

Iron Ore Holdings Ltd

OCEAN EQUITIES Ltd

Company Update: Maiden resource at Buckland Hills illustrates the potential for a number of further catalysts

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Investment Opportunity

Following our recent catch up with the Company in Perth and the announcement of a maiden JORC resource for Buckland Hills, we have taken the opportunity to provide some further analysis on the significant progress made by IOH recently and provide our view on the likely catalysts which we believe could see IOH be at least a A\$3/sh in the near term if the current marco and sector environment does not significantly deteriorate.

We believe there have been two key drivers for IOH's share price appreciation since we initiated coverage on the Company (Oct 21st at A\$0.87/sh) to the current price of A\$2.17/sh:

- i) **Re-rating of the sector** – the Australian Pilbara iron ore sector is up ~20% having enjoyed a re-rating driven by: a significant increase in spot iron ore prices (+~35%); consensus contract price upgrades (to ~20% for JPY'10/11); renewed interest by investors wanting to gain pure play iron ore exposure; near record Chinese iron ore imports; record Australian iron ore production levels; approval of BHPB's A\$204m take out of UMC; and, further corporate activity in the sector both in Australia and internationally;
- ii) **Significant company specific news flow** – in this favourable environment IOH has made significant progress developing its suite of assets providing regular positive news flow and the Company has been rewarded by the market with IOH outperforming its peer group (refer Exhibit 10). We believe the maiden JORC resource of 47.9mt @ 58.05% Fe at Buckland Hill's further illustrates IOH's ability to quickly delineate high grade resources in the next 6 months.

While IOH's share price has performed strongly, the Company continues to trade at a discount to the implied comparable transaction value that BHPB has paid for UMC despite IOH being: a multiple deposit company; its first asset set to begin production in 2H'10; enjoying greater DSO resources (which enjoy a higher strategic value and degree of competitive tension); and, has a second asset which has a 6 month exclusivity agreement for commercial development with Rio Tinto ("RIO"). We believe the recent developments provide the foundation for a further significant resource growth and share price re-rating, and we view the recent weakness in IOH's share price as an attractive entry point.

Analysis

IOH in the last 6 months has made considerable progress in developing its existing assets and making a number of new discoveries which provides the foundation for significant growth in resources and an extremely attractive portfolio of development assets. While the discovery of Iron Valley was the driver of IOH's share price in 2009, we believe Phil's Creek entering production in 2H'10, the potential commercial transaction with RIO for Iron Valley, and the resource definition/development of a number of other projects (primarily Buckland Hills, Koodaideri South and Lamb Creek) will see IOH's share price continue to significantly outperform and the Company enter the ASX 200 Index.

Between Nov'08 and Nov'09 IOH drilled 251 holes for 17,000 metres, increasing its JORC resources from 57mt to 253mt (now 301.3mt including Buckland Hills). It is worth highlighting in the next 6 months IOH plans to drill 20,000 metres spending A\$5-6m, more than it did during FY'08/09, across four already made discoveries. Below we provide some further analysis on the recent developments made by the Company and why we think IOH can become at least A\$3/sh in the near term.

- Major maiden resource at Buckland Hills, West Pilbara (Feb 2nd) –assays results from the 1,390 metre drilling programme, completed in Oct'09, targeting two areas have confirmed the discovery of a new high-grade channel iron mineralised zone with intersections of up to 58 metres at 61% Fe. Mineralisation has been identified at the Target 2 zone over a length of 1,200 metres and is up to 500 metres wide and has formed the basis of a 47.9mt @ 58.05% Inferred JORC resource. A follow-up infill campaign is planned to test continuity and extensions at Target 2 (which remains open), as well as test additional targets, primarily in the southern area of Target 1, with follow up drilling expected to commence once the current programme at Iron Valley is completed. During 2010, IOH intends to prioritise the exploration and development of the Buckland Hills tenements and we believe Buckland Hills is well positioned to be the next project IOH commercialises after Iron Valley.

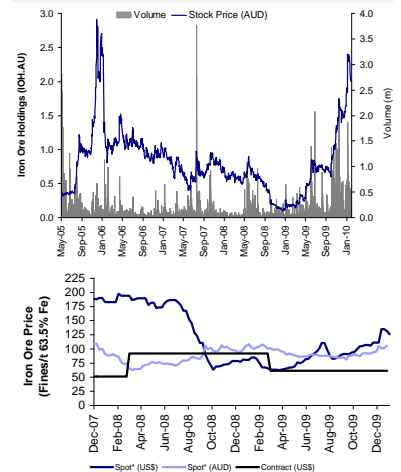
The Buckland Hills prospect is located in the West Pilbara, 35km southeast from RIO's Mesa J mine (historic production of ~26mtpa/resource 135mt @ 56.4% Fe – now winding down to 7mtpa), and is adjacent to the southern extent of RIO's Bungaroo CID project. RIO's Pannawonica operation is within ~55km (via existing roads) of both IOH's target areas, and the Mesa A/Warrambo mine, ~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/Warrambo project is +US\$900m and includes a 49km rail extension.

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IRON ORE : AUS

Feb 2nd 2010

Market Cap	A\$257.4m
Listing:Ticker	ASX – IOH
Share Price	A\$2.17
Shares o/s	118.8m
52 week High/Low	A\$2.46 / 0.145
Cash	A\$11.1m
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\$11.8/t

Highlighted Related Press Releases

Jan 28th IOH "Quarterly activities report for the period ending 31st Dec'09"

Highlighted Related Research

Jan 11th IOH "2009 was a transformational year; we see further value accretion in 2010 driven by the development of Iron Valley"

Dec 18th IOH "Final 2009 paperwork sets the sense for a transformational 2010"

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"

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

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The Mesa J/ Pannawonica and West Angelas operations are owned by Robe River Iron Associates of which RIO has a 53% operating interest with Mitsui (33%), Nippon Steel (10.5%) and Sumitomo Metal Industries (3.5%) retaining minority interests. It is worth highlighting that IOH's Managing Director, Matt Rimes, had been with Robe River for the previous 10 years before he joined IOH, having held senior operational positions at both Pannawonica and West Angelas. Matt spent a period of this time on the board of Robe River Mining Co Pty Ltd. As such IOH has a very good understanding of the Robe River assets and relationship with their shareholders, with Sumitomo, Japan's third-largest steelmaker, also being the second largest shareholder of IOH.

While we believe Buckland Hills will be potentially an attractive asset to RIO, and its Japanese JV partners, due to the favourable characteristics of its ore (which is at surface, dry/above the water table, with high Fe units and favourable impurity levels), the potential size of the project (with a 49mt resource already delineated on a small section of the tenement which is open at Target 2 and no resource yet defined at Target 1), and its location (close to under utilised infrastructure), it is also worth highlighting that the asset is favourably located to Aquila's Western Pilbara iron ore assets. Aquila's Mt Elvire Iron Ore project, which is owned by the Australian Premium Iron ("API") Joint Venture, is located immediately to the south of the Buckland Hills project. Aquila enjoys a strategic co-operation agreement with its major shareholder Baosteel, and the "development decision" for the West Pilbara iron ore project, and associated infrastructure, is expected mid 2010.

- **Iron Valley drill results** (Jan 25th) – further assay results from the 2,614 metre RC and 720 metre diamond drilling programmes, completed in Dec'09, have returned major intersections of up to 88 metres at 63.4% Fe with the orebody's resource envelope extended a further 100 metres at depth to 300 metres, finishing in 63% Fe. These results have provided visibility on the potential size of Iron Valley and are set to shortly result in a further significant resource upgrade (discussed further below).

Importantly, IOH has announced a new sixth aggressive exploration and resource development drilling programme which is scheduled to commence in early February with the arrival of two diamond core and two RC drilling rigs. The aim of this programme is to target further depth and strike extensions (particularly in the north east and southern areas of the project) and maximise the total resource envelope and value of Iron Valley as exclusive negotiations with RIO continue until the deadline of July 31st. It is clear resource definition activities at Iron Valley are the key focus for 1Q'10, and other targets to be drilled out post Iron Valley.

- **Phil's Creek progress** (Jan 21st) – Mining Leases M47/1359 and M47/1360, covering the Phil's Creek project, were granted by the Department of Mines and Petroleum providing another significant step forward toward production commencing in 2H'10. IOH on Dec 17th announced an NPV range for the Phil's Creek project of between A\$40m to A\$60m based on then conservative iron ore pricing assumptions. Given that the commercial agreements in place incorporate a price escalator/de-escalator we believe there is significant upside to the provided economic range due to the more buoyant iron ore price environment (spot prices are up ~20% since Dec 17th). IOH is currently investigating a number of funding options for capex (which is estimated to be in the vicinity of A\$30m) and the mining contract tender process is currently ongoing.

- **Further high-grade results at the Boundary project, Lamb Creek** (Jan 15th) – An initial exploration programme of 2,150 metres returned promising grades and widths including 20 to 30 metres intersection between 58.93% & 63.25% Fe (announced June 10th) and a follow up programme of 1,080 metres is now complete. Initial assay results from the follow up programme, completed in Nov'09, have returned intercepts of up to 38m at 61.8% Fe of Brockman Iron Formation providing extensions to the previously announced high-grade, near surface zone of mineralisation. A maiden resource estimate is expected in late Feb/Mar'10 (discussed further below), and it appears that phosphorus levels at Boundary are a lot more favourable than Iron Valley. The project remains open to the east, is located only 20km to the west of BHPB Yandi and 35km from RIO's Yandicoogina mining operations (6km from RIO's rail), and a further follow up drilling programme is planned in 1H'10.

- **New discovery at the Fingers project, Koodaideri South** (Jan 13th) – initial assay results from the 2,044 metre RC drilling programme, completed in Nov'09, have identified 6 new prospects including: Hidden Valley, Junction and the Fingers project at Koodaideri South. High grade bedded Brockman iron mineralisation was discovered in all eleven holes (for 704 metres) at the Fingers prospect, including 42 metres at 60% Fe, at surface with extremely favourable impurity levels and stage 1 results are to form the basis on an initial resource estimate in late Feb/Mar'10 (discussed further below). In addition to the planned follow up drill campaign at the Fingers and Hidden Valley prospects, drilling programmes at new targets including Bight and Kurrajura East are expected to be completed at the Koodaideri South project in 1H'10.

Key Events / Valuation Triggers

As previously discussed in our IOH initiation report we believe BHPB's take out of UMC has set a new benchmark price for strategic undeveloped projects. BHPB's accepted bid values UMC at ~A\$204m, with the Company having a resource inventory of 158mt @ 58% Fe at its flagship Railway deposit (including a DSO resource of 100.7mt @ 60.3% Fe). At the cash offer of A\$1.30/sh, the implied EV/t resource valuation for UMC was ~A\$1.29/t.

As can be seen from Exhibit 1 the market is still applying a significant discount to the implied comparable transaction value of IOH's current resource inventory. IOH's Phil's Creek and Iron Valley resources, which total 200.7mt, are only being valued at A\$1.23/t, despite Phil's Creek being set to commence production in 2H'10 and RIO having an 6 month exclusivity period to form a commercial transaction for Iron Valley. Given IOH is a multiple deposit company that offers initial medium term cash flow, with greater DSO resources (which enjoy a higher strategic value and degree of competitive tension) we would expect IOH to attract a premium to the bid for UMC, which was a high grade deposit lacking access to infrastructure. This analysis provides us significant comfort that despite IOH's recent strong share price performance the stock is still not expensive and that we expect to see a further significant uplift in valuation as IOH's projects are development and commercialised.

In order to highlight to investors the potential uplift we expect to see IOH enjoy in the near term as it delineates maiden resource for Koodaideri South (the Fingers target) and Lamb Creek (the Boundary prospect) we have attempted to estimate what the total tonnage and Fe grades of maiden JORC resources that are expected to be released in late Feb/Mar'10. Our estimates are based only on publically available drill results and as such we acknowledge the significant inherent weakness of such a basic approach. However, we also highlight that during 2009 IOH was able to increase its high grade resource inventory by ~196mt with only ~17,000 metres of drilling and that the 1,390 metres of drilling completed at Buckland Hill's project has returned a maiden 49.9mt resource. Already complete drilling at the other targets in late 2009 totalled 7,268 metres (Iron Valley 3,334m: Boundary Prospect 3,230m: &, Fingers 704m).

After the delineation of a maiden resource at Buckland Hills, IOH's high grade inventory totals 248.6mt (totals JORC resources of 301.3mt including the Extension Deposit). We expect this high grade total will approach towards ~300mt by the end of Feb/Mar'10 and we believe these catalysts could see IOH be at least A\$3/sh if the current macro and sector environment does not significantly deteriorate (refer to Exhibit 2). In the medium term, as the next 6 months of aggressive drilling is complete, we believe there is further significant scope to increase resources as known targets are followed up for infill drilling and further extensions. Furthermore, over this period we expect any positive conclusion of negotiations with RIO for Iron Valley (expected by July 31st) to be a company transforming announcement.

We believe the recent developments provide the foundation for a further significant resource growth and share price rerating, and view the recent weakness in IOH's share price as an attractive entry point. The Company remains comfortably funded with A\$11.1m in the bank, and a

further A\$8.1m is expected in May'09 as deep-in-the-money options are exercised, with minimal capital costs to enter initial production. Key potential catalysts are expected to be:

- Maiden high grade resources for the Boundary project (Lamb Creek) and the Fingers project (Koodaideri South) in Feb/Mar'10.
- Further resource upgrade for Iron Valley by Mar/Apr'10.
- Phil's Creek mining contractor expected to be appointed with further details for project funding to be announced by 2Q'10.
- Results from the aggressive 20,000 metre drilling programme in 1H'10 targeting Iron Valley, Buckland Hills (Targets 1 & 2), Lamb Creek (Boundary project), and Koodaideri South (including Fingers, Hidden Valley, Bight, and Kurrajura West/East prospects).
- Positive outcomes regarding rail access at the State and Federal government levels.
- Negotiations for potential sale and/or commercial transaction for Iron Valley to RIO by July 31st.
- Further potential commercial transactions for other IOH projects and resource upgrades.

Exhibit 1: IOH's current high grade resources trade at a discount to the implied comparable transaction value that BHPB has paid for UMC

Summary of IOH's current high grade JORC resource inventory and its implied valuation

Buckland Hills resource estimate (Feb'10 2nd)

Total resource classification	Tonnes (m)	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI
Inferred	47.9	58.05	6.43	2.63	0.15	7.27
Total	47.9	58.05	6.43	2.63	0.15	7.27

Resource at 50% Fe lower cut

Iron Valley JORC resource estimate (Nov'09 24th)

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

Phil's Creek JORC resource estimate (Sep'08 18th)

Indicated resource -Grade Range	Tonnes (m)	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI
+55% Fe	9.2	58.00	5.70	3.10	0.10	7.50
50 to 55% Fe	5.9	51.90	9.50	6.00	0.09	9.10
Total	15.1	55.60	7.20	4.20	0.10	8.10

Extension Deposit JORC resource estimate

Indicated resource	Tonnes (m)	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI
Total	46.8	50.00	9.50	7.70	0.05	10.40

Resource calculated at 45% Fe cut-off

Total Resource	301.3	
Economic Resources¹	200.7	59.05
EV (A\$m)	246.3	
EV/Resource ¹	1.23	
EV (A\$m) @ A\$3/sh	344.7	
Implied Resources ²	280.9	
Incremental Resources	80.2	
Implied Resources ³	267.2	
Incremental Resources	66.5	

¹ Economic Resources includes the DSO resource of Phil's Creek (MGS with RIO) & the current resource for Iron Valley (6mth exclusivity period with RIO).

² Implied Resources is IOH's EV at A\$3/sh divided by the current EV/Resource multiple at the resources at Iron Valley & Phil's Creek currently trade at.

³ Implied Resources is IOH's EV at A\$3/sh divided by the implied EV/t resource valuation for UMC by BHPB.

Source: Iron Ore Holdings, Ocean Equities

Exhibit 2: We expect to see maiden resource statements and upgrades be a significant catalyst to IOH's share price

Summary of BHPB's offer for UMC and IOH's potential high grade JORC resource inventory

UMC - Railway JORC resource estimate	JORC category	Tonnes (m)	Fe %	SiO2 %	Al2O3 %	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					

¹ Railway orebody was largely closed off with little scope for further resource upgrades on UMC's existing tenements.

IOH analysis	Current (mt)	Near term potential	Med. term ²	Recent drilling (m)	Strike	Width	Assumptions (m) Thickness	Fe Grade %	Ore type
Iron Valley resource	191.5	210	250	3,334	3,000	800	up to 300 ¹	59.1	Brockman
Phil's Creek DSO resource	9.2	9.2	9.2	0	1,400	400	up to 18	58.0	CID/Yandi
Buckland Hills - Target 2	47.9	47.9	60.0	1,390	1,200	500	26.3	59.0	CID/Yandi
Koodaideri South - Fingers	0.0	11	30	704	500	200	37.6	59.3	Brockman
Lamb Creek - Boundary Prospect	0.0	17	30	3,230	800	500	15.6	59.3	Brockman
Total DSO resources	248.6	295	379	8,658					
% Chg		19%	29%						
Implied value of IOH (A\$m)*	332	392	500						
Implied share price (A\$/sh)	2.80	3.30	4.22						
% upside	29%	52%	94%						
Implied value of IOH (A\$m)**	316	373	476						
Implied share price (A\$/sh)	2.67	3.15	4.02						
% upside	23%	45%	85%						

* Implied value of IOH (A\$m) at the Implied p tonne value of A\$1.29/sh BHPB is paying UMC.

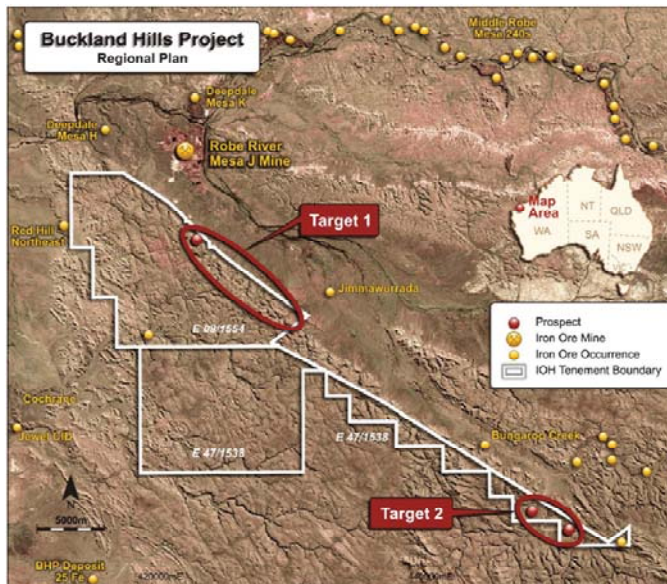
** Implied value of IOH (A\$m) at the current multiple the market is valuing IOH's "Economic Resource" (refer to Exhibit 1).

¹ Current resource for Iron Valley of 191.5mt has maximum depth of 200 metres with subsequent drilling confirming high grade mineralisation to at least 300 metre

² Medium Term Potential - subject to positive drill results from the proposed 20,000 metre drill programme during 1H'10.

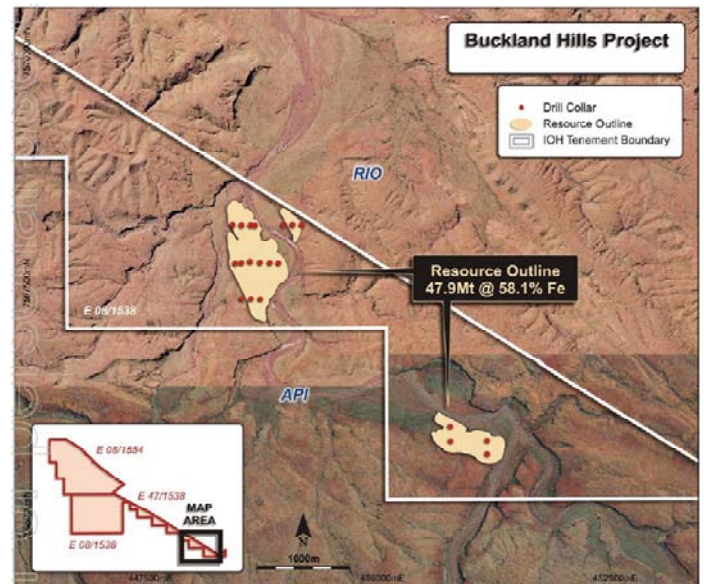
Source: Iron Ore Holdings, Ocean Equities

Exhibit 3: Buckland Hills Location Plan with Targets 1 and 2, with Target 2 only 35km from Robe River Mesa J mine



Source: Iron Ore Holdings, Ocean Equities

Exhibit 4: Buckland Hills Maiden Resource Outline at Target 2



Source: Iron Ore Holdings, Ocean Equities

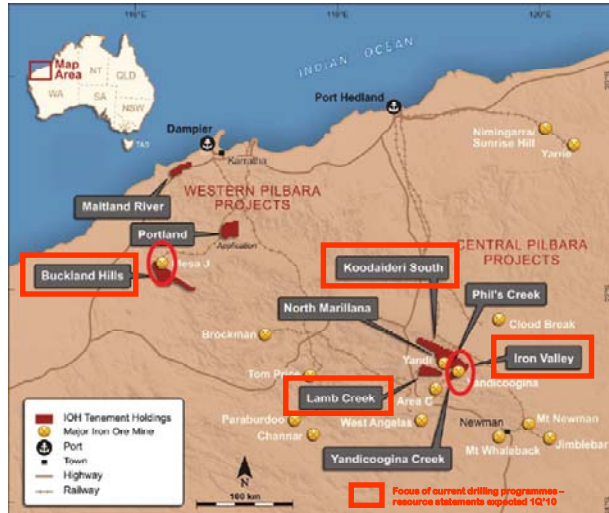
Exhibit 5: Summary of IOH's capital structure

2.17 Current Share price (A\$/sh)
 257.37 Market Cap (A\$m)
 11.10 Cash Balance (A\$m)
 246.27 EV (A\$m)

# (m)	Details	Strike price (A\$/sh)
118.61	Ord shares listed (30/9/09)	
12.73	Listed Options ex on April 2011	1.00
1.70	Unlisted 10/5/10	0.25
3.60	Unlisted 10/5/10	1.30
1.50	Unlisted 1/5/10	1.00
1.50	Unlisted 1/5/10	1.00
0.25	Unlisted 3/9/10	1.00
0.03	Unlisted 4/12/10	1.00
0.05	Unlisted 19/11/10	1.00
0.05	Unlisted 19/11/10	1.00
0.10	Unlisted 26/2/11	1.00
0.15	Unlisted 30/4/11	1.00
0.20	Unlisted 30/4/11	1.00
0.20	Unlisted 30/4/11	1.00
0.10	Unlisted 30/4/11	1.00
0.05	Unlisted 30/4/11	1.00
0.20	Unlisted 30/4/11	1.00
0.20	Unlisted 30/4/11	1.00
0.20	Unlisted 30/4/11	1.00
0.20	Unlisted 30/4/11	1.00
0.20	Unlisted 30/4/11	1.30
0.15	Unlisted 30/4/11	1.00
0.10	Unlisted 30/4/11	1.00
0.10	Unlisted 30/4/11	1.00
0.60	Unlisted 1/7/12	1.15
3.00	Unlisted 30/9/12	1.15
145.56 Fully Diluted No. Shares		

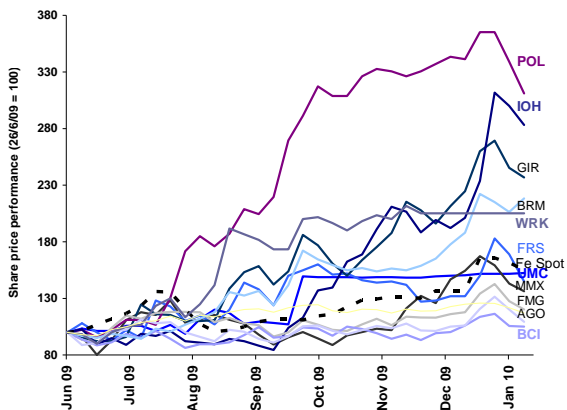
Source: Iron Ore Holdings, Ocean Equities

Exhibit 7: 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 9: The Australian Pilbara iron ore sector is up ~20% having enjoyed a modest re-rating since Oct'09 . . .



Source: Ocean Equities, Bloomberg

Exhibit 6: Summary of May's deep-in-the-money options

# (m)	Details	Strike price	A\$m	Grant date	No holders
1.70	Unlisted 10/5/10	0.25	0.4	10/03/2005	3
3.60	Unlisted 10/5/10	1.30	4.7	28/11/2005	7
1.50	Unlisted 1/5/10	1.00	1.5	01/06/2007	1
1.50	Unlisted 1/5/10	1.00	1.5	01/06/2007	1
8.3			8.1		
Current Cash Balance			11.3		
Total Cash			19.4		
Expected drilling (1H'10)			5.5		
Mobile camp			1		
Total Net Cash (pre Phil's Creek)			12.9		

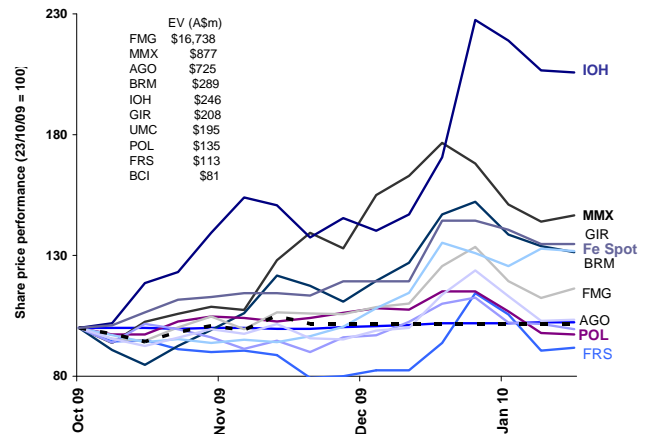
Source: Iron Ore Holdings, Ocean Equities

Exhibit 8: IOH continues to focus on rapidly developing the Iron Valley project, with preliminary scoping studies and pit designs ongoing for a 5 to 10mtpa+ operation, as well as RIO having 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	MoU for 6 month exclusivity agreement granted to RIO				
Dec'09	Visual logging of recent drilling has resulted in a significant extension in know mineralisation				
Jan'10	Extension to 300m below surface & intersections of up to 88metres @ 63.4% Fe				
Feb'10	Sixth Round Drilling - 2 diamond core & 2 RC drilling rigs begin a new aggressive resource development campaign				
Mar'10	Fifth Resource update	Potential to be +210mt - further follow up programmes likely			
Apr'10	Sixth Resource update	Potential to be ???			
By July 31st 2011	Negotiations conclude for potential sale of Iron Valley to RIO (exclusivity period expires)				
2011	Construction & permitting?				
2012/13	Total production of ~10mtpa from Iron Valley				

Source: Iron Ore Holdings, Ocean Equities

Exhibit 10: . . . & IOH has made significant progress developing its suit of assets providing regular positive news flow resulting in the Company outperforming its peer group



Source: Ocean Equities, Bloomberg

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