

Iron Ore Holdings Ltd

Final 2009 paperwork sets the sense for a transformational 2010

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News

Further to its press release on November 24th, IOH has announced that negotiations with Rio Tinto ("RIO") have resulted in the signing of two significant, independent agreements which sets the foundation for 2010 to be a transformational year for IOH:

- An Iron Ore Sales Agreement between IOH and RIO's subsidiary, Hamersley Iron Pty Ltd, for production from the Phil's Creek Project; and,
- A Relationship Agreement between IOH and Hamersley Iron relating to IOH's current flagship Iron Valley deposit.

Phil's Creek via its Mine Gate Sale ("MGS") agreement is set to be the first mine development to be undertaken based on a cooperative ore sales arrangement between an iron ore junior and a major in the Pilbara. The commercial agreements result in a project Net Present Value ("NPV") of ~A\$40m to ~A\$60m based on projected iron ore pricing scenarios, and estimated capital and operating costs. IOH has initiated the mining contractor tender process and is investigating the various funding options for the estimated A\$30m of project capex.

Analysis

While production from Phil's Creek is set to commence by late 2010, generating reasonable cash flow and returns, in our view today's announcement highlights one of the many significant catalysts likely to be experienced by IOH in 2010. Iron Valley's existing resource is over 20 times larger than Phil's Creek and is expected to see further significant growth early in 2010. RIO and IOH have now formally entered an exclusive Relationship Agreement where the two parties will endeavour to negotiate the terms of an acquisition, for some or the entire project, in the next 6 months. Applying the Phil's Creek NPV multiples for the Iron Valley, which we view as being extremely conservative reflecting the limited scale of Phil's Creek, the current Iron Valley resource already is worth between A\$830m to A\$1,250m (or A\$7.09/sh to A\$10.63/sh).

An initial scoping study has been prepared for Iron Valley, and if 100% of the project is not sold, IOH expects development could commence 2H'13. While we expect the market will continue to focus on another potential straight sale, such as BHP Billiton's 100% offer for UMC whose only asset was its 158mt Railway deposit (offer price A\$204m cash), we believe another potential development strategy would be a RIO/Hancock Hope Down's 50:50 scenario. For this reason we believe 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': Buckland Hills; Lamb Creek; and Koodaideri South are all already shaping up as that.

In our view the location, grade and characteristics of Iron Valley make this asset extremely attractive to BHPB, RIO, FMG and other potential strategics meaning that the Iron Valley project enjoys a significantly more favourable degree of competitive tension than UMC's Railway deposit, while IOH's shareholder register (with Kerry Stokes having a controlling stake in the Company) means that a BHPB opportunistic offer is unlikely to be successful. Furthermore, we believe IOH is well positioned to agree a strong commercial agreement for Iron Valley given: the likely development pipeline of IOH's other projects; the likely opening up of BHPB & RIO's infrastructure; the current level of corporate activity in the sector (particularly from foreign strategic investors); and, further development and access of port infrastructure in the region.

Increased broker and press coverage in the new year is likely to see IOH story mature in the general markets eyes from being just another niche 'would be' iron ore story to being a well managed iron ore producer with an extremely exciting growth profile with exploration upside, supporting the Company moving into the ASX 200.

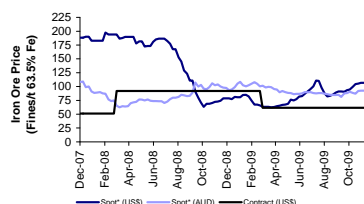
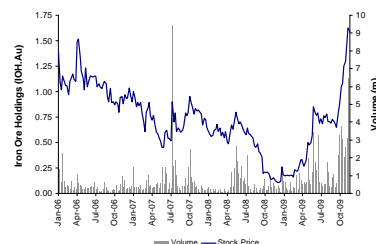
Key Events / Valuation Triggers

Near term company specific news flow is expected to be positive including: further details on the development/funding strategy for Phil's Creek; further drill and assay results from ongoing, or recently completed, drill programmes at Iron Valley, Buckland Hills, Koodaideri South and Lamb Creek; further significant resource upgrades for Iron Valley and maiden resource statements for a number of new projects in 1Q'10; scoping studies, permitting and potential development discussions for Iron Valley – particularly with RIO which has entered into an exclusive negotiating agreement for a period of 6 months with IOH.

OCEAN EQUITIES Ltd

Dec 18th 2009

Market Cap	A\$180m
Listing:Ticker	ASX – IOH
Share Price	A\$1.535
Shares o/s	117.2m
52 week High/Low	A\$1.83 / 0.096
Cash	A\$13.3m
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\$14/t

Highlighted Related Research

Dec 10th IOH "Final native title agreement in place for Phil's Creek, & more significant drilling results at Iron Valley"

Nov 24th IOH "Is 191.5mt in the price? . . . we think not & the blue sky is only getting bigger"

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"

Analysts

Sam Spring, CFA, CA

+44 (0) 20 7786 4378
sam.spring@oceanequities.co.uk

Natasha Liddell

+44 (0) 20 7786 4386
natasha.liddell@oceanequities.co.uk

Simon Gardner-Bond

+44 (0) 20 7786 4382
simon.gardner-bond@oceanequities.co.uk

*Refer to the final page of this report for the full Ocean Team's contact details

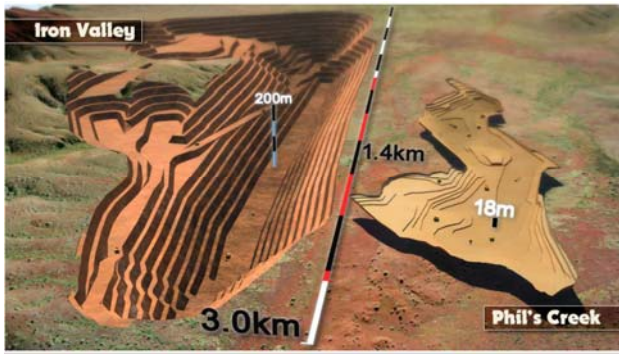
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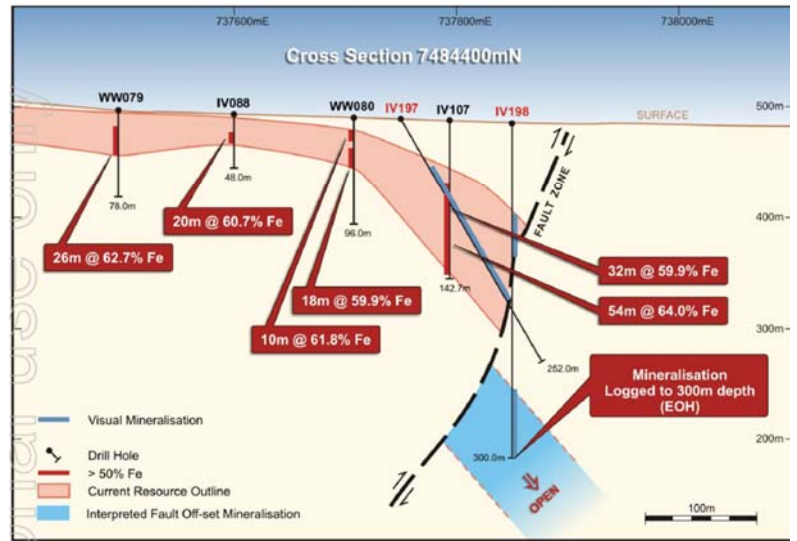
Exhibit 1: Iron Valley's resource is already 20 times larger than Phil's Creek, and is expected to further increase in early 2010 . . .
 Phil's Creek/Iron Valley conceptual pit designs – Comparison of size



Source: Iron Ore Holdings

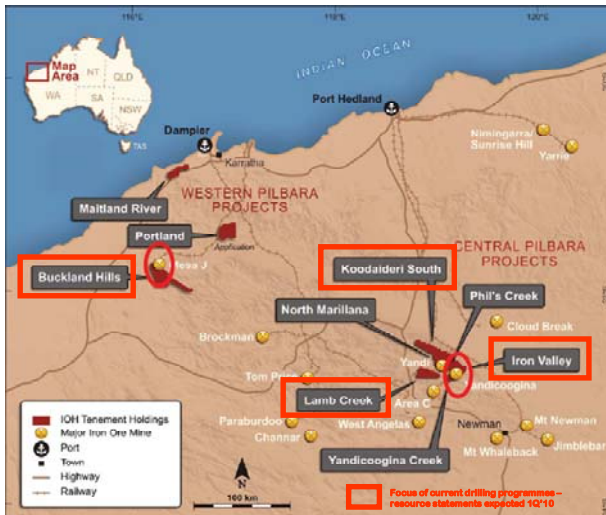
Exhibit 2: . . . with strike and depth extensions leading to a resource upgrade in 1Q'10 a programme of ~10 holes over 3,000 metres is ongoing with geological logging from drill holes IV197 & IV198 intersecting new iron mineralisation below the current resource envelope

Iron Valley: Drill section 7 484 400mN



Source: Iron Ore Holdings

Exhibit 3: Ongoing exploration is likely to lead to a significant increase in DSO resources in 1Q'10 at a number of projects
 IOH project locations – with current exploration targets highlighted



Source: Iron Ore Holdings, Ocean Equities

Exhibit 4: 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, and RIO has entered a 6 month exclusivity period

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	10	3,000	20,300
Nov'09	6 month exclusivity agreement granted to RIO.				
Dec'09	Visual logging of recent drilling has resulted in a significant extension in know mineralisation				
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

The ongoing activities in both the Western & 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 & Dec'09 quarterly report (due by the end of Jan'10). Further details are:

- **Iron Valley (Brockman ore deposit)** – ongoing RC drilling, ~3,000m over 10 hole programme, commenced Nov 23rd testing the extensions to the deposit which remains open at depth and along strike. Drilling is expected to be completed prior to the end of the field season and will support a likely resource upgrade in 1Q'10.
- **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.
- **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% & 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.
- **Buckland Hills (high grade CID/Yandi target)** – Phase 1, 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. This zone alone, assuming an average thickness of ~20m, provides the potential for a significant scale resource in the order of ~40-60mt. 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.

OCEAN EQUITIES Ltd

INDEPENDENT PARTNERSHIP SPECIALISING
IN THE NATURAL RESOURCE SECTOR
3 Cophall Avenue
London EC2R 7BH
Tel: +44 (0)207 786 4370
Fax: +44 (0)207 786 4371
E-mail: info@oceanequities.co.uk
Website: www.oceanequities.co.uk
Bloomberg: OELR [GO]

Guy Wilkes

CEO
+44 (0) 20 7786 4372
guy.wilkes@oceanequities.co.uk

Simon Gardner-Bond

Mining Analyst
+44 (0) 20 7786 4382
simon.gardner-bond@oceanequities.co.uk

Justin Tooth

Senior Equity Sales Executive
+44 (0) 20 7786 4385
justin.tooth@oceanequities.co.uk

James McLucas

Executive, Sales
+44 (0)207 786 4384
james.mclucas@oceanequities.co.uk

Rupert Williams

Director, Head of Sales
+44 (0) 20 7786 4373
rupert.williams@oceanequities.co.uk

Sam Spring, CFA, CA

Mining Analyst
+44 (0) 20 7786 4378
sam.spring@oceanequities.co.uk

Will Hodson

Senior Equity Sales Executive
+44 (0) 20 7786 4376
will.hodson@oceanequities.co.uk

Jeremy Woodgate

Executive, Sales
+44 (0) 20 7786 4381
jeremy.woodgate@oceanequities.co.uk

Will Slack

Director, Corporate Finance
+44 (0) 20 7786 4375
will.slack@oceanequities.co.uk

Natasha Liddell

Mining Analyst
+44 (0) 20 7786 4386
natasha.liddell@oceanequities.co.uk

John van Eeghen

Executive, Sales
+44 (0) 20 7786 4383
john.vaneeghen@oceanequities.co.uk

Kelly Edwards

Manager, Trading and settlements
+44 (0) 20 7786 4374
kelly.edwards@oceanequities.co.uk

Sales Administration Contact: **Katie Pollard** +44 (0) 20 7786 4370 katie.pollard@oceanequities.co.uk

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