the majors will look to do commercial deals with juniors who enjoy high quality and favourably located projects.
- **Iron Valley 6 month exclusivity period:** On the back of this increase in resource IOH has entered into a 6 month exclusive agreement with RIO for Iron Valley. During this period the parties will seek to reach agreement for "RIO to acquire all or part of the mining lease on which Iron Valley is located". As RIO's Sam Walsh has stated the agreement has been struck to "establish whether it (Iron Valley) can be best developed within our integrated system of 11 mines". Given the size, location and quality of Iron Valley, and the relationship between the two companies, we believe RIO will indeed seek to form a mutually beneficial commercial agreement.

It is again worth highlighting that Iron Valley is favourably located within ~15km of BHPB's Yandi mine and the orebody appears to continue to Fortescue's neighbouring tenements (reports suggest FMG is soon planning to start drilling on its tenement). As highlighted in our IOH initiation report (Oct 21st) the size of Iron Valley supports a more optimal commercial agreement to IOH than the MGS agreed for Phil's Creek due to the scale of the project

. . . continues on the next page

Nov 24th 2009

Market Cap	A\$198m
Listing:Ticker	ASX – IOH
Share Price	A\$1.695
Shares o/s	117m
52 week High/Low	A\$1.83 / 0.096
Cash	A\$12.5m
Bloomberg	IOH AU



* Spot prices are quoted CFR while contract price is quoted FOB basis. Current shipping rate from the Pilbara to China is ~US\$21.50/t

Highlighted Related Research

Nov 5th IOH "New assay results support a further significant resource upgrade and likely positive share price catalyst"

Oct 21st IOH "Comparable transactions highlight favourable valuation anomaly – Initiation of Coverage"

Oct 16th UMC & Pilbara Iron Ore Sector update "Conditional cash offer at a 43% premium for UMC by BHPB has supported a further rally in the juniors"

Sep 18th Pilbara Iron Ore sector review "Proposed Chinalco/RIO deal renews sector activity & highlights the value of the Pilbara"

Jun 11th Pilbara Iron Ore sector review "The time is nigh on infrastructure"

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supporting a much longer mine life and higher production development strategy. For this reason we believe one potential development strategy could be a RIO/Hancock Hope Down's 50:50 development scenario. We expect the commercialisation of Iron Valley will lead to a significant re-rating of IOH's share price.

- **Final sales agreement for Phil's Creek:** IOH has reached agreement with RIO on key commercial terms of an ore sales agreement for the Phil's Creek project. As IOH's MD, Matt Rimes, stated "both parties have worked for many months on the details of this project, with a great deal of goodwill. Together with RIO, we are delighted to be able to confirm that this pioneering relationship between a "major" and "junior" has moved to the next stage".

Mining is expected to commence in late 2010 with IOH to supply up to 1.5mtpa under its MGS, and IOH has confirmed that based on current assumptions, the NPV of the Phil's Creek project remains robust. IOH is currently reviewing options for development, including contract mining or Build Own Operate ("BOO") scenarios, and the associated funding capital costs. We expect the Company to provide further details when funding decisions have been made, but it is our view that in the event of a further capital raising the majority of existing shareholders will take up their entitlement (with the Company's largest shareholder again potentially underwriting the issue), resulting in limited funding risk for the Company.

- **Exploration update provides increased blue sky:** While it is unlikely the market will ascribe much value to IOH's exploration activity update we believe that it was no accident that the announcement on Buckland Hills was the first item listed in today's press release. The ongoing activities in both the Western and Central Pilbara is a key component to the medium term story of IOH and provides increased visibility for the next "Iron Valley" project(s) which have the potential to be significant catalysts for the Company in 2010. It is likely that ongoing exploration activities at four key projects will provide meaningful resource statements in 1Q'10 with likely positive news flow before the end of the year. Further details are:
 1. **Iron Valley** (Brockman ore deposit) – a new round of RC drilling, ~3,000m, commenced yesterday testing the extensions to the deposit which remains open at depth and along strike. Drilling to date has comprised 17,500 metres and we expect the next resource upgrade to deliver a resource comfortably above the magical 200mt target (refer to Exhibit 6).
 2. **Koodaideri South** (Brockman ore target) – This project is adjacent to RIO's 1bt proven reserve Koodaideri project (which is earmarked for production post 2013), and includes six identified targets. Recently IOH complete a 2,460 metre programme of drilling at two targets with assays results expected shortly.
 3. **Lamb Creek** (Brockman ore target) – An initial exploration programme of 2,150 metres has returned promising grades and widths including 20 to 30 metres intersection between 58.93% and 63.25% Fe. A follow up programme of 1,080 metres is now complete with assay results expected shortly. A maiden JORC resource is anticipated for 1Q'10.
 4. **Buckland Hills** (high grade CID/Yandi target) – The first stage, 1,390 metre drilling programme has been completed across two targets zones with significant high grade mineralisation identified over a length of 1,200m and up to 500m wide with intersected thickness of up to 58m at 61% Fe. A follow up drill campaign is currently being planned, aimed at testing continuity and extensions of the newly discovered mineralisation at target 2. The Buckland Hills prospect is located in the West Pilbara, which is 7km from RIO's Mesa J mine (historic production of ~26mtpa/resource 135mt @ 56.4% Fe – now winding down to 7mtpa). RIO's Pannawonica is within 55km (via existing roads) of both IOH's target areas, and the Mesa A/Warramboos mine, about 50km from Pannawonica, is expected to have initial production of 20mtpa increasing to 25mtpa by 2011 (total high grade reserves ~249mt with a total mine life of 11 years). Capex for the Mesa A/Warramboos project is +US\$900m and includes a 49km rail extension.

Key Events / Valuation Triggers

Near term company specific news flow is expected to remain positive including: receipt of assay results from recently completed and ongoing exploration drilling programmes; further resource upgrades for Iron Valley and maiden resource statements for new targets; further details on the development/funding strategy for Phil's Creek; scoping studies, permitting and potential development discussions for Iron Valley – particularly with RIO.

Exhibit 1: Iron Valley is already the largest independent high grade deposit in the Pilbara . . .

Total resource classification	Tonnes (m)	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI
Indicated	111.7	59.90	3.90	2.70	0.19	6.80
Inferred	79.8	58.00	5.30	3.30	0.17	7.30
Total	191.5	59.10	4.50	2.90	0.18	7.00

Resource at 50% Fe lower cut

DSO resource classification	Tonnes (m)	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI
Indicated	82.2	61.40	3.00	2.30	0.18	6.20
Inferred	38.0	60.30	3.80	2.60	0.17	6.50
Total	120.2	60.10	3.30	2.40	0.18	6.30

Resource at 58% Fe lower cut

Source: Iron Ore Holdings, Ocean Equities

Exhibit 2: which based on the multiple of BHPB's cash offer for UMC is worth at least A\$250m, or +125% of IOH's market cap

UMC - Railway JORC resource estimate

Type	JORC category	Tonnes (m)	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI
High grade - Bedded Iron Ore	Indicated	100.7	60.34	3.71	2.62	0.007	7.31
Bedded & Detrital	Inferred	57.4	53.98	7.45	4.82	0.057	9.27
Total Resource	Indicated & Inferred	158.1	58.03	5.07	3.42	0.063	8.02
BHPB Cash Offer (A\$m)		204					
Implied p tonne value (A\$/t)		1.29					

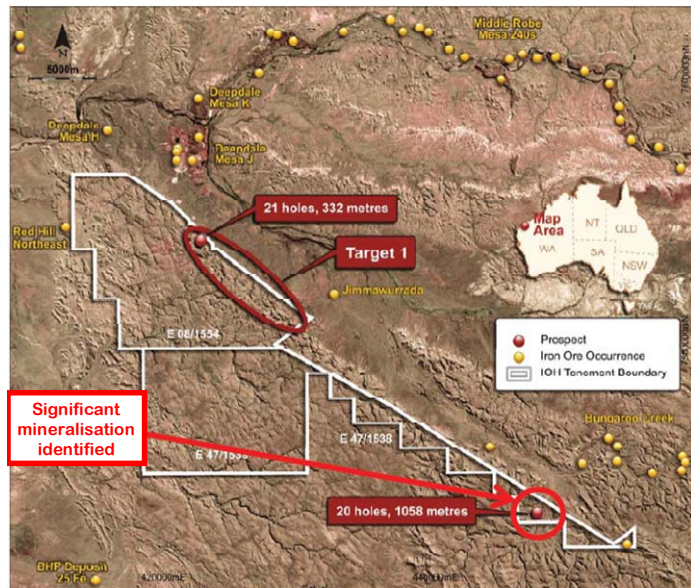
IOH analysis

	Current (mt)	Near term potential	Med. term potential
Iron Valley resource	191.5	210	250
Implied value of IOH (A\$m)	247	271	323
IOH current EV (A\$m)	186		
% upside	33%	46%	74%

Source: Iron Ore Holdings, Ocean Equities

Exhibit 3: Several new discoveries, including Buckland Hills, have the potential to be significant catalysts in 2010, with the hope of being the next "Iron Valley" project

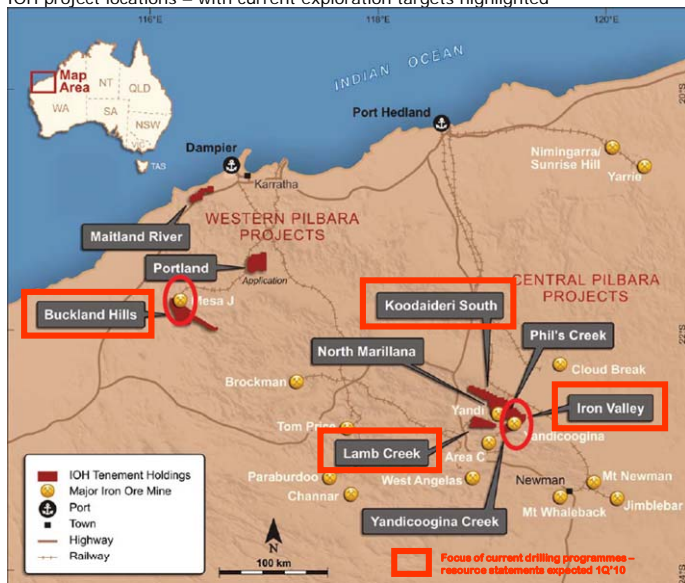
The Buckland Hills project, in the West Pilbara, is close to RIO's Mesa J mining operation and rail infrastructure



Source: Iron Ore Holdings

Exhibit 5: Exploration at a number of targets are likely to lead to a significant increase in DSO resources in 1Q'10

IOH project locations – with current exploration targets highlighted



Source: Iron Ore Holdings, Ocean Equities

Exhibit 4: ... with initial drill results returning a premium product (with better spec's than RIO's neighbouring Yandi ore operations), strategically placed to existing infrastructure. . .

The first drilling programme at Buckland Hills will form the basis of an initial resource estimate in 1Q'10

Hole	Intersection width (m)	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI	From
BH025	26	60.40	4.79	2.00	0.14	6.21	42
BH026	34	61.30	3.81	2.33	0.11	5.78	24
BH027	58	61.30	3.71	2.42	0.11	5.60	38
BH028	20	60.50	3.04	2.84	0.11	6.91	0
and	46	60.70	4.33	3.00	0.15	5.18	26
BH030	34	58.30	4.52	2.87	0.15	8.53	32
BH034	20	59.10	5.38	2.12	0.14	7.45	0
BH037	26	57.80	6.42	2.34	0.15	7.81	2
BH038	22	56.80	6.12	2.87	0.21	9.04	28

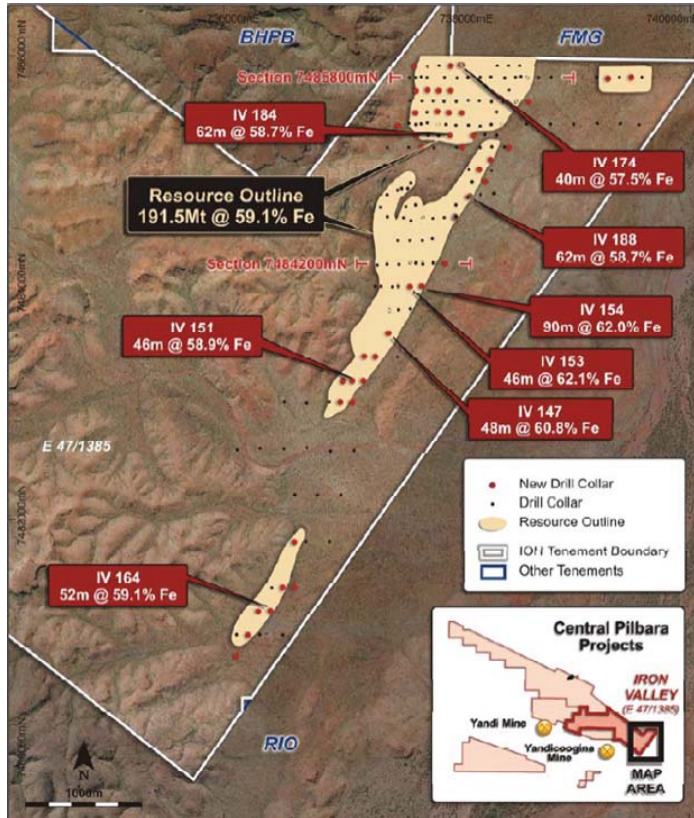
Source: Iron Ore Holdings, Ocean Equities

Exhibit 6: IOH continues to focus on rapidly developing the Iron Valley project, and preliminary scoping studies and pit designs are ongoing for a 5 to 10mtpa+ operation

Iron Valley historical & future potential timeline						
Date	Activity	Comments	Holes	Metres	Cumulative	
May'08	Tenement exploration license granted					
Oct'08	First Round RC drilling	First hole intersected mineralisation	82	6,000	6,000	
Mar'09	Maiden Resource	88.2mt @ 58.5% Fe				
Mar'09	Second Round RC drilling		63	5,000	11,000	
Jun'09	Second Resource	132.3mt @ 58.9% Fe				
Jun'09	First Diamond Holes		6	800	11,800	
Aug'09	Third Resource	159.7mt @ 59.1% Fe				
Aug'09	Third Round RC Drilling		45	4,800	16,600	
Sep'09	Detailed mine planning & environmental studies start					
Oct'09	Geotechnical Drilling		3	700	17,300	
Nov'09	Fourth Resource	191.5mt @ 59.1%				
Nov'09	Fourth Round RC Drilling	Remains open at depth & along strike		3,000	20,300	
Nov'09	6 month exclusivity agreement granted to RIO.					
Mar'10	Fifth Resource update?	Potential to be +210mt - further follow up programmes likely				
May'10	Likely MoU JV agreement with RIO for the co-development of Iron Valley?					
2H'10	Construction & permitting?					
2011	Ramp up of production?					

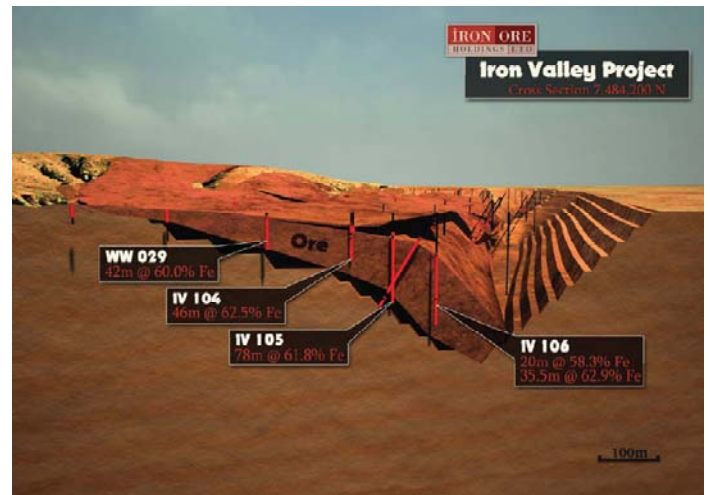
Source: Iron Ore Holdings, Ocean Equities

Exhibit 7: . . . and the resource continues to be open with further drilling expected to increase tonnage well over 200mt in the near term
Iron Valley resource model



Source: Iron Ore Holdings

Exhibit 8: Scoping studies and environmental planning for Iron Valley are well advanced.
Cross section at latitude 7,484,200 N



Source: Iron Ore Holdings

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