
ATLAS

# Financial Report 2012

# Corporate Information

**ABN 63 110 396 168**

**Directors**
David Flanagan (Executive Chairman)
Ken Brinsden (Managing Director)
David Smith (Non-Executive Director, Lead Independent Director)
Mark Hancock (Executive Director – Commercial)
Jeff Dowling (Non-Executive Director)
David Hannon (Non-Executive Director, previously Interim Chairman)
Kerry Sanderson AO (Non-Executive Director)
Tai Sook Yee (Non-Executive Director)
Geoffrey Simpson (Non-Executive Director)

**Group Secretaries**
Anthony Walsh
Mark Hancock

**Registered Office**
Level 18 Raine Square, 300 Murray Street
Perth WA 6000
+61 (0) 8 6228 8000

**Solicitors**
Ashurst
Level 36, Grosvenor Place
225 George Street
Sydney NSW 2000

**Bankers**
National Australia Bank Limited
100 St Georges Terrace
Perth WA 6000

**Share Register**
Security Transfer Registrars Pty Ltd
Alexandrea House
Suite 1, 770 Canning Highway
Applecross WA 6153

**Auditors**
KPMG
235 St Georges Terrace
Perth WA 6000

**Internet Address**
www.atlasiron.com.au

**ASX Code**
Shares AGO

# Contents

# Directors' Report

## DIRECTORS

The directors present their report together with the financial statements of the Group comprising of Atlas Iron Limited ("the Company" or "Atlas"), its subsidiaries ("the Group"), and the Group's interest in associates and joint ventures for the financial year ended 30 June 2012 and the auditor's report thereon.

The names and details of the Group's directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated. Where applicable, all directorships held in listed public companies over the last three years have been detailed below.

### Names, qualifications, experience and special responsibilities

**David Flanagan** BSc WASM, MAusIMM (Executive Chairman)

Mr Flanagan is the founding Managing Director of Atlas; he was appointed as Executive Chairman on 22 February 2012 and, from 1 September 2012, will assume the role of Non-Executive Chairman.

Mr Flanagan is a geologist with extensive experience in mining operations, exploration and project development in Western Australia, Indonesia and West Africa. Graduating in 1993, David joined Coffey (formerly Resource Service Group (RSG)) in 1995 after working at the Fimiston Open Pit Operations.

Whilst with RSG he was seconded to Gencor's Bogosu operation as Chief Exploration Geologist. Whilst at RSG David also worked in an auditing capacity providing independent geological verification for financial institutions. In 1999, David joined Gindalbie Metals Limited, holding the position of Exploration Manager from 2001. At Gindalbie, Mr Flanagan managed several scoping and feasibility studies advancing the understanding of its iron ore potential. Mr Flanagan left Gindalbie in 2004 to list and advance Atlas in the role of Managing Director. During the last three years, Mr Flanagan has been a Director of Warwick Resources Ltd, Aurox Resources Ltd and Giralia Resources NL.

Mr Flanagan was appointed as Chairman of the Corporate Governance Committee and a member of the Remuneration and Nomination Committee on 30 May 2012.

**Ken Brinsden** BEng, WASM, MAusImm (Managing Director)

Mr Brinsden was appointed as Managing Director on 22 February 2012. Mr Brinsden joined Atlas in May 2006 as Operations Manager. In January 2010 he was promoted to Chief Operating Officer and in July 2011 to Chief Development Officer. Over this time he has been instrumental to the growth of the Company which has seen it develop from a junior explorer to an iron ore producer.

Mr Brinsden is a mining engineer with over 20 years experience in surface and underground mining operations. Since graduating from the Western Australian School of Mines in 1993, he has held a number of roles in production, management, brown-fields and green-fields mine development across a number of leading companies including Central Norseman Gold Corporation and Iluka Resources Limited.

Mr Brinsden is a Non-Executive Director of Shaw River Manganese Limited (ASX: SRR).

**Mark Hancock** BBus, CA, FFin (Executive Director – Commercial)

Mr Hancock was appointed as Executive Director - Commercial on 25 May 2012. Prior to his appointment as a director, Mr Hancock held the role of Chief Commercial & Financial Officer at Atlas. Mr Hancock is also Joint Group Secretary – appointed on 4 July 2008.

Mr Hancock has more than 25 years experience in senior financial roles across a number of leading companies in Australia and South East Asia, including Lend Lease Corporation Ltd, Woodside Petroleum Ltd and Premier Oil plc. Mr Hancock is currently a Director of Centaurus Metals Limited (ASX: CTM) owned approximately 19.85% by Atlas. During the last three years, Mr Hancock has been a Director of Warwick Resources Ltd, Aurox Resources Ltd, Giralia Resources NL and FerrAus Ltd.

# Directors' Report continued

**David Hannon** BEc, FFin (Non-Executive Director)

Mr Hannon was appointed as a Non- Executive Director on 6 August 2004.

Mr Hannon commenced his commercial career as a stockbroker and investment banker in 1985, working with several firms. He later became a joint partner of a private investment bank specialising in venture capital with a focus on the mining sector.

Mr Hannon operates a private investment bank, Chifley Investor Group Pty Limited. Mr Hannon has not held any other directorships in the last 3 years.

Mr Hannon holds a Bachelor of Economics from Macquarie University and is a Fellow with the Financial Services Institute of Australasia.

Mr Hannon is a member of the Audit and Risk Committee and the Remuneration Committee.

**David Smith** PhDSc, BSc Hons, FAICD, FAIM, FWLG (Non-Executive Director, Lead Independent Director)

Dr Smith was appointed as a Non-Executive Director on 6 November 2009.

With a career at Rio Tinto spanning 30 years, Dr Smith was, until 2009, President of Rio Tinto Atlantic, covering the giant Simandou iron ore development in West Africa. Prior to that role, Dr Smith was Managing Director of Rio Tinto's Pilbara Iron from 2004 to 2008, responsible for all Rio Tinto's business in the Pilbara. Between 2001 and 2004, he was Managing Director of Hamersley Iron. Dr Smith has served as President of the Chamber of Minerals and Energy of Western Australia (2005 to 2008), a Councilor of the Australia Business Arts Foundation (2003 to 2008), Commissioner of Tourism WA (2004 to 2006), Director of the Australian Institute of Management (2001 to 2007), a founding Director of Leadership WA (2003 to 2006) and as Chairman of the Board of the National Skills Shortages Strategy working group (2006).

Dr Smith is currently Chairman of Bannerman Resources Limited, a Director of Macmahon Holdings Limited and a Director of West Australian Ballet.

Dr Smith is Chairman of the Remuneration Committee and a member of the Nomination Committee. He was appointed as Chairman of the Remuneration Committee on 30 May 2012 and appointed Lead Independent Director on 31 July 2012.

**Tai Sook Yee** CPA (Non-Executive Director)

Ms Tai was appointed as a Non-Executive Director on 2 June 2010.

Ms Tai has over 25 years experience in corporate finance, operations and accounting, and is currently the Group Managing Director of IMC Industrial Group, with businesses that includes integrated Transport Logistics, Marine & Offshore Engineering and Resources, which provide integrated logistics solutions to resource producers and connecting them to Asia's industrial end-users, primarily China. Prior to this, she held the position of Head of Chairman's Office and Head of Group Strategies & Investments at the IMC Pan Asia Alliance Group, where she was responsible for the alignment of Group strategies and investments, and oversees the governance, corporate functions and performance of the investment portfolio of the Group. Prior to joining IMC in 2007, Ms Tai was the Country Director for Malaysia of a global leader in heavy building materials supplies. Ms Tai has substantial financial and operational experience in a wide range of industries including property development, construction, building materials supply, maritime, plantations and resources. Ms Tai is a CPA from Malaysia.

Ms Tai is a member of the Nomination Committee and was appointed a member of the Corporate Governance Committee on 30 May 2012.

**Jeff Dowling** BComm FCA, FAICD, FFin (Non- Executive Director)

Mr Dowling was appointed as a Non-Executive Director on 8 November 2011.

Mr Dowling is a highly experienced corporate leader with 36 years experience in professional services with Ernst & Young. He has held numerous leadership roles within Ernst & Young which focused on mining, oil and gas and other industries. His 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. Mr Dowling's career with Ernst & Young culminated in his appointment as Managing Partner of the Ernst & Young Western Region for a period of 5 years. He also led Ernst & Young's Oceania China Business Group, responsible for building Ernst & Young's Oceania relationships with Chinese Corporations. Mr Dowling is a Director of the West Australian Symphony Orchestra Ltd and a Director of Telethon Institute for Child Research Ltd.

Mr Dowling is currently a Non-Executive Director of ASX listed company Neptune Marine Services Limited.

Mr Dowling was appointed as Chairman of the Audit & Risk Committee on 29 November 2011 and appointed as a member of the Remuneration Committee on 30 May 2012.

# Directors' Report continued

**Kerry Sanderson AO** BSc, BEcons, Hon DLitt, FCILT, FAIM, MAICD (Non-Executive Director)

Ms Sanderson was appointed as a Non-Executive Director on 21 February 2012. On 30 May 2012, she was appointed as Chairman of the Nomination Committee and a member of the Remuneration and Corporate Governance Committees.

Ms Sanderson was Agent General for the Government of Western Australia from November 2008 until December 2011. Based in London, the Agent General represents the Government of Western Australia in Europe and Russia and promotes investment in Western Australia and Western Australian exports to Europe. Ms Sanderson was Chief Executive Officer of Fremantle Ports from 1991 to 2008, a period during which container trade quadrupled.

Ms Sanderson is a Member of the Advisory Council, Curtin University Business School; a former Member of the Ambassadorial Council, University of Western Australia Business School in the UK; and a former Member of the Advisory Board, Menzies Centre for Australian Studies, Kings College London. She has previously served as a Director of Austrade, the Australian Wheat Board, Rio Tinto WA Future Fund, the Western Australian Lands Authority (Landcorp) and as President of Ports Australia.

In 2004, Ms Sanderson was named an Officer of the Order of Australia for service to the development and management of the port and maritime industries in Australia, and to public sector governance in the areas of finance and transport.

Ms Sanderson is currently a Non-Executive Director of Downer EDI Limited and St John of God Healthcare.

**Geoffrey Simpson** LLB, BJuris (Non-Executive Director)

Mr Simpson was appointed as a Non-Executive Director on 25 May 2012.

Mr Simpson is the Managing Partner of the Perth Office of a first tier global law firm. He is the Global Head of the firm's Mining Group and a member of the Global Partnership Selection Committee.

Mr Simpson advises on a wide range of matters in the energy and resources sectors including mergers and acquisitions, projects, corporate advisory and equity capital markets issues.

Mr Simpson is acknowledged in various independent legal directories as a leader in Australia in the energy and resources sectors. He has held directorships in listed mining and energy companies and is a former national president of AMPLA, the resources and energy law association.

Mr Simpson was appointed a member of the Audit & Risk Committee on 30 May 2012.

**Geoff Clifford** BBus, FCPA, FCIS FAICD (Non-Executive Director)

Mr Geoff Clifford was appointed as a Non-Executive Director on 20 August 2007 and retired as a Non- Executive Director on 31 July 2011.

**GROUP SECRETARIES**

**Anthony Walsh** BComm, MBA, FCA, FCIS, FFin

Mr Walsh was appointed on 1 July 2006. He has 25 years experience in dealing with listed companies including 6 years as a Director of Shaw River Manganese Limited (ASX: SRR), and 14 years with the ASX where he held the role of Assistant Manager and acted as ASX liaison with the JORC Committee. Mr Walsh is currently a member of the West Australian State Council of Chartered Secretaries Australia. Prior to his role at ASX, he worked with Ernst & Young for 5 years in an audit and compliance capacity.

Mr Walsh is currently Chairman of Shaw River Manganese Limited, owned approximately 45.4% by Atlas.

**Mark Hancock** BBus, CA, FFin, (Executive Director – Commercial)

Refer to director's biography.

# Directors' Report continued

**Interests in the shares and options of the Group and related bodies corporate**

The interests of each director in the shares and options of the Group as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001 as at the date of this report are as follows:

| | Ordinary shares | Options over ordinary shares |
|---|---|---|
| David Flanagan | 2,710,000 | 2,500,000 |
| Ken Brinsden | 352,500 | 750,000 |
| Mark Hancock | 431,000 | 750,000 |
| David Hannon | 1,504,668 | 500,000 |
| David Smith | - | 1,000,000 |
| Tai Sook Yee | - | 500,000 |
| Jeff Dowling | 57,000 | - |
| Kerry Sanderson | 30,000 | - |
| Geoff Simpson | - | - |

## DIVIDENDS

In August 2011, the directors announced the declaration of the Company's maiden dividend of 3 cents per share. The dividend was unfranked, with a record date of 26 September 2011 and was paid to shareholders in October 2011.

In August 2012, the directors agreed that they, subject to shareholder approval of the proposed amendments to the constitution, intend to pay a final unfranked dividend for the year ended 30 June 2012 of 3 cents per share. The dividend would be payable in November 2012, if amendments to the constitution are approved by shareholders at the 2012 Annual General Meeting.

## CORPORATE INFORMATION

### Nature of operations and principal activities

The principal activities of the Group during the course of the financial year were the exploration, development and mining of iron ore.

In addition to its Pardoo and Wodgina DSO operating mines, the Group is actively developing another three mines at Mt Dove, Abydos and Mt Webber. The Group is also focused on the development and feasibility of its Horizon 2 projects, which include McPhee Creek. The acquisition of FerrAus Limited, completed in November 2011, added the Robertson Range and Davidson Creek DSO projects to Atlas' South East Pilbara DSO projects.

### Employees

The Group employed 295 employees as at 30 June 2012 (2011: 172 employees).

# Directors' Report continued

## OPERATING AND FINANCIAL REVIEW

### Operating Review

Production and shipments (wet metric tonnes (WMT), dry metric tonnes (DMT)) for the 12 months ended 30 June 2012 on a comparative basis were as follows:

| Million tonnes per annum (Mtpa) | 2012 | 2011 | Increase |
|---|---|---|---|
| Ore mined | **5.6** | 4.9 | 14% |
| Ore processed | **5.5** | 4.5 | 22% |
| Ore shipped (WMT) | **5.6** | 4.6 | 22% |
| Ore shipped (DMT) | **5.1** | 4.3 | 19% |

### Financial Review

The tables below reconcile the net profit or loss to the underlying profit.

| 1. Before tax: | 2012<br>$000's | 2011<br>$000's |
|---|---|---|
| **Net profit before tax** | **7,556** | **183,173** |
| Business combination expense | **20,290** | 4,922 |
| Impairment loss | **67,427** | 1,140 |
| Share of associates' impairment loss | **4,940** | - |
| Gain on control of subsidiary | **(2,458)** | - |
| **Underlying profit before tax (Non- IFRS) *** | **97,755** | **189,235** |

Iron ore prices commenced the year strongly; however prices dipped significantly in October 2011 and have since remained comparatively lower than the first quarter. Financial performance was impacted by this dip in pricing combined with the continued strengthening of the Australian dollar. The Group shipped 5.6 million tonnes of ore in the year, an increase of 22% on prior year (4.6 million tonnes), generating sales revenue of $617,537,000, (2011: $584,908,000). Operational costs in the year totalled $404,654,000 (2011: $315,223,000).

Exploration and evaluation expenditure totalling $75,899,000 (2011: $35,216,000) were expensed as incurred in accordance with the Group's accounting policy. The main focus of drilling was the McPhee Creek project to gain the required level of confidence for JORC compliant reserves which were published in July 2012. The exploration and evaluation costs include discovery costs for the North Pilbara Projects, Wodgina, Abydos and Mt Webber, and progression of feasibility studies to underpin the Group's planned expansion.

Mine development continues to support the Horizon 1 strategy with $119,304,000 capitalised (including capitalised reserve development costs) during the year (2011: $34,605,000). In addition, $48,500,000 was incurred in accordance with the long-term infrastructure sharing agreement with Global Advanced Metals Pty Ltd (GAM) signed in May 2011. The agreement increases the Group's access to crushing and screening and other infrastructure at the Wodgina mine site.

Significant corporate costs were incurred during the period resulting from the acquisition of FerrAus Limited. Acquisition-related costs, including stamp duty payable, expensed during the period totalled $20,290,000.

Other significant items included in the profit before tax is a loss of $5,075,000 due to the revaluation of listed financial assets at balance date; share of associates loss of $14,658,000 including a share of impairment of $4,940,000 of the associate (Shaw River Manganese Ltd); and an impairment loss of $67,427,000 recognised prior to disposal of the Balla Balla and Yerecoin magnetite projects.

As a result, cash flow from operating activities, excluding exploration and evaluation expenditure incurred to build future projects, was up by 10% to $281,628,000.

| 2. After tax: | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| **Net (loss)/profit after tax** | **(114,616)** | **168,617** |
| Business combination expense | **19,831** | 4,922 |
| Impairment loss | **48,629** | 798 |
| Share of associate impairment loss | **4,940** | - |
| Gain on control of subsidiary | **(2,458)** | - |
| Mining resources rent tax | **115,855** | - |
| **Underlying profit after tax (Non- IFRS) *** | **72,181** | **174,337** |

*Not audited or reviewed

# Directors' Report continued

This year the Group has also recognised a Mining Resource Rent Tax (MRRT) expense of $165,507,000 ($115,855,000 after income tax benefit applicable to MRRT of $49,652,000). The MRRT expense represents the effect of recognition of the MRRT starting base, calculated on project values at 1 May 2010, compared to asset values at 30 June 2012: the tax benefit of the starting base is less than the accounting value recognised. This difference is essentially driven by the state of development of the projects at 1 May 2010 compared to 30 June 2012. Significant value was ascribed to assets acquired through the acquisition of Giralia Resources Limited (Giralia), however these assets at 1 May 2010, when held by Giralia, had significantly lower value primarily due to the relative quantity of JORC resources held at the MRRT valuation date compared to that held at 30 June 2012.

The Group has an unrecognised MRRT tax benefit of $1,740,000,000 (gross) arising in Australia that is available for offset against future MRRT taxable profits. The Group is of the view that the recoverability of the benefit is not probable as it is subject to significant uncertainty due to pricing, currency and royalty shelter. A deferred tax asset has not been recognised at 30 June 2012.

**Operating Results for the Year**

Summarised operating results for the year ended 30 June 2012 are as follows:

| | Revenue $'000 | Profit before tax $'000 |
|---|---|---|
| *Geographic segment* | | |
| Australia | 617,537 | 7,556 |
| Revenue and profit before tax | 617,537 | 7,556 |

**Shareholder Returns**

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| (Loss)/profit attributable to owners of the company | **(114,616)** | 168,617 | (40,846) | (63,144) | (38,342) |
| Basic (loss)/profit per share (cents) | **(13.0)** | 26.7 | (9.6) | (21.3) | (17.9) |
| Ore shipped (WMT) – Mill. | **5.6** | 4.6 | 1.2 | 0.4 | - |

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

On 5 October 2011, the Company successfully completed an off market take-over of FerrAus Limited (FerrAus) with control effective from 8 September 2011. The acquisition of FerrAus further consolidated the Group's iron ore assets in the South East Pilbara and provided additional access to port infrastructure.

On 23 September 2011, the Company acquired a 19.85% strategic interest in Centaurus Metals Limited, an emerging Brazilian iron ore explorer and developer for $18,656,000.

During the year the Group sold its Balla Balla magnetite project to Forge Resources Limited for consideration payable in cash ($39,500,000) and royalties and sold its Yerecoin magnetite project to Cliffs Natural Resources Limited for cash ($18,000,000) and a reserve milestone payment.

On 26 March 2012, the Company acquired the iron ore rights on the Daltons Iron Ore Joint Venture at the Mt Webber DSO projects from Haoma Mining NL for consideration of cash of $10,000,000 and 8,406,433 shares.

At 30 June 2012, the Group recognised its starting base provided under the Minerals Resource Rent Tax (MRRT) Bill 2011. A deferred tax liability (DTL) has been recognised based on the Group's assessment of the MRRT valuation of projects at 1 May 2010 and the accounting value of the projects at 30 June 2012. Given the higher accounting value at 30 June 2012 compared to the initial tax shelter, the MRRT starting base, a DTL results. For accounting purposes the DTL is required to be recognised in full and does not represent a future MRRT payable.

No other significant changes in the state of affairs of the Group occurred during the financial year other than as discussed in the financial report and elsewhere in this Directors' Report.

**SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

In August 2012, the directors agreed that they, subject to shareholder approval of the proposed amendments to the constitution at the 2012 AGM, intend to pay a final unfranked dividend for the year ended 30 June 2012 of 3 cents per share.

On 13 July 2012, Shaw River announced a fully underwritten, renounceable pro-rata entitlements issue of 1.8 cents per new share to raise up to $8.1 million. On 15 August 2012, Atlas subscribed for its entitlement of $3.7 million worth of shares and, pursuant to Shaw River's underwriting agreement with Hartleys Limited, Atlas agreed priority to sub-underwrite up to $1.3 million of the entitlements issue representing approximately 72.7 million shares. On 21 August 2012, Atlas was notified of the shortfall for which it is required to subscribe. It is expected that an additional 72.7 million shares will be issued to Atlas on 31 August 2012 resulting in an interest in Shaw River greater than 50%. The impact on Atlas' financial statements has not been determined at this stage.

No other matters have arisen since 30 June 2012, which have significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

# Directors' Report continued

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

During the coming year, the Group plans to continue operations at its Pardoo and Wodgina DSO mine sites and commence operations at the Mt Dove and Abydos Projects. The Group will also progress exploration, evaluation and development activities and feasibility studies on its Mt Webber, McPhee Creek and South East Pilbara Projects. A key component of this will be progressing port and rail studies.

The Group is also seeking investors for a share in its Ridley magnetite project.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation in respect to its exploration and mining activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the period under review.

## SHARE OPTIONS

### Unissued shares under options

At the date of this report the following unissued ordinary shares under option are outstanding:

| | Weighted average exercise price | Number of options |
|---|---|---|
| Balance at the beginning of the period | $2.07 | 23,565,000 |
| Options granted | - | - |
| Options exercised | $0.75 | (6,180,000) |
| Options expired | $1.11 | (685,000) |
| **Total number of options outstanding as at 30 June 2012** | **$2.69** | **16,700,000** |
| Granted subsequent to balance date | - | - |
| Options exercised | - | - |
| Options cancelled/ lapsed | - | - |
| **Total number of options outstanding at the date of this report** | **$2.69** | **16,700,000** |

The balance is comprised of the following:

| UNLISTED OPTIONS Number | Class (Expiry date, exercise price and vesting status) |
|---|---|
| 75,000 | 30/09/12 $2.20 options all vested |
| 75,000 | 30/09/12 $2.50 options all vested |
| 50,000 | 30/09/12 $1.60 options all vested |
| 25,000 | 30/09/12 $1.40 options all vested |
| 25,000 | 30/09/12 $1.50 options all vested |
| 400,000 | 30/09/12 $1.50 options all vested |
| 150,000 | 30/09/12 $3.00 options all vested |
| 150,000 | 30/09/12 $3.35 options all vested |
| 125,000 | 30/09/12 $2.50 options all vested |
| 125,000 | 30/09/12 $2.85 options all vested |
| 120,000 | 30/09/12 $2.50 performance options all vested |
| 65,000 | 30/09/12 $2.55 options all vested |
| 25,000 | 30/09/12 $2.85 options all vested |
| 500,000 | 20/08/12 $2.46 options all vested |
| 50,000 | 30/09/12 $2.25 options all vested |
| 25,000 | 30/09/12 $2.55 options all vested |

# Directors' Report continued

| UNLISTED OPTIONS Number | Class (Expiry date, exercise price and vesting status) |
|---|---|
| 75,000 | 30/09/12 $1.90 options all vested |
| 75,000 | 30/09/12 $2.15 options all vested |
| 100,000 | 30/09/12 $1.90 performance options all vested |
| 60,000 | 30/09/12 $2.45 options all vested |
| 135,000 | 30/09/12 $2.75 options all vested |
| 75,000 | 30/09/12 $2.45 performance options all vested |
| 25,000 | 30/09/12 $2.50 options all vested |
| 25,000 | 30/09/12 $2.85 options all vested |
| 35,000 | 30/09/12 $2.30 options all vested |
| 35,000 | 30/09/12 $2.65 options all vested |
| 40,000 | 31/03/13 $2.45 options all vested |
| 40,000 | 31/03/13 $2.75 options all vested |
| 15,000 | 31/03/13 $2.10 options all vested |
| 15,000 | 31/03/13 $2.40 options all vested |
| 50,000 | 31/03/13 $2.15 options all vested |
| 50,000 | 31/03/13 $2.45 options all vested |
| 50,000 | 31/03/13 $2.65 options all vested |
| 50,000 | 31/03/13 $3.00 options all vested |
| 25,000 | 30/06/13 $4.35 options all vested |
| 25,000 | 30/06/13 $4.95 options all vested |
| 90,000 | 30/06/13 $4.45 options all vested |
| 40,000 | 30/06/13 $5.00 options all vested |
| 40,000 | 30/06/13 $4.25 options all vested |
| 40,000 | 30/06/13 $4.80 options all vested |
| 125,000 | 30/06/13 $4.08 options all vested |
| 125,000 | 30/06/13 $4.62 options all vested |
| 30,000 | 30/09/12 $2.55 options all vested |
| 30,000 | 30/09/12 $2.85 options all vested |
| 50,000 | 30/06/13 $2.35 options all vested |
| 25,000 | 30/06/13 $2.30 options all vested |
| 25,000 | 30/06/13 $2.60 options all vested |
| 350,000 | 30/09/13 $1.65 options all vested |
| 350,000 | 30/09/13 $1.85 options all vested |
| 15,000 | 30/09/13 $2.00 options all vested |
| 25,000 | 30/12/13 $1.20 options all vested |
| 100,000 | 30/12/13 $1.30 options all vested |
| 50,000 | 30/12/13 $1.35 options all vested |
| 50,000 | 30/12/13 $1.50 options all vested |
| 15,000 | 30/12/13 $1.50 options all vested |
| 15,000 | 30/12/13 $1.70 options all vested |
| 200,000 | 30/06/14 $2.30 options all vested |
| 200,000 | 30/06/14 $2.60 options all vested |
| 50,000 | 31/12/14 $2.50 options all vested |
| 50,000 | 31/12/14 $2.80 options all vested |
| 15,000 | 31/03/15 $2.25 options all vested |
| 15,000 | 31/03/15 $2.55 options all vested |
| 40,000 | 31/03/15 $3.10 options all vested |
| 25,000 | 31/03/15 $2.25 options all vested |
| 25,000 | 31/03/15 $2.55 options all vested |
| 15,000 | 31/03/15 $2.65 options all vested |
| 15,000 | 31/03/15 $3.00 options all vested |
| 25,000 | 31/03/15 $2.25 options all vested |
| 25,000 | 31/03/15 $2.05 options all vested |
| 40,000 | 31/03/15 $2.45 options all vested |
| 40,000 | 31/03/15 $2.75 options all vested |
| 25,000 | 31/03/15 $2.80 options all vested |
| 30,000 | 31/03/15 $2.70 options all vested |

# Directors' Report continued

| UNLISTED OPTIONS Number | Class (Expiry date, exercise price and vesting status) |
|---|---|
| 30,000 | 31/03/15 $3.05 options all vested |
| 30,000 | 31/03/15 $2.80 options all vested |
| 25,000 | 31/03/15 $2.65 options all vested |
| 25,000 | 31/03/15 $3.00 options all vested |
| 75,000 | 31/03/15 $2.70 options all vested |
| 75,000 | 31/03/15 $3.05 options all vested |
| 75,000 | 31/03/15 $2.70 options all vested |
| 75,000 | 31/03/15 $3.05 options all vested |
| 250,000 | 31/12/14 $2.10 options all vested |
| 250,000 | 31/12/14 $2.35 options all vested |
| 50,000 | 31/12/14 $2.10 options all vested |
| 50,000 | 31/12/14 $2.25 options all vested |
| 50,000 | 31/12/14 $2.55 options all vested |
| 30,000 | 31/12/14 $2.25 options all vested |
| 30,000 | 31/12/14 $2.55 options all vested |
| 15,000 | 31/12/14 $2.45 options all vested |
| 15,000 | 31/12/14 $2.80 options all vested |
| 50,000 | 31/12/14 $2.70 options all vested |
| 50,000 | 31/12/14 $3.05 options all vested |
| 75,000 | 30/09/14 $2.40 options all vested |
| 30,000 | 30/09/14 $2.10 options all vested |
| 30,000 | 30/09/14 $2.40 options all vested |
| 4,500,000 | 30/06/15 $2.873 options all vested |
| 4,250,000 | 30/06/15 $2.80 options all vested |
| 50,000 | 30/09/14 $2.25 options all vested |
| 25,000 | 30/09/14 $2.20 options all vested |
| 25,000 | 30/09/14 $2.50 options all vested |
| 50,000 | 30/09/14 $2.20 options all vested |
| 50,000 | 30/09/14 $2.45 options all vested |
| 25,000 | 31/12/14 $2.25 options all vested |
| 30,000 | 31/12/14 $2.85 options all vested |
| 30,000 | 31/12/14 $3.20 options all vested |
| 40,000 | 31/12/14 $2.30 options all vested |
| 40,000 | 31/12/14 $2.65 options all vested |
| 25,000 | 31/03/15 $3.25 options all vested |
| 25,000 | 31/03/15 $3.70 options all vested |
| 25,000 | 31/03/15 $2.80 options all vested |
| 25,000 | 31/03/15 $3.15 options all vested |
| 30,000 | 31/03/15 $2.60 options all vested |
| 30,000 | 31/03/15 $2.95 options all vested |
| 25,000 | 31/03/15 $2.25 options all vested |
| 25,000 | 31/03/15 $2.55 options all vested |
| 25,000 | 31/03/15 $2.35 options all vested |
| 25,000 | 31/03/15 $2.65 options all vested |
| 40,000 | 31/03/15 $3.15 options all vested |
| 40,000 | 31/03/15 $3.60 options all vested |
| 25,000 | 30/06/15 $2.35 options all vested |
| 25,000 | 30/06/15 $2.70 options all vested |
| 50,000 | 30/06/15 $2.55 options all vested |
| 30,000 | 30/06/15 $2.45 options all vested |
| 30,000 | 30/06/15 $2.80 options vesting 30/08/12 |
| 100,000 | 31/12/15 $4.20 options all vested |
| 25,000 | 31/03/15 $3.40 options all vested |
| 25,000 | 31/03/15 $3.85 options all vested |
| 30,000 | 31/03/15 $2.80 options all vested |
| 30,000 | 31/03/15 $3.20 options all vested |
| 40,000 | 31/12/14 $2.35 options all vested |
| 40,000 | 31/12/14 $2.70 options all vested |
| 16,700,000 | |

# Directors' Report continued

No person entitled to exercise any option referred to above have or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Group paid a premium in respect of a contract insuring the directors of the Group, the Group secretaries and all executive officers of the Group and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The amount of the premium paid was $224,220. The Group has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group or of any related body corporate against a liability incurred by an officer or auditor.

# Directors' Report continued

## REMUNERATION REPORT

### INTRODUCTION FROM THE REMUNERATION COMMITTEE (Unaudited)

Your directors are pleased to present to you the 2012 Atlas Iron Limited Remuneration Report.

The 2012 financial year has seen the Group grow in many ways - shipped tonnes (WMT) up 22% on the previous year, cash costs within budget, additions to the Group through acquisition of FerrAus Limited, and the continuation of a strong cash position. The Group has also remained part of the S&P/ASX 100 index.

Your Remuneration Committee believes that remuneration for the Group's executives and staff must be structured in such a way as to continue to meet the goals of the shareholders, the Company and its employees.

Consequently, the Group has monitored and analysed carefully amendments to Australian and international remuneration policies in the wake of the global financial crisis. The Board and your Remuneration Committee have taken note of recommendations of independent surveys, independent advice, professional bodies, shareholders and the Australian Corporations and Markets Advisory Committee with respect to remuneration of Executives and Directors.

Despite the fact that the Group has applied the remuneration practices outlined in the Remuneration Report during the 2012 financial year, your Board and Remuneration Committee have undertaken significant work with independent remuneration consultants to redesign some of the components of how we will reward our team going forward. Your Board and Remuneration Committee has given careful consideration to the required elements of a "best practice" remuneration program.

As previously advised in the 2011 Directors' report, your Board and Remuneration Committee were in the final stages of designing Long-Term Incentives (LTIs) for Key Management Personnel (KMP) and their direct reports for immediate implementation upon Board approval. This process was completed during the 2012 financial year. The LTIs have been incorporated into a proposed LTI plan (LTIP).

The changes have incorporated new LTIs, more closely aligning the outcomes to performance matrices for some or all KMP. Your Board and Remuneration Committee believe this will help the Group to achieve its longer term goals and, in turn, provide greater shareholder wealth. As a result, in August 2011 your Board has decided to suspend the operation of the current Employee Share Option Plan that was approved by shareholders in August 2010.

In line with ASX Corporate Governance Guidelines and general best practice, your Board has resolved that non-executive directors will not be offered LTIs under the new LTIP. Only executive directors and other senior management have been offered rights under the LTIP.

KMP and their direct reports have been granted Performance Rights and Share Appreciation Rights under the LTIP. No Performance Rights or Share Appreciation Rights will vest until after an employee receives a vesting notification from the Board advising them in writing of the number of their LTI awards that have vested and the manner in which the awards will be settled, that is, cash or shares. Performance Rights and Share Appreciation Rights not vested on the vesting date will automatically lapse and be forfeited in accordance with the LTIP Rules. LTI awards that vest to any executive director can not be settled in equity without prior shareholder approval.

Your Board will be seeking shareholder approval at the 2012 Annual General Meeting on 31 October 2012 to equity settle potential LTI awards that may arise from offering Performance Rights and Share Appreciation Rights to the Managing Director and the Executive Director - Commercial.

The LTIP has been designed to focus executives on fundamental building blocks of business for long-term growth. Your Board chose Performance Rights and Share Appreciation Rights to direct the focus on growing the Group's production rate and growing shareholder wealth during the LTIP performance period.

**Long-Term Incentive Plan for the three year period 1 July 2011 to 30 June 2014**

The LTIs measures approved by your Board for the three year period 1 July 2011 to 30 June 2014 are Total Shareholder Return (TSR) and an Iron Ore Shipping (IOS) target of 12Mt for the 2014 financial year being the third financial year of the three year LTI period. Current market guidance for tonnes shipped in the 2014 financial year is 11Mt.

The TSR Scorecard for three year period 1 July 2011 to 30 June 2014 will be determined based on the percentile ranking of the Company's TSR results, relative to the TSR of each of the companies in the comparator group over the same Performance Period. The comparator group currently comprises selected constituents of the S&P ASX 300 Metals & Mining Index. Where the relative TSR performance is:

1. less than or equal to the 50th percentile, the TSR scorecard is nil;
2. more than the 50th but less than the 75th percentile, the TSR scorecard is pro rata between 50% to 100%; and
3. equal to or more than the 75th percentile the TSR scorecard is 100%.

# Directors' Report continued

The Company has granted Share Appreciation Rights under the LTIP. Where the Total Shareholder Return (TSR) performance targets in the LTIP are met those Share Appreciation Rights vest. If the share price has not increased during the performance period beyond $3.04, no shares will be issued despite the Share Appreciation Rights vesting.

The IOS Scorecard for three year period 1 July 2011 to 30 June 2014 will be determined based on the number of tonnes of iron ore shipped or exported by the Group during the last year of the Performance Period. The Iron Ore Shipping target for the Performance Period is 12Mt shipped during the financial year ending 30 June 2014. Where the IOS performance is:

1. less than or equal to 8Mt, the IOS scorecard is nil;
2. more than 8Mt but less than 12Mt, the IOS scorecard is pro rata between 50% to 100%; and
3. equal to or more than 12Mt, the TSR scorecard is 100%.

The Company has granted rights under the LTIP. Where the IOS targets in the LTIP are met, these rights will vest.

**Long-Term Incentive Plan for the three year period 1 July 2012 to 30 June 2015**

The LTI measures for the three year period ending 30 June 2015 and any LTIP rights that might be issued to executive directors will be included in the 2012 Notice of Annual General Meeting for shareholders to consider at the 2012 Annual General Meeting.

**Short-Term Incentive Plan**

Your Board and Remuneration Committee believe the Group's LTIP must be balanced with appropriate Short-Term Incentives (STIs) in the Short-Term Incentive Plan (STIP). Your Board and Remuneration Committee believe an appropriate STIP will help the Group to achieve its shorter term goals like safety, cost control, reserve growth, timely project development and annual production targets that, in turn, provide the foundations for long-term growth and thus, greater shareholder wealth.

The measures used by the Board to determine the STIP Scorecard are described in the audited section of this remuneration report.

**Remuneration Committee**

Your Remuneration Committee meets at least twice each year and as required. During the 2012 financial year, the composition of your Remuneration Committee was reviewed and reconstituted. Dr David Smith was appointed Chairman of your Remuneration Committee with Ms Kerry Sanderson, Mr Jeff Dowling and Mr David Flanagan joining your Remuneration Committee, thereby ensuring that the majority of members of the committee are independent, being one of the required elements of a "best practice" remuneration committee.

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the executive officers and directors themselves of the Group and the other executives of the Group, based on recommendations received from remuneration consultants. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefit policies and professional indemnity and liability insurance policies. The Remuneration Committee was established in 2009.

The Remuneration Committee met twice during the year. The members of the Remuneration Committee during the year were:

- David Hannon – Independent Non-Executive, Interim Chairman effective 30 May 2011 to 21 February 2012, resigned from Committee effective 30 May 2012;
- Tai Sook Yee – Non-Executive, member 24 August 2011 to 30 May 2012;
- Geoff Clifford – Independent Non-Executive – resigned from the Board effective 31 July 2011; and
- David Smith (Committee Chair) - Independent Non-Executive - member for all of current year.

Members at the date of the report are:

- David Flanagan (Executive Chairman) – Executive until 31 August 2012, Non-Executive effective 1 September 2012;
- David Smith (Committee Chair) - Independent Non-Executive;
- Kerry Sanderson – Independent Non-Executive, member effective 30 May 2012; and
- Jeff Dowling – Independent Non-Executive, member effective 30 May 2012.

# Directors' Report continued

## REMUNERATION REPORT (audited)

This report outlines the remuneration arrangements in place for directors and other key management personnel of the Group.

### Non-Executive Director Remuneration Policy

The key principle underpinning non-executive director remuneration is the need to attract skilled and experienced directors to direct the current business and into the future. The Board's policy is to periodically review its approach to non-executive director remuneration and seek independent advice to ensure its non-executive directors' fees remain competitive with other similarly sized mining production companies listed on the ASX. The Board also periodically reviews its policies to ensure these are in line with best practice and follow principles of good corporate governance. The Board has decided to increase non-executive directors fees effective 1 July 2012 to reflect the Group's growing production profile, the increased size of the Board, and market rates for directors of an ASX listed mining producer in the S&P/ASX 100 index. The next fee review will take place in August 2013.

As previously advised in the 2011 Remuneration Report to preserve the independence and impartiality of the non-executive directors, effective 1 July 2011, no element of non-executive directors' remuneration will be linked to the performance of the Group. However, to create alignment with shareholders non-executive directors are encouraged to hold equity securities in the Group. At the date of this report the majority of non-executive directors hold equity securities in the Group. All directors are subject to the Group's "Guidelines for Dealing in Securities".

The Group makes superannuation contributions on behalf of the non-executive directors in accordance with its statutory superannuation obligations, and each director may sacrifice part of their fee for a further superannuation contribution by the Group.

### Non-Executive Director Fees

Total fees are set within the maximum aggregate amount approved by shareholders at the August 2010 General Meeting, being in aggregate $1,000,000. Your Board will be seeking shareholder approval at the 2012 Annual General Meeting on 31 October 2012 to increase this maximum to $1,500,000 to reflect the increased size of the Board. During the current year, non-executive directors did not receive additional committee fees or other payments for additional services outside the scope of Board and committee duties.

Along with these fees, non-executive directors are entitled to reimbursement of reasonable travel, accommodation and other expenses incurred attending meetings of the Board, committees or shareholders, or while engaged on the Group's business. Non-executive directors are not entitled to compensation or retirement benefits on termination of their directorships.

Non-executive director fees are not paid to the Managing Director or the Executive Director - Commercial, as the time spent on Board work and the responsibilities of Board membership are considered in determining the remuneration package provided as part of their normal employment conditions. The total remuneration paid to, or in respect of, each non-executive director during the year is set out in this report.

### Executives Remuneration Policy

The Executive Remuneration Policy and structure discussed in this report applies to all of the Group's senior executives. The specific remuneration disclosures in this report are provided for the following executives:

- David Flanagan, Managing Director and Chief Executive Officer until 21 February 2012, Executive Chairman effective 22 February 2012 until 31 August 2012 and Non-Executive Chairman effective 1 September 2012;
- Ken Brinsden, Managing Director and Chief Executive Officer effective 22 February 2012, previously Chief Development Officer;
- Mark Hancock, Executive Director, Commercial effective 25 May 2012, previously Chief Commercial Officer;
- Anthony Walsh, Group Secretary;
- Jeremy Sinclair, Chief Operating Officer; and
- Robert Wilson, Chief Development Officer.

In this report, the term Executive Director refers to the Managing Director and Chief Executive Officer and Executive Director - Commercial.

### Executive Remuneration Policy

The Group's Executive Remuneration Policy aims to reward executives fairly and responsibly in accordance with the Australian market and ensure that the Group:

- provides competitive rewards that attract, retain and motivate executives of the highest calibre;
- sets demanding levels of performance which are clearly linked to an executive's remuneration;
- structures remuneration at a level that reflects the executive's duties and accountabilities and is competitive within Australia and, for certain roles, internationally;
- benchmarks remuneration against appropriate comparator groups, generally targeting between the 50th and 75th percentile;
- aligns executive incentive rewards with the creation of value for shareholders; and
- complies with applicable legal requirements and appropriate standards of governance.

# Directors' Report continued

Your Board and Remuneration Committee reviews executive remuneration annually, having regard to advice from external remuneration consultants, individual and business performance relevant comparative information and expert advice from both internal and independent external sources.

**Executive Remuneration and Group Performance**

**Short-Term Incentive Program**

Your Board and Remuneration Committee aim to strengthen the link between executive remuneration and the Group's performance. In light of the Group's continued development from a small mining producer to a multi-mine medium sized iron ore producer, the Short-Term Incentive Program (STIP) is linked to financial and non-financial performance measures that are aimed at aligning remuneration with shareholder wealth.

The STIP is determined by the outcome of the performance scorecard (Scorecard), approved annually by the Board. The 2011/2012 STIP Scorecard was based on seven measures:

- health, safety and environment (Total Reportable Injury Frequency Rate (TRIFR)) better than industry acceptable frequency rates in line with board targets);
- safety audit outcomes (independently audited);
- shipping targets in line with budget;
- operating expenditure targets per tonne in line with budget;
- achievement of mine development timeframes in line with the business plan;
- reserve growth targets in line with the business plan; and
- the Group's one year total return to shareholders, ranked within a peer group of ASX listed iron ore producers and developers, based on the growth in the value of shares over the performance year adjusted for dividends, less new equity subscribed.

These seven corporate measures were chosen by the Remuneration Committee and Board because each measure is in line with the short-term corporate objectives of the Group, per business plan and budget, recognising that best practice suggests that the number of corporate measures be limited in number. In addition, individual executives' performance is assessed against their personal targets to achieve a balanced scorecard which, with corporate targets, determines entitlement to a STIP payment.

In considering the Group's performance and benefits for shareholder wealth, the Remuneration Committee has regard to the following measures in respect of the current financial year and the previous four financial years:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Profit / (loss) attributable to owners of the company ($'000) | **(114,616)** | 168,617 | (40,846) | (63,144) | (38,342) |
| Underlying profit after tax * * (unaudited) ($'000) | **72,181** | 174,337 | N/A | N/A | N/A |
| Change in share price * * * | **$(1.71)** | $1.69 | $0.46 | $(2.04) | $2.26 |
| Ore shipped (WMT) – Mtpa | **5.6** | 4.6 | 1.2 | 0.4 | - |
| Dividend (cents per share) | **3.0 *** | 3.0 | - | - | - |

* Subject to shareholders' approval of amendments to constitution at 2012 AGM.

* * Note that the underlying profit (non-IFRS measure) was a measure introduced for the year ended 30 June 2012 to better reflect the performance of the Group.

* * * No short term bonus was paid under this STIP measure during the year ended 30 June 2012 as the target was not met.

**Long-Term Incentive Program**

As set out in the Introduction to the Remuneration Report, while the Group has applied the remuneration practices outlined in the Remuneration Report during the year, the Group undertook significant work with independent Remuneration Consultants to redesign some of the components of how the Group will reward its team going forward. Your Board and Remuneration Committee has given careful consideration to the required elements of a "best practice" remuneration programme. The changes have incorporated new Long-Term Incentives (LTIs) more closely aligning the outcomes to performance matrices for all Key Management Personnel (KMP). Your Board and Remuneration Committee believe this will help the Group to achieve its longer term goals and in turn, provide greater shareholder wealth. As a result, in August 2011 your Board decided to suspend the operation of the Employee Share Option Plan (ESOP) that was approved by shareholders in August 2010. The new LTIs are assessed on two measures: Total Shareholder Return (TSR) and iron ore shipping (IOS) targets over a minimum period of three years.

Your Board and Remuneration Committee, following significant work with independent remuneration consultants, completed and approved the design of new LTIs for KMP and their direct reports for immediate implementation. The LTIs have been incorporated into a new LTI plan (LTIP). In line with ASX Corporate Governance Guidelines and general best practice, your Board has resolved that non-executive directors will not be offered LTIs under the new LTIP. Only executive directors and other senior management have been offered rights under the LTIP.

# Directors' Report continued

In the 2012 financial year, KMP and their direct reports were offered Performance Rights and Share Appreciation Rights under the LTIP that may, subject to performance, vest after the completion of the third year of this LTIP period, being the 2014 financial year.

No Performance Rights or Share Appreciation Rights will vest until after an employee receives a vesting notification from the Board advising them in writing of the number of LTI awards that have vested and the manner in which the awards will be settled, that is, cash or shares. Performance Rights and Share Appreciation Rights not vested on the vesting date will automatically lapse and be forfeited in accordance with the LTIP Rules. LTI awards that vest to any executive director cannot be settled in equity without prior shareholder approval.

Your Board will be seeking shareholder approval at the 2012 Annual General Meeting on 31 October 2012 to equity settle potential LTI awards that may arise from offering Performance Rights and Share Appreciation Rights to the Managing Director and the Executive Director - Commercial.

**Remuneration structure**

The Group's remuneration structure during financial year ended 30 June 2012 for executives had three components:

- Fixed Annual Remuneration - the 'not at risk' component (unrelated to performance) which includes base salary, superannuation contribution and other allowances. This fixed remuneration is determined on the basis of the scope of the executive's role, advice from external remuneration consultants and the individual level of knowledge, skill and experience.

- Variable Short-Term Annual Remuneration – as mentioned above, in light of the Group's development from a small mining production company to a multi-mine medium sized iron ore producer, during the 2012 financial year the Board set short-term incentive plan (STIP) targets appropriate for this evolution to a medium sized iron ore producer. The STIP is determined by the outcome of the Scorecard, approved by the Board. The 2011/2012 Scorecard was based on seven measures as outlined earlier in the Short-Term Incentive Program section of this report.

- Long-Term Variable Remuneration - Your Board and Remuneration Committee have approved and implemented new LTI that have been incorporated into a new LTIP where the LTIs will rely on two measures, being Total Shareholder Return and Iron Ore Shipping targets over a minimum period of three years. The Board believes that the new LTIP will be an integral part of the Group's overall approach to performance-based remuneration. This would be the 'at risk' component (related to performance), which includes a STI and a LTI. Your Board and Remuneration Committee wish to point out that Key Management Personnel and their direct reports did not receive any LTIP payment in the 2012 financial year and will not receive any LTIP until after the completion of the 2014 Financial Year. Performance Rights and Share Appreciation Rights issued under the LTIP will only vest if the performance targets are achieved and after the completion of the third year of the relevant LTIP period.

The Remuneration Policy of the Group has been designed to align executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific short and long-term incentives based on key performance areas affecting the Group's financial results. Your Board and Remuneration Committee believe the Remuneration Policy to be appropriate and effective in its ability to attract and retain the high quality executives to run and manage the Group.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the Group is as follows:

- The remuneration policy, setting the terms and conditions for the executive director and other senior executives, was developed by the Board. All executives receive a base salary (which is based on factors such as performance, market rates and experience) and superannuation.

- The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

- The executive directors and other senior executives receive a superannuation contribution of 9% and do not receive any other retirement benefits.

- All remuneration paid to directors and executives is valued at the cost to the Group and expensed. Shares are not given to non-executive directors as part of their remuneration. Under the new LTIP, subject to shareholder approval, executive directors may receive shares, subject to vesting rights, as part of their remuneration. Options issued in August 2010 under the previous LTIP were valued using the Black-Scholes model.

# Directors' Report continued

**Services of Independent Remuneration Consultants**

Prior to the current financial year, the Group engaged PricewaterhouseCoopers (PWC) as independent remuneration consultant to review the long term incentives. McDonald & Company (Australasia) Pty Ltd (McDonald) were engaged during the year to provide independent advice on KMP remuneration and provide recommendations in relation thereto. PWC was paid $114,312 for its advice and recommendations in respect of the long term incentives. McDonald was paid $15,750 for its remuneration advice and recommendations in respect of reviewing the amount and elements of the KMP remuneration. McDonald also provided remuneration reports for specific business sectors in the Group for $19,000.

In addition to the remuneration recommendations, PWC provided the following other services to the Company throughout the year:

- provision of tax training and services;
- accounting and legal advice in relation to establishment of an employee share trust; and
- an independent valuation of Share Appreciation Rights and Performance Rights granted under the LTIP.

PWC was paid $25,395 for all other services.

The Board is satisfied that the remuneration recommendations made by McDonald were free from undue influence by members of the KMP about whom the recommendations relate. Specifically, the engagement of McDonald was made at the request of the Remuneration Committee with the report presented directly to the independent Chairman of the Remuneration Committee. The recommendations were provided to the Committee for review and approval.

**Employment Contracts of Key Management Personnel**

Key Management Personnel (KMP) encompasses all directors (executive and non-executive) as well as those executives who have authority and responsibility for planning, directing and controlling the activities of the Group.

The agreements relating to remuneration are set out below:

David Flanagan, Managing Director and Chief Executive Officer until 21 February 2012, Executive Chairman effective 22 February 2012 until 31 August 2012 and Non-Executive Chairman effective 1 September 2012:

- Terms of agreement – Executive Chairman until 31 August 2012 and Non-Executive Chairman effective 1 September 2012. Six months notice of resignation to be provided by Mr Flanagan.
- Base salary until 31 August 2012, inclusive of superannuation, $1,220,800.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, includes an amount equal to the final 12 months total annual remuneration paid to Mr Flanagan.
- In the current financial year Mr Flanagan, as an executive, was entitled to STIP of up to 50% of his base salary. Mr Flanagan is not entitled to LTIP that may vest on 30 June 2014.

Ken Brinsden, Managing Director and Chief Executive Officer effective 22 February 2012, previously Chief Development Officer:

- Terms of agreement – Commencing 22 February 2012 with indefinite duration. Six months notice of resignation to be provided by Mr Brinsden.
- Base salary of $800,000 inclusive of superannuation.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, includes an amount equal to the final 12 months total base salary paid to Mr Brinsden.
- STIP of up to 50% of Total Fixed Remuneration (TFR).
- LTIP of up to 100% of TFR.

Mark Hancock, Executive Director - Commercial effective 25 May 2012, previously Chief Commercial Officer:

- Terms of agreement – indefinite with 4 weeks notice of termination required by either party other than in the event of redundancy, where termination obligation is the greater of 6 months salary or 4 weeks per year of service.
- Base salary of $466,000 inclusive of superannuation.
- STIP of up to 30% of TFR.
- LTIP of up to 50% of TFR.

# Directors' Report continued

Anthony Walsh, Company Secretary:

- Terms of agreement– indefinite with 4 weeks notice of termination required by either party other than in the event of redundancy, where termination obligation is the greater of 6 months salary or 4 weeks per year of service.
- Base salary of $375,000 inclusive of superannuation.
- STIP of up to 30% of TFR.
- LTIP of up to 50% of TFR.

Jeremy Sinclair, Chief Operating Officer:

- Terms of agreement – indefinite with 4 weeks notice of termination required by either party other than in the event of redundancy, where termination obligation is the greater of 6 months salary or 4 weeks per year of service.
- Base salary of $429,030 inclusive of superannuation.
- STIP of up to 30% of TFR.
- LTIP of up to 50% of TFR.

Robert Wilson, Chief Development Officer:

- Terms of agreement – indefinite with 3 months notice provided by Mr Wilson and 6 months termination by Atlas other than in the event of redundancy, where termination obligation is the greater of 6 months salary or 4 weeks per year of service.
- Base salary of $420,000 inclusive of superannuation.
- STIP of up to 30% of TFR.
- LTIP of up to 50% of TFR.

**Retirement benefits**

Other retirement benefits may be provided directly by the Group if approved by shareholders.

# Directors' Report continued

| | Short-term employee benefits | | | | Post-employment benefits | | Long-term benefits | Share-based payments | Total | % of Remuneration share-based | % of Remuneration performance based |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary & fees | STIP (5) | Short-term compensated absences | Other (3) | Super-annuation | Termination benefits | Long service leave | Options & rights (4) | | | |
| **Directors** | | | | | | | | | | | |
| **Non-Executive Directors** | | | | | | | | | | | |
| David Hannon | | | | | | | | | | | |
| **2012** | **212,539** | - | - | **20,404** | **19,129** | - | - | - | **252,072** | - | - |
| 2011 | 80,275 | - | - | 13,637 | 7,225 | - | - | 433,261 | 534,398 | 81 | - |
| David Smith | | | | | | | | | | | |
| **2012** | **123,852** | - | - | **20,404** | **11,147** | - | - | - | **155,403** | - | - |
| 2011 | 80,275 | - | - | 13,637 | 7,225 | - | - | 866,522 | 967,659 | 90 | - |
| Tai Sook Yee | | | | | | | | | | | |
| **2012** | **135,000** | - | - | **20,404** | - | - | - | - | **155,404** | - | - |
| 2011 | 87,500* | - | - | 13,637 | - | - | - | 433,261 | 534,398 | 81 | - |
| Jeff Dowling - Commenced 8 November 2011 | | | | | | | | | | | |
| **2012** | **80,345** | - | - | **13,157** | **7,231** | - | - | - | **100,733** | - | - |
| 2011 | - | - | - | - | - | - | - | - | - | - | - |
| Kerry Sanderson AO - Commenced 22 February 2012 | | | | | | | | | | | |
| **2012** | **44,725** | - | - | **7,247** | **4,025** | - | - | - | **55,997** | - | - |
| 2011 | - | - | - | - | - | - | - | - | - | - | - |
| Geoff Simpson - Commenced 25 May 2012 | | | | | | | | | | | |
| **2012** | **12,702** | - | - | **2,007** | **1,143** | - | - | - | **15,852** | - | - |
| 2011 | - | - | - | - | - | - | - | - | - | - | - |
| Geoff Clifford (Chairperson) – retired 31 July 2011 | | | | | | | | | | | |
| **2012** | (1) **57,221** | - | - | **1,728** | **5,150** | - | - | - | **64,099** | - | - |
| 2011 | 160,550 | - | - | 13,637 | 14,450 | - | - | 866,522 | 1,055,159 | 82 | - |
| **Executive Directors and Management** | | | | | | | | | | | |
| David Flanagan (Chairman) | | | | | | | | | | | |
| **2012** | **1,120,000** | **609,500** | **19,834** | **20,404** | **155,655** | - | **49,258** | - | **1,974,651** | - | **31** |
| 2011 | 900,000 | 148,000 | 73,402 | 13,637 | 94,320 | - | 29,714 | 2,166,304 | 3,425,377 | 63 | 4 |
| Ken Brinsden (Managing Director & Chief Executive Officer) | | | | | | | | | | | |
| **2012** | **607,882** | **184,928** | **63,556** | **20,404** | **34,843** | - | **39,577** | **50,372** | **1,001,562** | **5** | **18** |
| 2011 | 348,624 | 69,725 | (1,846) | 13,637 | 37,651 | - | 7,033 | 644,213 | 1,119,037 | 58 | 6 |
| Mark Hancock (Executive Director - Commercial) | | | | | | | | | | | |
| **2012** | **427,523** | **111,165** | **35,222** | **20,404** | **48,482** | - | **14,814** | **14,671** | **672,281** | **2** | **17** |
| 2011 | 339,450 | 69,890 | 11,527 | 13,637 | 36,834 | - | 4,220 | 644,535 | 1,120,093 | 58 | 6 |
| Anthony Walsh (Company Secretary) | | | | | | | | | | | |
| **2012** | **344,036** | **89,858** | **(9,261)** | **20,404** | **38,931** | - | **2,037** | **11,806** | **497,811** | **2** | **18** |
| 2011 | 288,991 | 59,798 | 15,962 | 13,637 | 31,391 | - | 1,362 | 429,476 | 840,617 | 51 | 7 |
| Robert Wilson (Chief Development Officer) | | | | | | | | | | | |
| **2012** | (2) **99,294** | **28,978** | **4,376** | **20,404** | **11,545** | - | - | **13,223** | **177,820** | **7** | **16** |
| 2011 | - | - | - | - | - | - | - | - | - | - | - |
| Jeremy Sinclair (Chief Operating Officer) | | | | | | | | | | | |
| **2012** | **373,645** | **102,775** | **5,916** | **93,298** | **43,328** | - | **7,869** | **13,507** | **640,338** | **2** | **16** |
| 2011 | 274,263 | 73,400 | 19,407 | 53,231 | 34,853 | - | 1,471 | 294,866 | 751,491 | 39 | 10 |
| John McMath (Resigned 20 April 2012) | | | | | | | | | | | |
| **2012** | **338,174** | - | **(12,258)** | **16,446** | **31,813** | **12,600** | - | - | **386,775** | - | - |
| 2011 | 325,688 | 67,138 | (98) | 13,637 | 35,354 | - | - | 320,750 | 762,469 | 42 | 9 |
| **Total** | | | | | | | | | | | |
| **2012** | **3,976,938** | **1,127,204** | **107,385** | **297,115** | **412,422** | **12,600** | **113,555** | **103,579** | **6,150,798** | **2** | **18** |
| 2011 | 2,885,616 | 487,951 | 118,354 | 175,964 | 299,303 | - | 43,800 | 7,099,710 | 11,100,698 | 64 | 4 |

Superannuation is paid on salaries, fees and STIP.

* Fees were paid to IMC Australia Pty Ltd.

(1) Geoff Clifford retired on 31 July 2011, however provided service until 8 November 2011.

(2) Robert Wilson became a KMP on 1 March 2012.

(3) Other payments represent Directors & Officers insurance paid by the Group with the exception of Jeremy Sinclair. Mr Sinclair's disclosure includes additional allowances and his reportable benefit for FBT.

(4) Options relate to options issued in the 2011 financial year under the previous LTIP and rights refer to the new LTIP referred to in the Remuneration Report.

(5) Comprises current year STIP and under / over provision for prior year STIP.

# Directors' Report continued

## 1. Short Term

### Performance income as a proportion of total compensation

Details of the Group's policy in relation to the proportion of remuneration that is performance related are discussed from page 98. Details of the portion of maximum STI that was earned and forfeited in relation to the 2012 financial year is detailed below:

| | Included in remuneration | Portion of maximum STI earned during 2012 | Portion of maximum STI forfeited during 2012 |
|---|---|---|---|
| David Flanagan | $420,000 | 75% | 25% |
| Ken Brinsden | $167,497 | 75% | 25% |
| Mark Hancock | $96,193 | 75% | 25% |
| Anthony Walsh | $77,408 | 75% | 25% |
| Jeremy Sinclair | $87,075 | 75% | 25% |
| Robert Wilson | $67,341 | 75% | 25% |

The STI forfeited in the year was a result of the Group not achieving its internal corporate targets.

### Equity instruments

All options refer to options over ordinary shares of Atlas Iron Limited, which are exercisable on a one-for-one basis under the Atlas Iron Employee Share Option Plan (ESOP) which is no longer open to new members.

## 2. Long Term

### Rights over equity instruments granted as compensation issued under LTIP for the period 1 July 2011 to 30 June 2014

Details of Performance Rights (PRs) and Share Appreciation Rights (SARs) over ordinary shares in Atlas Iron Limited that were granted during the year as compensation to Key Management Personnel is detailed below:

| | Grant date | Value of rights granted * $ | LTIP as a % of TFR | No. of PRs granted during 2012 | No. of SARs granted during 2012 | Vesting date | PRs* * $ | SARs* * $ |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Ken Brinsden | 28/06/2012 | 453,350 | 100% | 217,390 | 421,052 | 30/06/2014 | 35,869 | 14,503 |
| Mark Hancock | 28/06/2012 | 123,037 | 50% | 63,314 | 122,630 | 30/06/2014 | 10,447 | 4,224 |
| **Executives** | | | | | | | | |
| Anthony Walsh | 28/06/2012 | 106,253 | 50% | 50,950 | 98,684 | 30/06/2014 | 8,407 | 3,399 |
| Jeremy Sinclair | 28/06/2012 | 121,563 | 50% | 58,292 | 112,902 | 30/06/2014 | 9,618 | 3,889 |
| Robert Wilson | 28/06/2012 | 119,003 | 50% | 57,064 | 110,526 | 30/06/2014 | 9,416 | 3,807 |

* This represents the total fair value of the rights granted during the year determined in accordance with Australian Accounting Standards. This value will be recognised as remuneration over the performance period.

* * In determining the number of rights granted during the year, the fair value of the rights were independently valued at grant date using a Black Scholes pricing model and Monte Carlo Simulation. The total is allocated to remuneration over the performance period. As at 30 June 2012, approximately 3 months has been recognised as remuneration in accordance with Australian Accounting Standards.

Subject to LTIP targets being met, the rights granted to executive directors are only convertible into ordinary shares if, and only if, shareholders approve the conversion at the 2012 Annual General Meeting.

The rights were provided at no cost to the recipients. Valuation assumptions are disclosed in note 6 of the financial statements.

### Modification of terms of equity settled share-based transactions

No terms of options or rights over ordinary shares in Atlas Iron Limited have been altered or modified by the issuing entity during the year or the prior year.

# Directors' Report continued

### Board policy in relation to hedging unvested equity

The Board limits employees from entering into transactions that limit the economic risk of participating in unvested employee entitlements. Each ESOP option is personal to the holder and is not transferable, transmissible, assignable or chargeable without permission of the Board. Without prior approval and subject to compliance with the *Corporations Act 2001*, directors and key management personnel should not enter into agreements that provide lenders with rights over their interests in the Company's shares and options, such as the disposal of the Company's shares or options, that is the result of a secured lender exercising its right. Before entering into such arrangements, directors and senior management must receive clearance from the Board.

### Exercise of options granted as compensation

During the reporting period, the following shares were issued to KMPs on the exercise of options previously granted as compensation:

| | Number of shares | Amount paid per share $ |
|---|---|---|
| **Non-Executive Directors** | | |
| David Hannon | 500,000 | 0.70 |
| **Executive Directors** | | |
| David Flanagan | 2,500,000 | 0.72 |
| Ken Brinsden | 300,000 | 0.60 |
| Ken Brinsden | 50,000 | 0.70 |
| Mark Hancock | 200,000 | 0.60 |
| **Executives** | | |
| Anthony Walsh | 300,000 | 0.70 |

There were no amounts unpaid on the shares issued as a result of the exercise of the options in the 2012 financial year.

### Analysis of options granted as compensation

There were no options granted during the 2012 financial year.

### Analysis of movement in options

The movement during the year, by value of options over ordinary shares in Atlas Iron Limited held by each of the directors, executives and key management personnel is detailed below:

| | No of options - granted in the year | Value of options - granted in the year | Value of options exercised in year * | Value of options disposed of in year * | Value of options lapsed in year |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Ken Brinsden | - | - | 831,400 | 229,000 | - |
| Mark Hancock | - | - | 455,584 | 458,000 | - |
| Geoff Clifford | - | - | - | - | - |
| David Flanagan | - | - | 6,125,468 | - | - |
| David Hannon | - | - | 1,235,094 | - | - |
| David Smith | - | - | - | - | - |
| Tai Sook Yee | - | - | - | - | - |
| Jeff Dowling | - | - | - | - | |
| Kerry Sanderson | - | - | - | - | - |
| **Executives** | | | | | |
| Antony Walsh | - | - | 720,556 | - | - |
| John McMath | - | - | - | - | - |
| Robert Wilson | - | - | - | - | - |
| Jeremy Sinclair | - | - | - | 432,107 | - |
| | | | **9,368,102** | **1,119,107** | **-** |

* The value of options exercised, or disposed of, during the year is determined based on the market price of the shares of the Group calculated as the 5 day VWAP as at close of trading on the date the options were exercised after deducting the price paid to exercise the options.

*Remuneration report ends here.*

# Directors' Report continued

## DIRECTORS' MEETINGS

Attendance of Directors' meetings held during the year are set out below:

| | Directors' Meetings | | Audit and Risk Committee | | Remuneration Committee | | Nomination Committee | |
|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| David Flanagan | 15 | 15 | - | - | - | - | 1 | 1 |
| David Hannon | 14 | 15 | 4 | 5 | 2 | 2 | - | - |
| Geoff Clifford | - | 1 | - | - | - | | - | - |
| David Smith | 15 | 15 | 4 | 4 | 2 | 2 | 1 | 1 |
| Tai Sook Yee | 12 | 15 | 3 | 4 | 2 | 2 | 1 | 1 |
| Jeff Dowling | 8 | 8 | 4 | 4 | - | - | - | - |
| Kerry Sanderson | 6 | 6 | - | - | - | - | 1 | 1 |
| Ken Brinsden | 6 | 6 | - | - | - | - | - | - |
| Geoff Simpson | 2 | 2 | 1 | 1 | - | - | - | - |
| Mark Hancock | 2 | 2 | - | - | - | - | - | - |

**Notes**

A - Number of meetings attended.

B - Number of meetings held during the time the director held office during the year.

The Corporate Governance Committee was approved on 30 May 2012. No meetings have been held.

## CORPORATE STRUCTURE

The Group is an Australian listed public group limited by shares domiciled in Australia. The Group has prepared a consolidated financial report to include entities that it controlled during the financial years as shown in note 35 to the financial statements.

## ROUNDING

The Group is of the kind specified in ASIC class order 98/0100, dated 10 July 1998. In accordance with the class order, amounts in this report and in the financial report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

## AUDITOR INDEPENDENCE

The auditor's independence declaration is set out on page 149 and forms part of the Directors' Report for the financial year ended 30 June 2012.

## NON-AUDIT SERVICES

The Group's auditor, KPMG, and associated entities, did not provide any non-audit services to the Group during the year ended 30 June 2012.

Signed in accordance with a resolution of the directors made pursuant to S298(2) of the Corporations Act 2001.

Ken Brinsden
Managing Director
Perth, 24 August 2012

# Consolidated Statement of Comprehensive Income

**YEAR ENDED 30 JUNE 2012**

| | Notes | 2012 | 2011 |
|---|---|---|---|
| | | **$'000** | **$'000** |
| Revenue | 2 | **617,537** | 584,908 |
| Operating costs | 3 | **(404,654)** | (315,223) |
| **Gross profit** | | **212,883** | 269,685 |
| (Loss)/gain on sale of property, plant and equipment | | **(1,204)** | 23 |
| Other income | | **595** | 1,156 |
| Exploration and evaluation expense | | **(75,899)** | (35,216) |
| Impairment loss | 4 | **(67,427)** | (1,140) |
| Share of loss of associates (including impairment) | 15 | **(14,658)** | (5,166) |
| Share of loss of joint venture | 15 | **(82)** | (350) |
| Business combination expense | 5 | **(20,290)** | (4,922) |
| Gain on control of subsidiary | 5 | **2,458** | - |
| Other expenses from ordinary activities | 8 | **(45,055)** | (45,694) |
| **Results from operating activities** | | **(8,679)** | 178,376 |
| Finance income | 9 | **23,059** | 12,548 |
| Finance expense | 9 | **(6,824)** | (7,751) |
| **Net finance income** | | **16,235** | 4,797 |
| **Profit before income tax** | | **7,556** | 183,173 |
| Tax expense | 10 | **(122,172)** | (14,556) |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(114,616)** | 168,617 |
| **Other comprehensive income** | | | |
| Share of associates' movements in foreign currency translation reserve | | **(2,401)** | - |
| **TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE GROUP** | | **(117,017)** | 168,617 |
| **(Loss)/earnings per share** | | | |
| Basic (loss)/earnings per share (cents per share) | 29 | **(13.0)** | 26.7 |
| Diluted (loss)/earnings per share (cents per share) | 29 | **(13.0)** | 26.1 |

The above Consolidated Statement of Comprehensive Income is to be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

**AT 30 JUNE 2012**

| | Notes | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 26(b) | **399,540** | 365,599 |
| Trade and other receivables | 12 | **39,440** | 39,890 |
| Prepayments | 7 | **26,960** | 13,828 |
| Financial assets | 14 | **6,070** | 13,425 |
| Inventories | 13 | **16,725** | 12,656 |
| **TOTAL CURRENT ASSETS** | | **488,735** | 445,398 |
| **NON-CURRENT ASSETS** | | | |
| Other receivables | 12 | **37,183** | 6,420 |
| Prepayments | 7 | **42,563** | 20,455 |
| Investment in equity accounted investees | 15 | **54,445** | 22,001 |
| Property, plant and equipment | 16 | **31,414** | 19,364 |
| Intangibles | 17 | **143,634** | 100,335 |
| Mine development costs | 18 | **174,364** | 157,963 |
| Evaluation expenditure - reserve development | 19 | **7,529** | - |
| Mining tenements capitalised | 20 | **1,282,003** | 1,120,020 |
| **TOTAL NON-CURRENT ASSETS** | | **1,773,135** | 1,446,558 |
| **TOTAL ASSETS** | | **2,261,870** | 1,891,956 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 21 | **176,559** | 102,657 |
| Interest bearing loans and borrowings | 22 | **21,097** | - |
| Employee benefits | 23 | **2,779** | 1,979 |
| **TOTAL CURRENT LIABILITIES** | | **200,435** | 104,636 |
| **NON-CURRENT LIABILITIES** | | | |
| Trade and other payables | 21 | **-** | 42 |
| Employee benefits | 23 | **328** | 112 |
| Provisions | 24 | **25,963** | 19,728 |
| Deferred tax liability | 10 | **170,058** | 34,689 |
| **TOTAL NON-CURRENT LIABILITIES** | | **196,349** | 54,571 |
| **TOTAL LIABILITIES** | | **396,784** | 159,207 |
| **NET ASSETS** | | **1,865,086** | 1,732,749 |
| **EQUITY** | | | |
| Share capital | 25(a) | **1,977,877** | 1,703,394 |
| Reserves | 25(f) | **26,499** | 27,451 |
| Accumulated (loss)/ profit | 25(g) | **(139,290)** | 1,904 |
| **TOTAL EQUITY** | | **1,865,086** | 1,732,749 |

The above Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

**YEAR ENDED 30 JUNE 2012**

| | Share Capital | Share-based payments reserve | Associates reserve | Accumulated profit / (loss) | Total equity |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **BALANCE AT 1 JULY 2011** | **1,703,394** | **27,451** | **-** | **1,904** | **1,732,749** |
| **Total comprehensive income for the year** | | | | | |
| Loss for the year | - | - | - | **(114,616)** | **(114,616)** |
| Total other comprehensive income (note 25) | - | - | **(2,401)** | - | **(2,401)** |
| Total comprehensive income for the year, net of tax | - | - | **(2,401)** | **(114,616)** | **(117,017)** |
| **Contributions by and distributions to owners of the Group** | | | | | |
| Issue of ordinary shares related to business combination | **236,905** | - | - | - | **236,905** |
| Issue of ordinary shares from exercise of options | **4,606** | - | - | - | **4,606** |
| Issue of ordinary shares for acquisition of assets | **33,000** | | | | **33,000** |
| Share issue costs | **(28)** | - | - | - | **(28)** |
| Share-based payment transactions | - | **1,449** | - | - | **1,449** |
| Payment of dividends | - | - | - | **(26,578)** | **(26,578)** |
| Total contributions by and distributions to owners of the Group | **274,483** | **1,449** | - | **(26,578)** | **249,354** |
| **BALANCE AT 30 JUNE 2012** | **1,977,877** | **28,900** | **(2,401)** | **(139,290)** | **1,865,086** |
| | | | | | |
| **BALANCE AT 1 JULY 2010** | 508,677 | 17,036 | - | (166,713) | 359,000 |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | - | - | - | **168,617** | **168,617** |
| Total comprehensive income for the year, net of tax | - | - | - | **168,617** | **168,617** |
| **Contributions by and distributions to owners of the Group** | | | | | |
| Issue of ordinary shares related to business combinations | 143,068 | - | - | - | 143,068 |
| Issue of ordinary shares | 1,052,147 | - | - | - | 1,052,147 |
| Share issue costs | (498) | - | - | - | (498) |
| Share-based payment transactions | - | 10,415 | - | - | 10,415 |
| Total contributions by and distributions to owners of the Group | **1,194,717** | **10,415** | - | - | **1,205,132** |
| **BALANCE AT 30 JUNE 2011** | **1,703,394** | **27,451** | - | **1,904** | **1,732,749** |

The above Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

**YEAR ENDED 30 JUNE 2012**

| | Notes | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES** | | | |
| Cash receipts from customers | | **616,446** | 556,963 |
| Payments to suppliers and employees | | **(352,604)** | (310,352) |
| Interest received | | **21,111** | 9,005 |
| R&D refund received | | **-** | 204 |
| Income tax refund | | **-** | 375 |
| (Payments for)/proceeds from settlement of derivatives | | **(114)** | 519 |
| Payments for expenditure on exploration and evaluation activities | | **(74,171)** | (34,024) |
| Payments for acquisition transaction costs | | **(3,211)** | (1,488) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 26(a) | **207,457** | **221,202** |
| **CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES** | | | |
| Payments for property, plant and equipment | | **(23,176)** | (5,510) |
| Proceeds from disposal of plant and equipment | | **6,870** | 28 |
| Payments for mine development | | **(118,330)** | (31,012) |
| Payments for intangible assets | | **(4,633)** | (6,356) |
| Payment for Wodgina expansion costs | | **(48,500)** | - |
| Payment for reserve development costs | | **(5,535)** | - |
| Payments for interests in equity accounted investees | | **(18,656)** | (24,956) |
| Payments for the acquisition of tenements | | **(10,000)** | - |
| Loan to joint venture | | **(7,475)** | - |
| Purchase of financial assets | | **(144)** | (336) |
| Proceeds on sale of listed investments | | **3,599** | - |
| Asset acquisition costs | | **-** | (4,624) |
| Acquisition of assets, net of cash acquired | | **-** | 51,919 |
| Acquisition of shares in controlled entities, net of cash acquired | | **14,378** | - |
| Cash taken up on acquisition of Aurox | | **-** | 3,048 |
| Proceeds received from sale of Balla Balla | | **39,500** | - |
| Proceeds received from sale of Yerecoin | | **18,000** | - |
| Loans to associated entities | | **(500)** | - |
| Interest received from loans to other entities | | **-** | 270 |
| Payments for bank guarantees | | **(20,409)** | - |
| Loan to other entities | | **-** | (7,670) |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | | **(175,011)** | **(25,199)** |
| **CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES** | | | |
| Proceeds from issues of ordinary shares and exercise of options | | **4,606** | 15,568 |
| Share issue costs paid | | **(26)** | (339) |
| Proceeds from borrowings | | **21,348** | - |
| Dividends paid | | **(26,578)** | - |
| **NET CASH FLOWS (USED IN) / FROM FINANCING ACTIVITIES** | | **(650)** | **15,229** |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **31,796** | 211,232 |
| Cash and cash equivalents at 1 July | | **365,599** | 154,933 |
| Effect of exchange rate changes on cash and cash equivalents | | **2,145** | (566) |
| **CLOSING CASH AND CASH EQUIVALENTS** | 26(b) | **399,540** | **365,599** |

The above Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Atlas Iron Limited ("the Company") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The consolidated financial statements of Atlas Iron Limited for the year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as "the Group" or "Atlas") and the Group's interest in associates and jointly controlled entities. The Group is a for-profit entity and its principal activity is the operation of the Pardoo and Wodgina iron ore mines and the development of the mines at Abydos, Mt Dove and Mt Webber in the Pilbara region in Western Australia.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements were approved by the Board on 24 August 2012.

### (a) Basis of preparation

*Statement of compliance*

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (AASBs), other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Group complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

*Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for the following items measured at fair value:

- share-based payment transactions;
- financial instruments at fair value through profit or loss; and
- derivative and other financial instruments.

*Functional and presentation currency*

The consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The Group is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998 and, in accordance with that Class Order, amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

*Basis of consolidation*

The consolidated financial statements comprise the financial statements of Atlas Iron Limited and its subsidiaries during the year ended 30 June 2012.

Subsidiaries are all those entities over which the Group has control. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

In preparing the consolidated financial statements all intergroup balances and transactions, income, expenses, unrealised gains/losses and profit and loss, resulting from intergroup transactions, have been eliminated in full.

### (b) Change in accounting policy

Atlas has adopted all of the new and revised Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of Atlas and effective for reporting periods beginning on or after 1 July 2011.

From 1 July 2011, the Group has applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards* arising from the *Annual Improvements Project*. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and allow the Group to disclose transactions recognised in other comprehensive income in note 25 to the consolidated financial statements. The other changes required by the new or revised standards did not have a material effect on the financial statements.

A number of Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective have not been adopted by Atlas for the annual reporting period ended 30 June 2012. The effect of these new or amended Accounting Standards is expected to give rise to additional disclosures and new policies being adopted. Refer to policy note (ab) for the Standards and Interpretations relevant to Atlas that are not yet effective and have not been adopted early.

# Notes to the Consolidated Financial Statements continued

**(c) Critical accounting judgements, estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

*Ore reserve and resource estimates*

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves based on information compiled by appropriately qualified persons relating to the geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, production costs and foreign exchange rates along with geological assumptions and judgements made in estimating the size and grade of the ore body.

The Group estimates and reports ore reserves under the principles contained within the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (December 2004), known as the JORC Code, which is prepared by the Joint Ore Reserves Committee (JORC) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, provision for rehabilitation, and depreciation and amortisation charges.

*Units of production depreciation*

Estimated recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

*Provision for rehabilitation costs*

The Group assesses its mine rehabilitation provision at each reporting date. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at balance date represents management's best estimate of the present value of the future rehabilitation costs required.

*Deferred taxation*

Deferred income tax assets are only recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

*Production start date*

The Group assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the unique nature of each mine development project. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production phase. Some of the criteria include:

- the level of capital expenditure compared to construction cost estimates;
- completion of a reasonable period of testing of the mine plant and equipment;
- ability to process iron ore in saleable form; and
- ability to sustain ongoing mining and processing of iron ore.

When a mine development project moves into the production stage, the capitalisation of certain mine development costs ceases and costs are either regarded as inventory or expensed, except for costs related to mining asset additions or improvements and mineable reserve development, which are capitalised. It is also at this point that depreciation/amortisation commences.

*Acquisitions outside of the scope of AASB 3 Business Combinations*

Where the Group has acquired control of another entity which principally holds exploration assets, or assets in predevelopment, and that entity has no reserves, the substance of the transaction is reviewed. If the sole purpose of the transaction is to increase the resource base of the Group, and the vehicle containing the assets was of no consequence to the underlying substance of the transaction, the transaction is viewed to be outside of the scope of AASB 3 *Business Combinations*.

The acquisition of Giralia Resources NL was outside of the scope of AASB 3 *Business Combinations* as it did not meet the definition of "business" according to that standard. The acquisition of the net assets of this company, excluding the cash and the financial assets, meets the definition of, and has been accounted for as, a share-based payment transaction.

# Notes to the Consolidated Financial Statements continued

*Mining Resource Rent Tax (MRRT) starting base valuation*

The MRRT legislation allows for a starting base allowance, which can be applied in calculating the MRRT liability. The starting base allowance effectively allows taxpayers to claim an amortisation deduction for the market value of their mining and pre-mining project interests and underlying upstream project assets (including the resource) as at 1 May 2010. The starting base is designed to recognise investments in assets that relate to the upstream activities of a mining project interest or pre-mining project interest (starting base assets) that existed before 2 May 2010.

The Group assessed the value of its MRRT starting base based on the market value of its starting base assets, including rights to resources, at 1 May 2010. The market value is determined at a specific valuation point for MRRT and represents the point in the mining process where the commodity is passed from the upstream component to the downstream component. In order to value the starting base assets it is necessary to understand the value of the commodity at the valuation point. In most instances there is a no observable price for the commodity at the Valuation Point and hence it is necessary to calculate this value. This is done in accordance with Section 30-25 of the MRRT legislation through application of transfer pricing methods to derive a value for the commodity at the Valuation Point from the observed market value of that commodity at the applicable mining revenue event, using a "netback" approach.

**(d) Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Trade and other receivables*

The fair value of current trade and other receivables approximates the gross consideration receivable given their short-term nature.

*Trade and other payables*

Current trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

*Financial instruments traded in active markets*

The fair value of financial instruments traded in active markets (such as trading for securities) is based on the quoted market closing price at the reporting date.

*Property, plant and equipment*

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

*Mining tenements*

The fair value of mining tenements acquired through asset purchase or business combinations is estimated using market valuation techniques, as determined by independent experts. The market valuation techniques are based on discounted cash flows expected to be derived from use of the assets or a market based assessment using prices of comparable assets.

*Port access rights, mine and port development costs*

The fair value of port access rights and mine and port development costs, which were acquired through a business combination, are estimated using market valuation techniques, as determined by independent experts. The market valuation techniques are based on discounted cash flows expected to be derived from use of the assets.

*Port facility prepayment*

The fair value of port facility prepayment is the contribution paid to Port Hedland Port Authority (PHPA).

*Share-based payment transactions*

The Group measures the cost of equity-settled share appreciation rights, performance rights and option transactions with employees, contractors and other third parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 6.

The fair value of the rights over shares granted is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the awards were granted. Refer note 6 for further details.

*Fair value of North West Infrastructure (NWI)*

The fair value of the NWI investment acquired was valued by an independent expert using discounted cash flow methodologies, estimating cash flows attributable from NWI port infrastructure, and additional cash flows from sale of excess capacity to a typical market participant being NWI members or other Pilbara producers.

# Notes to the Consolidated Financial Statements continued

**(e) Business combinations**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer elects to measure the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation either at fair value, or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in business combination expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date (being the date the acquirer gains control) through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured. Subsequent settlement is accounted for within equity. In instances, where the contingent consideration does not fall within the scope of AASB 139, it is measured in accordance with the appropriate AASB.

Goodwill is included in intangible assets and initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the fair value of the identifiable net assets acquired and liabilities assumed. If this consideration is lower than the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

**(f) Property, plant and equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

*Land and buildings*
Land and buildings are measured on the cost basis.

*Plant and equipment*
Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts. The cost of plant and equipment constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

*Depreciation*
Land is not depreciated but is subject to impairment.

Depreciation of buildings is calculated on a straight-line basis so as to write off the net costs over the expected useful life. The depreciation rate for buildings is 5% per annum.

Depreciation of plant and equipment is calculated on a straight-line basis so as to write off the net costs of each asset over the expected useful life or the estimated life of the associated mine, if shorter. The rates vary between 5% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

# Notes to the Consolidated Financial Statements continued

### (g) Impairment of assets

*Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events that occurred after the initial recognition of the asset have had a negative effect on the estimated future cash flows of that asset and that effect can be estimated reliably.

The Group considers evidence for impairment at the specific asset and collective level of assets with similar risk characteristics. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original interest rate. All impairment losses are recognised in the profit or loss.

*Non-financial assets*

The carrying amount of the Group's non-financial assets, other than inventories and deferred taxes, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and any intangible assets that have indefinite lives and are tested annually for impairment.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of assets or groups of assets (cash-generating unit).

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed that carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (h) Exploration and evaluation costs / mining tenements capitalised

Exploration and evaluation costs on an area of interest without established JORC compliant reserves are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current, and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Evaluation expenditure on an area of interest where reserves have been established is capitalised.

Where an area of interest is abandoned, or the directors decide that it is not commercially viable, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

### (i) Development costs

*Mine and port development*

Development costs include mine infrastructure, pre-production development costs, development excavation, project execution costs and other subsurface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment. The definition of an area of interest is the area serviced by a given mining operations centre.

Development costs are carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward development costs are to be amortised on a units of production basis over the life of economically recoverable reserves of the area of interest. The Group assesses future capital costs required to bring existing reserves into production and includes an estimate of these costs in the base when calculating amortisation expense.

Development assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, development assets are allocated to CGUs to which the development activity relates. The CGU shall not be larger than the area of interest.

*Deferred stripping*

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development stripping. The directly attributable costs (inclusive of an allocation of relevant overhead expenditure) are capitalised as development costs. Capitalisation of development stripping costs ceases and amortisation of those capitalised costs commences when the strip ratio reaches the life of mine strip ratio. Amortisation of capitalised development stripping costs is determined on a unit of production basis over the life of mine.

# Notes to the Consolidated Financial Statements continued

Where a mine operates several open pits that are regarded as separate operations for the purpose of mine planning, stripping costs are accounted for separately by reference to the ore from each separate pit. If however, the pits are highly integrated for the purpose of mine planning, the second and subsequent pits are regarded as extensions of the first pit in accounting for stripping costs. In such cases, the initial stripping, (i.e. overburden and other waste removal) of the second and subsequent pits are deferred to the extent that the current period ratio exceeds the life of mine strip ratio. The amount of stripping costs deferred is based on the strip ratio obtained by dividing the tonnage of waste mined either by the quantity of ore mined; or by the quantity of minerals contained in the ore.

Capitalised development stripping costs are classified as 'Development Expenditure'. Development stripping costs are considered in combination with other assets of an operation for the purpose of undertaking impairment assessments.

Removal of waste material normally continues throughout the life of a mine. This activity is referred to as production stripping and commences upon extraction of ore. The costs of production stripping are included into the cost of inventories.

**(j) Interests in joint ventures**

Joint control is defined as the contractually agreed sharing of control over an economic activity and this exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

*Jointly controlled assets*

A jointly controlled asset (JCA) involves joint control and often joint ownership by the Group and other venturers of assets contributed to, or acquired for the purpose of, the joint venture, without the formation of a corporation, partnership or other entity.

Where the Group's activities are conducted through JCAs, the Group recognises its share of the jointly controlled assets and liabilities it has incurred, its share of liabilities incurred jointly with other venturers, related revenue and operating costs in the financial statements and a share of production.

*Jointly controlled entities*

A jointly controlled entity (JCE) is a corporation, partnership or other entity in which each venturer holds an interest. A JCE operates in the same way as other entities, except that a contractual arrangement establishes joint control. A JCE controls the assets of the joint venture, earns its own income and incurs its own liabilities and expenses. Interests in JCEs are accounted for using the equity method.

Under the equity method, the investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The profit or loss reflects the Group's share of the results of operations of the joint venture. Where there has been a change recognised directly in other comprehensive income or equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income or the statement of changes in equity, as appropriate. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The share of the joint venture's net profit or loss is shown on the face of the statement of comprehensive income. This is the profit or loss attributable to venturers in the joint venture.

The financial statements of the JCE are prepared for the same reporting period as the venturer. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

**(k) Leases**

Leases of property, plant and equipment where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership transfer to the Group, are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property, plant and equipment or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period. Leased assets are depreciated on a straight line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised in the income statement on a straight line basis over the lease term.

**(l) Income tax**

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

# Notes to the Consolidated Financial Statements continued

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to its shareholders.

The Group and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Atlas Iron Limited.

**(m) Mineral Resource Rent Tax (MRRT)**

MRRT is considered, for accounting purposes, to be a tax based on income. Accordingly, current and deferred MRRT expense is measured and disclosed on the same basis as income tax.

**(n) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(o) Employee benefits**

Employee benefits are expensed in the profit or loss and provisions are made for benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, long service leave and related on-costs such as superannuation, workers compensation and payroll tax. The Group's superannuation is a defined contribution plan under which fixed contributions are made to a superannuation fund with no further legal or constructive obligation to pay.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be measured reliably.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

*Share-based payments*

The Group provides benefits to employees (including Executive Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions') (subject to shareholder approval). During the current financial year, key management personnel and their direct reports have been offered performance rights and share appreciation rights under the Long-Term Incentive Plan. The fair value of the awards granted is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the awards were granted. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general rights holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

# Notes to the Consolidated Financial Statements continued

The cost of the equity-settled option transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options and rights that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, no further expense is recognised. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

**(p) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of Group's activities. The amount of revenue is not considered to be reliably measurable until all material contingencies relating to the sale have been resolved.

*Sale of goods*
Revenue from the sale of goods and disposal of other assets is recognised when persuasive evidence, usually in the form of an executed sales agreement, or an arrangement exists, indicating there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Group, the quantity and quality of the goods has been determined with reasonable accuracy, the price is fixed or determinable and collectability is reasonably assured. This is generally when title passes. The majority of the Group's sales agreements specify that title passes when the product is delivered to the destination specified by the customer, which is typically the vessel on which the product will be shipped. In practical terms, revenue is generally recognised on the bill of lading date, which is the date the commodity is delivered to the shipping agent. These sales agreements also allow for an adjustment to the sales price based on a survey of the goods by the customer (an assay for mineral content); therefore recognition of the sales revenue is based on the most recently determined estimate of product specifications.

**(q) Issued capital**

Ordinary shares are classified as equity.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**(r) Earnings per share (EPS)**

*Basic earnings per share*
Basic EPS is calculated as the profit/(loss) attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the year.

*Diluted earnings per share*
Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares (share options granted to employees).

**(s) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

**(t) Rehabilitation provision**

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs are recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

# Notes to the Consolidated Financial Statements continued

**(u) Inventories**

Iron ore stockpiles are physically surveyed or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Cost is determined by the weighted average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation, incurred in converting materials into finished goods.

Materials and supplies are valued at the lower of cost or net realisable value. Any provision of obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

**(v) Intangible assets**

Intangible assets acquired by the Group, such as port access rights, software and licences that have a finite life are recorded at cost or fair value in business combinations less accumulated amortisation or impairment charges. Amortisation is charged over the useful life of the finite asset according to consumption of benefits.

**(w) Port access prepayments**

Port access prepayments are initially recognised at cost and amortised over the period of the benefits obtained.

**(x) Segment Reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

**(y) Finance income and finance costs**

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

**(z) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

**(aa) Financial instruments**

*Non-derivative financial assets*

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

# Notes to the Consolidated Financial Statements continued

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

*Financial assets at fair value through profit or loss*
A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

*Loans and receivables*
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade and other receivables, including service concession receivables.

**(ab) Australian Accounting Standards and Interpretations issued but not adopted**

The standards and interpretations relevant to Atlas that have not been early adopted are:

(i) AASB 9 *Financial Instruments:* applicable to annual reporting periods beginning on or after 1 July 2013.
This standard includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. This standard was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. The adoption of AASB 9 will affect Atlas' classification and measurement of financial assets and liabilities. The effect of the new standard on Atlas' financial statements will continue to be assessed as the standard evolves and each phase is completed and released.

(ii) AASB 10 *Consolidated Financial Statements*: applicable to annual reporting periods beginning on or after 1 July 2013.
The new standard introduces a new definition of control of an entity, which widens the scope of the standard. The effect of the new standard on Atlas' financial statements will continue to be assessed.

(iii) AASB 12 *Disclosure of interest in Other Entities*: applicable to annual reporting periods beginning on or after 1 July 2013.
The new standard includes all of the disclosures that are required related to an entity's involvement with other entities including subsidiaries, joint arrangements and associates. This standard will only affect the disclosure of Atlas' financial statement.

(iv) AASB 11 *Joint Arrangements*: applicable to annual reporting periods beginning on or after 1 July 2013.
The new standard classifies a joint arrangement as either a joint operation or a joint venture, based on the contractual rights and obligations of that joint arrangement. It also requires a joint venture (previously called a jointly controlled entity) to be accounted for using the equity method. The effect of the new standard on Atlas' financial statements will continue to be assessed.

(v) AASB 13 *Fair Value Measurement*: applicable to annual reporting periods beginning on or after 1 July 2013.
The new standard provides guidance on how to determine fair value when fair value is required or permitted. The standard is not expected to have a material effect on Atlas' financial statements.

(vi) Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*: applicable to annual reporting periods beginning on or after 1 July 2013.
The interpretation requires production stripping costs to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. The effect of the new standard on Atlas' financial statements will continue to be assessed.

# Notes to the Consolidated Financial Statements continued

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **2. REVENUE** | | |
| Sale of iron ore | **617,537** | 584,908 |
| | **617,537** | 584,908 |
| | | |
| **3. OPERATING COSTS** | | |
| Mining costs | **(127,661)** | (98,225) |
| Haulage | **(73,632)** | (55,294) |
| Port costs * | **(54,291)** | (46,140) |
| Shipping costs | **(63,731)** | (52,810) |
| Royalties | **(46,364)** | (32,766) |
| Depreciation and amortisation | **(38,975)** | (29,988) |
| | **(404,654)** | (315,223) |

*Port costs include the amortisation of contributions made to the Port Hedland Port Authority. Refer to note 7.

| | | |
|---|---|---|
| **4. IMPAIRMENT LOSS** | | |
| Balla Balla* | **33,880** | - |
| Yercoin** | **33,547** | - |
| Other | **-** | 1,140 |
| Total | **67,427** | 1,140 |

***On 16 December 2011, the Group entered into an agreement to sell its Balla Balla magnetite project to Forge Resources Limited for cash and a potential royalty. The total cash consideration was $39,500,000; no value was ascribed to the potential royalty payment and an impairment was recognised at the date of the agreement.**

****On 23 December 2011, the Group entered into an agreement to sell its Yerecoin magnetite project to Cliffs Natural Resources Limited for an upfront cash consideration of $18,000,000 plus consideration which is contingent on an increase to magnetite and direct shipping ore tonnage. No value was ascribed to the contingent consideration and an impairment was recognised at the date of the agreement.**

# Notes to the Consolidated Financial Statements continued

## 5. ACQUISITION OF SUBSIDIARY

During the year the Group acquired an initial equity holding and subsequent control of FerrAus Limited (FerrAus). FerrAus is an entity involved in exploration of minerals in South East Pilbara.

On 31 August 2011:

- the Group subscribed for 37,439,785 FerrAus shares at an issue price of $0.65 per FerrAus share for a total cash consideration of $24,335,860; and
- FerrAus purchased certain iron ore tenements from the Group in consideration for the issue of 121,846,154 FerrAus shares.

As a result of the above, the Group obtained a 38.96% stake in FerrAus.

On 8 September 2011, the Group obtained control of FerrAus, by acquiring additional equity and voting interests resulting in the Group holding 60.48% of FerrAus. This transaction was mutually exclusive to the initial transaction obtaining the equity interest of 38.96%. Therefore, in accordance with Australian Accounting Standards, the initial investment was re-measured to fair value as at the date on which control of FerrAus was obtained thus resulting in a gain of $2,458,000.

On 6 October 2011, the Group proceeded with the compulsory acquisition of the remaining ordinary shares in FerrAus.

The acquisition of FerrAus enables the Group to pursue the consolidation of iron ore assets in the South East Pilbara and increase its access to infrastructure.

The initial accounting for the acquisition of FerrAus has been determined on a provisional basis and is to be finalised pending completion of an independent valuation and further internal review including assessment of the tax effect of this acquisition.

The identifiable assets acquired and liabilities assumed of FerrAus as at the date of acquisition, being 8 September 2011, were:

| | Book Value | Fair Value |
|---|---|---|
| | $'000 | $'000 |
| Cash and cash equivalents | 38,714 | 38,714 |
| Trade and other receivables | 6,292 | 6,292 |
| Financial assets | 2,999 | 2,999 |
| Investment in equity accounted investee | 1,050 | 33,220 |
| Property, plant and equipment | 1,944 | 1,944 |
| Mining tenements capitalised | 92,545 | 291,385 |
| Trade and other payables | (18,351) | (18,351) |
| Employee benefits | (202) | (202) |
| Deferred tax liability | - | (13,197) |
| Total net identifiable assets | 124,991 | 342,804 |
| Consideration transferred | | |
| Equity consideration (a) | | 236,905 |
| Other consideration (b) | | 146,543 |
| Cash and cash equivalents acquired | | (38,714) |
| Acquisition of subsidiary, net of cash acquired | | 344,734 |

(a) The fair value of ordinary shares issued was based on the listed share price of the Company at 8 September 2011 of $3.70 per share.

(b) Other consideration represents the Group's initial investment in FerrAus on completion of the Subscription and Iron Ore Assets Acquisition, re-measured at fair-value on 8 September 2011.

# Notes to the Consolidated Financial Statements continued

## 5. ACQUISITION OF SUBSIDIARY (CONTINUED)

**Other transactions related to the acquisition**

The Group has incurred acquisition-related costs of $20,290,000 relating to stamp duty, advisory fees, external legal fees and due diligence costs, which are disclosed as business combination expense.

In the period of ownership from 8 September 2011 to 30 June 2012, FerrAus contributed net finance income of $307,000 and a net loss before tax of $15,823,000 to the Company's results. If the acquisition had occurred on 1 July 2011, management estimates that consolidated net finance income would have been $16,374,000 and consolidated loss for the period would have been $124,253,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2011.

**Goodwill**

Goodwill was recognised on a provisional basis as a result of the acquisition as follows:

| | $'000 |
|---|---|
| Total consideration | 383,448 |
| Less fair value of identifiable assets | (342,804) |
| Goodwill | **40,644** |

The goodwill represents the synergies expected to be derived from integrating FerrAus into the Group specifically through the access to infrastructure. None of the goodwill recognised is expected to be deductible for income tax purposes.

## 6. SHARE-BASED PAYMENTS

**Employee and Contractors Option Plan**

The Group has historically provided benefits to its employees (including directors) and contractors in the form of share-based payment transactions, whereby options to acquire ordinary shares were issued as an incentive to improve employee and shareholder goal congruence. No options were issued in the current financial year. The options granted to employees have expiry dates ranging from 30 September 2014 to 30 June 2015.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Group with full dividend and voting rights.

Set out below are summaries of the options granted:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| Outstanding at the beginning of the year | **23,565,000** | **2.07** | 25,618,000 | 1.39 |
| Granted | - | - | 11,520,000 | 2.83 |
| Exercised | **(6,180,000)** | **0.75** | (10,853,000) | 0.74 |
| Cancelled/lapsed | **(685,000)** | **1.11** | (2,720,000) | 4.20 |
| Outstanding at year-end | **16,700,000** | **2.69** | 23,565,000 | 2.07 |
| Exercisable at year-end | **16,595,000** | **2.69** | 21,670,000 | 2.08 |

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.25 years (2011: 2.57 years), and the exercise prices range from $1.20 to $5.00. The weighted average exercise price of shares, at the date of exercising options, was $3.20 (2011: $3.15).

**Unvested unlisted performance and share appreciation rights under the Long-Term Incentive Plan (LTIP)**

On 28 June 2012, KMP and their direct reports were granted performance rights and share appreciation rights. Both rights are subject to a total shareholder return (TSR) hurdle as well as an internal iron ore shipping rate (IOS) hurdle, with equal weightings for each hurdle.

No performance Rights or share appreciation rights will vest until after an employee receives a vesting notification from the Board advising them in writing the number of Long-Term Incentive (LTI) awards that have vested and the manner in which the awards will be settled, that is, cash or shares. Performance rights and share appreciation rights not vested on the vesting date will automatically lapse and be forfeited in accordance with the LTIP rules. LTI awards that vest to any executive director cannot be settled in equity without prior shareholder approval.

# Notes to the Consolidated Financial Statements continued

## 6. SHARE-BASED PAYMENTS (CONTINUED)

| Share appreciation rights | 2012 | 2011 |
|---|---|---|
| | Number of rights | Number of rights |
| Balance at 1 July 2011 | - | - |
| Granted during the year | 1,209,520 | - |
| Balance at 30 June 2012 | 1,209,520 | - |

| Performance rights | | |
|---|---|---|
| | Number of rights | Number of rights |
| Balance at 1 July 2011 | - | - |
| Granted during the year | 624,472 | - |
| Balance at 30 June 2012 | 624,472 | - |

The fair value of the services received in return for performance rights and share appreciation rights granted on 28 June 2012 is based on the fair value of rights granted, measured using a Black-Scholes and Monte-Carlo simulation models, incorporating the probability of the relative TSR vesting conditions being met, with the following inputs:

| | Performance rights | | Share appreciation rights | |
|---|---|---|---|---|
| Performance measure | IOS | TSR | IOS | TSR |
| Vesting conditions | See below | See below | See below | See below |
| First test date | 30 June 2014 | 30 June 2014 | 30 June 2014 | 30 June 2014 |
| Performance period | 28 March 2012 to 30 June 2014 | 28 March 2012 to 30 June 2014 | 28 March 2012 to 30 June 2014 | 28 March 2012 to 30 June 2014 |
| Share price at grant date | N/A | N/A | $1.93 | $1.93 |
| Share price to determine number allocated (exercise price) | N/A | N/A | $3.04 | $3.04 |
| Remaining life | 2 years | 2 years | 2 years | 2 years |
| Risk free rate | 2.41% | 2.41% | 2.41% | 2.41% |
| Volatility | 55% | 55% | 55% | 55% |
| Dividend yield | 1.5% | 1.5% | 1.5% | 1.5% |
| Fair value on grant date | $1.87 | $1.10 | $0.32 | $0.30 |

*Vesting conditions*

The TSR Scorecard will be determined based on the percentile ranking of the Company's TSR results, relative to the TSR of each of the companies in the comparator group over the same performance period. The comparator group currently comprises selected constituents of the S&P ASX 300 Metals & Mining Index. Where the relative TSR performance is:

1. less than or equal to the 50th percentile, the TSR scorecard is nil;
2. more than the 50% but less than the 75th percentile, the TSR scorecard is pro rata between 50% to 100%; and
3. equal to or more than the 75th percentile the TSR scorecard is 100%.

The IOS Scorecard will be determined based on the number of tonnes of iron ore shipped or exported by the Company during the last year of the performance period. The iron ore shipping target for the performance period is 12 million tonnes shipped during the financial year ending 30 June 2014. Where the IOS performance is:

1. less than or equal to 8Mt, the IOS scorecard is nil;
2. more than 8Mt but less than 12Mt, the IOS scorecard is pro rata between 50% to 100%; and
3. equal to or more than 12Mt, the TSR scorecard is 100%.

# Notes to the Consolidated Financial Statements continued

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **6. SHARE-BASED PAYMENTS (CONTINUED)** | | |
| **Expenses arising from share-based payment transactions** | | |
| Share options | **1,304** | 10,415 |
| Performance and share appreciation rights | **145** | - |
| Total | **1,449** | 10,415 |

## 7. PREPAYMENTS

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Current | **26,960** | 13,828 |
| Non-current | **42,563** | 20,455 |
| | **69,523** | 34,283 |

An agreement was entered into with Port Hedland Port Authority to establish the Group as a foundation user of the Public Access port facility located at Utah Point. Gross contributions of $35,700,000 have been made by the Group. These contributions and interest will be recouped against port handling charges incurred on future tonnes shipped over the berth. In the current year, the Group recouped $9,083,000 (2011: $9,499,000). Disclosed within Prepayments - Current is the amount expected to be recouped within the next 12 months, being $7,638,872.

A long-term infrastructure sharing agreement for Wodgina operations was entered into during the year. Contributions of $48,500,000 were recorded as a prepayment as at 30 June 2012 and are amortised over the term of this agreement. An amortisation expense of $4,560,000 was recognised during the current financial year.

## 8. OTHER EXPENSES FROM ORDINARY ACTIVITIES

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Salaries and benefits* | **(20,489)** | (25,513) |
| Corporate expenses | **(4,107)** | (3,143) |
| Consultancy expenses | **(14,033)** | (4,854) |
| Net foreign exchange gain/(loss) | **4,030** | (5,574) |
| Depreciation and amortisation expense | **(4,528)** | (1,665) |
| Other expenses | **(5,928)** | (4,945) |
| | **(45,055)** | (45,694) |

Expenses comprise costs for both corporate activities and shared services.

* Contributions of $3,439,000 were made during the year (2011: $1,714,000) to defined contribution plans.

## 9. NET FINANCE INCOME/(EXPENSE)

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Interest income | **21,324** | 12,548 |
| Interest accretion | **1,735** | - |
| Finance income | **23,059** | 12,548 |
| | | |
| Interest expense | **(378)** | - |
| Interest accretion | **(1,371)** | (1,258) |
| Loss on change to fair value of financial assets | **(5,075)** | (6,493) |
| Finance expense | **(6,824)** | (7,751) |
| | | |
| Net finance income | **16,235** | 4,797 |

# Notes to the Consolidated Financial Statements continued

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **10. INCOME TAX** | | |
| The major components of income tax expense are: | | |
| *Current income tax* | | |
| Current income tax charge | - | - |
| *Deferred taxes* | | |
| Relating to origination and reversal of temporary differences (excluding MRRT) | **6,317** | 63,660 |
| Deferred tax assets not previously brought to account but recognised in the year | - | (49,104) |
| *MRRT:* | | |
| Deferred tax expense related to the movements in deferred tax balances | **165,507** | - |
| Income tax benefit on MRRT | **(49,652)** | - |
| Total MRRT expense | **115,855** | |
| **Tax expense reported in the statement of comprehensive income** | **122,172** | 14,556 |

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate as follows:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Accounting profit before income tax | **7,556** | 183,173 |
| **At the Group's statutory income tax rate of 30% (2011: 30%)** | **2,267** | 54,952 |
| Entertainment – non-deductible | **62** | 13 |
| Non cash benefit | **423** | 3,745 |
| Other non-deductible* | **8,014** | 1,675 |
| Loss on sale of tenements | **(9,500)** | - |
| Equity accounting for share of loss of associates and joint ventures | **4,321** | 1,655 |
| Write-down of investments | **1,474** | 1,947 |
| Fair value adjustments | **(448)** | - |
| R&D tax concession | **(296)** | (327) |
| Deferred tax assets not previously brought to account but recognised in the year | - | (49,104) |
| MRRT: | | |
| MRRT expense | **165,507** | - |
| Income tax benefit on MRRT expense | **(49,652)** | - |
| Total MRRT expense | **115,855** | - |
| Income tax expense reported in the consolidated statement of comprehensive income | **122,172** | 14,556 |

* Other non-deductible items for the year ended 30 June 2012 mainly relate to expenditure associated with the acquisition of FerrAus by the Group.

# Notes to the Consolidated Financial Statements continued

## 10. INCOME TAX (CONTINUED)

| | Statement of financial position | | | |
|---|---|---|---|---|
| | 2011 $'000 | Recognised in profit or loss | Business Combination | 2012 $'000 |
| **Deferred income tax** | | | | |
| Deferred income tax at 30 June relates to the following: | | | | |
| CONSOLIDATED | | | | |
| *Deferred income tax liabilities (DTL)* | | | | |
| Port access rights | (21,619) | (1,980) | - | **(23,599)** |
| Accrued income | (506) | 603 | - | **97** |
| Mining tenements capitalised | (16,117) | (244,894) | (14,162) | **(275,173)** |
| Mine development costs | (11,315) | (6,507) | - | **(17,822)** |
| Other assets | (185) | 777 | (104) | **488** |
| | (49,742) | (252,001) | (14,266) | **(316,009)** |
| *Deferred tax assets (DTA)* | | | | |
| Cash deposits | - | 284 | - | **284** |
| Prepayments | - | 1,368 | - | **1,368** |
| Plant and equipment | 74 | 66 | - | **140** |
| Payroll liabilities | 13 | 13 | - | **26** |
| Accrued expenses | 1,164 | 2,900 | - | **4,064** |
| Provisions | 5,429 | 2,376 | - | **7,805** |
| Employee benefits – long service leave | 167 | (69) | - | **98** |
| Employee benefits – annual leave | 435 | 399 | - | **834** |
| Other – non-current liabilities | 24 | (41) | - | **(17)** |
| Other – tax assets | 5,068 | (2,571) | 1,069 | **3,566** |
| DTA arising from MRRT DTL | - | 49,652 | - | **49,652** |
| DTA – tax losses recognised | 2,679 | 240,959 | | **243,638** |
| **Gross deferred income tax assets** | 15,053 | 295,336 | 1,069 | **311,458** |
| *Net deferred income tax liabilities (DTL)* | (34,689) | 43,335 | (13,197) | **(4,551)** |
| **Deferred tax liability arising from MRRT (Mining tenements capitalised)** | **-** | **(165,507)** | - | **(165,507)** |
| **Total** | | | | **170,058** |

# Notes to the Consolidated Financial Statements continued

## 10. INCOME TAX (CONTINUED)

| | Statement of financial position | | | |
|---|---|---|---|---|
| | 2010 $'000 | Recognised in profit or loss | Business combination | 2011 $'000 |
| **Deferred income tax** | | | | |
| Deferred income tax at 30 June relates to the following: | | | | |
| CONSOLIDATED | | | | |
| *Deferred tax liabilities (DTL)* | | | | |
| Port access rights | - | - | (21,619) | **(21,619)** |
| Prepayments | (106) | 106 | - | **-** |
| Accrued income | (428) | (77) | (1) | **(506)** |
| Mining tenements capitalised | (20,120) | 4,003 | - | **(16,117)** |
| Mine development costs | (5,513) | (5,802) | - | **(11,315)** |
| Other debtors | - | (185) | - | **(185)** |
| | (26,167) | (1,955) | (21,620) | **(49,742)** |
| DTL offset by DTA | 26,167 | | | |
| | - | | | |
| *Deferred tax assets (DTA)* | | | | |
| Prepayments | 33 | (33) | - | **-** |
| Plant and equipment | 64 | 10 | - | **74** |
| Payroll liabilities | 111 | (98) | - | **13** |
| Accrued expenses | 49 | 1,104 | 11 | **1,164** |
| Provisions | 2,207 | 3,177 | 45 | **5,429** |
| Employee benefits – long service leave | 17 | 150 | - | **167** |
| Employee benefits – annual leave | 237 | 163 | 35 | **435** |
| Other – non-current liabilities | - | 24 | - | **24** |
| Other – tax assets | 3,753 | (81) | 1,396 | **5,068** |
| DTA – tax losses recognised | 19,696 | (17,017) | - | **2,679** |
| **Gross deferred income tax assets** | 26,167 | (12,601) | 1,487 | **15,053** |
| DTA recognised to offset DTL | (26,167) | - | - | **-** |
| *Net deferred tax liabilities (DTL)* | - | (14,556) | (20,133) | **(34,689)** |

The above disclosures have been prepared based on a tax consolidated group for the year ended 30 June 2012.

The Group has recognised revenue losses of $812,127,000 (2011: 8,930,000) that will continue to be subject to legislative requirements. The Group has unrecognised tax losses of $205,191,000 (2011: $76,657,000) arising in Australia that may be available for offset against future taxable profits. The availability of the losses is subject to the Group continuing to meet the legislative requirements for the utilisation of the losses.

The Group has an unrecognised MRRT tax benefit of $1,740,000,000 (gross) arising in Australia that is available for offset against future MRRT taxable profits. This is driven by the MRRT Starting Base of $1,953,000,000 being partially offset by the accounting carrying value for the relevant projects. The Group is of the view that the availability of the benefit is not probable as it is subject to significant uncertainty. A DTA has not been recognised at 30 June 2012.

# Notes to the Consolidated Financial Statements continued

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **11. DIVIDENDS PAID AND PROPOSED** | | |
| **Declared and paid during the year:** | | |
| Dividends on ordinary shares: | | |
| Final unfranked dividend for 2011: 3 cents per share paid on 10 October 2011 (2010: nil) | 26,578 | - |
| | 26,578 | - |
| Proposed for approval at the Annual General Meeting (not recognised as a liability as at 30 June 2012): | | |
| Dividends on ordinary shares: | | |
| Final unfranked dividend for 2012: 3.0 cents per shares (2011: 3.0 cents per share) | 27,137 * | 26,578 |

* Subject to amendments to the Constitution at the 2012 AGM.

The dividend franking account has a nil balance as at 30 June 2012 (2011: nil).

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **12. TRADE AND OTHER RECEIVABLES** | | |
| **Current** | | |
| Trade receivables* | 25,756 | 24,231 |
| Goods and Services Tax receivable (net) | 5,881 | 7,499 |
| Interest receivable | 3,932 | 3,002 |
| Loan to other entities | - | 454 |
| Security deposits* | 210 | 1,000 |
| Related party receivables | 2,397 | 2,742 |
| Other receivables | 1,264 | 962 |
| | 39,440 | 39,890 |
| **Non – current** | | |
| Security deposits** | 27,827 | 6,420 |
| Loan Receivable from joint venture (note 32) | 8,876 | - |
| Other | 480 | - |
| | 37,183 | 6,420 |

* Includes trade receivables past due but not impaired of $1,642,000 (2011: nil).
** The Security deposits represent cash backing for exploration and mining bonds, office bonds, bank guarantee and a credit card facility.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **13. INVENTORIES** | | |
| Iron ore stockpiles at cost | 16,725 | 12,656 |
| **14. FINANCIAL ASSETS** | | |
| Financial assets classified as held for trading | 6,070 | 13,425 |
| **15. INVESTMENT IN EQUITY ACCOUNTED INVESTEE** | | |
| Investment in associates | 16,335 | 16,249 |
| Investment in joint venture | 38,110 | 5,752 |
| | 54,445 | 22,001 |

# Notes to the Consolidated Financial Statements continued

## 15. INVESTMENT IN EQUITY ACCOUNTED INVESTEE (CONTINUED)

| Name of entity | Principal activity | | Ownership interest 2012 % | 2011 % |
|---|---|---|---|---|
| Shaw River Manganese Limited | Mineral exploration | Associate | **45.40** | 45.40 |
| NWI Pty Limited | Port development | Joint Venture | ***63.00** | 39.00 |
| Centaurus Metals Limited | Iron ore exploration | Associate | ****19.85** | - |

*The Group has an interest of 63.00% (2011: 39.00%) in relation to port related expenditure and 66.66% (2011: 33.33%) related to administrative expenditure.

**During the period, the Group acquired a 19.85% interest in Centaurus Metals Limited (Centaurus), a company incorporated in Australia and engaged in the exploration for iron ore resources in Brazil. The consideration for the acquisition was $18,656,000. The Group's interest in Centaurus has been equity accounted due to the Group's participation on the Centaurus Board and share options available to the Group to increase the Group's shareholding in the future.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Summarised financial information for the Group's associates and joint venture: | | |
| **Associates** | | |
| **Financial position of associates** | | |
| Total assets | **73,391** | 47,875 |
| Total liabilities | **(27,900)** | (10,177) |
| Net assets | **45,491** | 37,698 |
| **Financial performance of associates** | | |
| Total revenue | **2,202** | 500 |
| Total expenses | **(49,165)** | (10,262) |
| Total loss for the year after tax | **(46,963)** | (9,762) |
| Group's share of associates' loss excluding impairment | **(9,718)** | (5,166) |
| Group's share of impairment loss | **(4,940) *** | - |

* Relates to the impairment of goodwill of Shaw River Manganese Limited (Shaw River). Atlas recognised its share of Shaw River's impairment expense of $4,940,000 (2011: nil), comprising the goodwill recognised by Shaw River on acquisition of Otjozondu Holdings Pty Ltd in February 2011. The impairment has mainly resulted from a reduction in global manganese ore prices since the acquisition of Otjozondu Holdings Pty Ltd by Shaw River.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Incorporated joint venture** | | |
| **Financial position of joint venture** | | |
| Total current assets | **1,648** | 16,716 |
| Total non-current liabilities | **(23,631)** | (3,163) |
| Net assets | **(21,983)** | 13,553 |
| **Financial performance of joint venture** | | |
| Total revenue | **63** | 39 |
| Total loss for the year after tax | **(1,696)** | (1,050) |
| Group's share of joint venture loss | **(82)** | (350) |
| Group's share of joint venture commitments | **(117)** | (119) |

The Group recognises its interests in the joint venture using the equity method of accounting.

# Notes to the Consolidated Financial Statements continued

| | | 2012 | 2011 |
|---|---|---|---|
| | | $'000 | $'000 |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | | | |
|---|---|---|---|
| Property, plant and equipment | | | |
| At cost | | **45,082** | 26,644 |
| Accumulated depreciation and impairment | | **(13,668)** | (7,280) |
| | 16(a) | **31,414** | 19,364 |

### (a) Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

| | 2012 | 2011 |
|---|---|---|
| *Property* | | |
| Carrying amount at beginning | **12,437** | 10,715 |
| Transfers | **(1,335)** | 701 |
| Additions | | |
| - Buildings | **5,862** | 1,357 |
| - Under construction | **10,431** | 900 |
| Disposals | **(319)** | (2) |
| Impairment | **(275)** | |
| Depreciation expense | **(1,885)** | (1,234) |
| Carrying amount at end | **24,916** | 12,437 |
| *Plant and equipment* | | |
| Carrying amount at beginning | **6,927** | 4,449 |
| Transfers | **1,335** | (701) |
| Additions | **8,259** | 6,196 |
| Additions from business combinations (note 5) | **1,944** | |
| Disposals | **(7,413)** | (90) |
| Depreciation expense | **(4,503)** | (2,927) |
| Impairment loss | **(51)** | - |
| Carrying amount at end | **6,498** | 6,927 |
| Total | **31,414** | 19,364 |

# Notes to the Consolidated Financial Statements continued

| | | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **17. INTANGIBLES** | | | |
| Intangibles | | | |
| At cost | | **147,510** | 102,233 |
| Accumulated amortisation | | **(3,876)** | (1,898) |
| | 17(a) | **143,634** | 100,335 |

**(a) Movements in carrying amounts**

Movement in the carrying amounts for each class of intangible assets between the beginning and the end of the current financial year.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| *Goodwill* | | |
| Carrying amount at beginning | **20,133** | - |
| Additions from business combinations (note 5) | **40,644** | 20,133 |
| Carrying amount at end | **60,777** | 20,133 |

For impairment testing, the goodwill is allocated to the Group's singular operating segment (note 33). The recoverable amount was based on the combination of value in use, which was determined by discounting future cash flows of the business and fair value, which was determined by other valuation methodologies including resource multiples. No impairment losses were determined.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| *Port access rights* | | |
| Carrying amount at beginning | **79,844** | 3,000 |
| Additions | **-** | 5,868 |
| Additions from business combinations | **-** | 72,064 |
| Amortisation expense | **(1,553)** | (1,088) |
| Carrying amount at end | **78,291** | 79,844 |

Port development additions comprise payments made regarding the construction of the new berth at Utah Point.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| *Other* | | |
| Carrying amount at beginning | **358** | 197 |
| Additions | **4,633** | 488 |
| Amortisation expense | **(425)** | (327) |
| Carrying amount at end | **4,566** | 358 |
| | **143,634** | 100,335 |

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **18. MINE DEVELOPMENT COSTS** | | |
| At cost | **250,849** | 203,811 |
| Accumulated amortisation and impairment | **(76,485)** | (45,848) |
| | **174,364** | 157,963 |
| Mine development cost breakdown: | | |
| Carrying amount at beginning | **157,963** | 64,921 |
| Additions | **113,769** | 34,605 |
| Additions from business combinations | **-** | 72,856 |
| Movement in rehabilitation provision | **4,984** | 9,339 |
| Transfers from mining tenements | **1,903** | 3,323 |
| Transfers to reserve development costs | **(1,994)** | - |
| Impairment loss on mine development (Balla Balla) | **(33,069)** | - |
| Disposal of mine development (Balla Balla) | **(38,555)** | - |
| Amortisation | **(30,637)** | (27,081) |
| Carrying amount at end | **174,364** | 157,963 |

# Notes to the Consolidated Financial Statements continued

| | 2012 $'000 | 2011 $'000 |
|---|---|---|

## 19. EVALUATION EXPENDITURE - RESERVE DEVELOPMENT

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Carrying amount at beginning | - | - |
| Additions | 5,535 | - |
| Transfer from mine development costs | 1,994 | - |
| Carrying amount at end | 7,529 | - |

## 20. MINING TENEMENTS CAPITALISED

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Tenement acquisition costs | 1,282,003 | 1,120,020 |
| Tenement acquisition cost breakdown: | | |
| Carrying amount at beginning | 1,120,020 | 90,746 |
| Mining Tenements through acquisitions of subsidiary (note 5) | 291,385 | 1,034,631 |
| Other acquisition | 46,680 | - |
| Disposals | (138,419) | (894) |
| Written off tenements | (1,728) | - |
| Transfers to development costs | (1,903) | (3,323) |
| Impairment loss on tenements | (34,032) | (1,140) |
| Carrying amount at end | 1,282,003 | 1,120,020 |

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

Of the impairment loss on tenements for the year ended 30 June 2012, $484,792 relates to Balla Balla and $33,547,000 relates to Yerecoin.

## 21. TRADE AND OTHER PAYABLES

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Current** | | |
| Trade payables (1) | 61,632 | 751 |
| Accrued expenses | 99,428 | 88,741 |
| Other payables (2) | 1,353 | 1,375 |
| Royalty payable | 14,146 | 11,790 |
| | 176,559 | 102,657 |
| **Non-Current** | | |
| Other payables and accruals | - | 42 |
| | - | 42 |

(1) Trade payables are non-interest bearing and are normally settled on a 30-day basis.

(2) Includes finance lease liability of $nil (2011: $109,000).

## 22. INTEREST BEARING LOANS AND BORROWINGS

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Current** | | |
| Unsecured pre-export finance facility | 21,097 | - |
| | 21,097 | - |

In the year ended 30 June 2012, Atlas established a US$30,000,000 pre-export funding facility (the 'facility') to improve timing of funds received on iron ore sales. The facility is provided on an unsecured basis, with recourse and payable within 180 days, with interest payable at LIBOR, plus a margin. At 30 June 2012, $21,097,000 (US$21,500,000) has been drawn against this facility; the interest rate on the drawdown was 1.9525% per annum with a maturity of 16 July 2012. Subsequent to year end, the drawdown has been settled, as payment has been received from the customers.

# Notes to the Consolidated Financial Statements continued

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **23. EMPLOYEE BENEFITS** | | |
| **Current** | | |
| Employee benefits | **2,779** | 1,979 |
| | **2,779** | 1,979 |
| **Non-current** | | |
| Employee benefits | **328** | 112 |
| | **328** | 112 |

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **24. PROVISIONS** | | |
| **Non-current** | | |
| Rehabilitation | **24,962** | 17,689 |
| Other provisions | **1,001** | 2,039 |
| | **25,963** | 19,728 |

| Consolidated ($'000) | Rehabilitation | Other Provisions | Total |
|---|---|---|---|
| Balance at beginning of year | 17,689 | 2,039 | 19,728 |
| Provisions made during the year | 6,858 | 172 | 7,030 |
| Provisions used during the year | - | (1,100) | (1,100) |
| Provisions reversed during the year | (138) | (110) | (248) |
| Unwind of discount | 553 | - | 553 |
| **Balance at end of year** | **24,962** | **1,001** | **25,963** |

***Rehabilitation Provision***

When developing its mines, the Group makes provision for the future cost of rehabilitating mine sites on a discounted basis. This provision represents the present value of rehabilitation costs relating to the mine sites, which are expected to be incurred through the life of mine. These provisions have been determined in conjunction with the work undertaken by external consultants, Mine Earth Pty Ltd. Assumptions, based on the current economic environment, have been made in determining current rehabilitation provisions, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed at each reporting date to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future iron ore prices, which are inherently uncertain.

# Notes to the Consolidated Financial Statements continued

## 25. ISSUED CAPITAL, RESERVES AND ACCUMULATED PROFIT/(LOSS)

**(a) Issued and paid up capital**

| | | 2012 | | 2011 | |
|---|---|---|---|---|---|
| | | Number of shares ('000) | $'000 | Number of shares ('000) | $'000 |
| Ordinary shares fully paid | 25(b) | **904,580** | **1,977,877** | 825,966 | 1,703,394 |
| | | **904,580** | **1,977,877** | 825,966 | 1,703,394 |

**(b) Movements in ordinary share capital**

| | | | | |
|---|---|---|---|---|
| Beginning of the financial year | **825,966** | **1,703,394** | 473,674 | 508,677 |
| Issued during the year: | | | | |
| - Ordinary shares issued upon exercise of options | **6,180** | **4,606** | 10,853 | 8,070 |
| - Ordinary shares issued for acquisition of Aurox Resources Limited | **-** | **-** | 66,235 | 143,068 |
| - Ordinary shares issued for acquisition of Giralia Resources NL | **-** | **-** | 273,151 | 1,036,578 |
| - Ordinary shares issued to fund advance to Shaw River Manganese Limited | **-** | **-** | 2,053 | 7,499 |
| - Ordinary shares issued for acquisition of FerrAus Ltd | **64,028** | **236,905** | - | - |
| - Ordinary shares issued for acquisition of tenements | **8,406** | **33,000** | - | - |
| - less transaction costs | **-** | **(28)** | - | (498) |
| End of the financial year | **904,580** | **1,977,877** | 825,966 | 1,703,394 |

**(c) Movements in options on issue**

| | 2012 Number of options ('000) |
|---|---|
| Beginning of the financial year | **23,565** |
| Less: Options exercised | **(6,180)** |
| Less: Options cancelled | **(685)** |
| **End of the financial year** | **16,700** |

**(d) Unexercised options at the end of the financial year**

| | Expiry date | 2012 Number of options ('000) |
|---|---|---|
| **Exercise price** | | |
| $1.01 to $2.00 | 16 July 2012 to 31 December 2013 | **1,645** |
| $2.01 to $3.00 | 20 August 2012 to 30 June 2015 | **13,790** |
| $3.01 to $4.00 | 30 September 2012 to 31 March 2015 | **655** |
| $4.01 to $5.00 | 30 June 2013 to 31 December 2015 | **610** |
| End of the financial year | | **16,700** |

**(e) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held. There are no restrictions attached to this class of share.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote and upon a poll, each share is entitled to one vote.

All issued shares are fully paid. The Group does not have any par value in respect of its issued shares.

# Notes to the Consolidated Financial Statements continued

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **25. ISSUED CAPITAL, RESERVES AND ACCUMULATED PROFIT/(LOSS) (CONTINUED)** | | |
| **(f) Reserves** | | |
| Share-based payments reserve | **28,900** | 27,451 |
| Associates reserve | **(2,401)** | - |
| Balance at end of year | **26,499** | 27,451 |
| **Movements:** | | |
| **Share-based payments reserve** | | |
| Balance at beginning of year | **27,451** | 17,036 |
| Share-based payment expense | **1,449** | 10,415 |
| Balance at end of year | **28,900** | 27,451 |
| **Associates reserve** | | |
| Balance at beginning of year | **-** | - |
| Share of associates reserve | **(2,401)** | - |
| Balance at end of year | **(2,401)** | - |
| **(g) Accumulated (losses)/profit** | | |
| Balance at beginning of year | **1,904** | (166,713) |
| Payment of dividends | **(26,578)** | - |
| Net (loss)/profit attributable to members of Atlas Iron Limited | **(114,616)** | 168,617 |
| Balance at end of year | **(139,290)** | 1,904 |

**(h) Nature and purpose of reserves**

The share-based payments reserve is to recognise the fair value of share-based payment expenses.
The associates reserve mainly recognises Atlas' share of the currency translation reserve belonging to the associates.

# Notes to the Consolidated Financial Statements continued

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **26. STATEMENT OF CASH FLOWS** | | |
| **(a) Reconciliation of the (loss)/profit after income tax to the net cash flows from operations** | | |
| Net (loss)/profit | **(114,616)** | 168,617 |
| **Non-cash items** | | |
| Depreciation and amortisation of non-current assets | **43,503** | 31,653 |
| Prepayment expensed during the year | **8,616** | 8,504 |
| Share-based payment expense | **1,449** | 10,415 |
| Impairment loss | **67,427** | 1,140 |
| Unwinding of mine rehabilitation provision | **553** | 1,258 |
| Interest accretion | **(364)** | - |
| Loss/(profit) on disposal of fixed assets | **1,204** | (23) |
| Unrealised gain on foreign exchange | **(1,016)** | - |
| Gain on control of subsidiary | **(2,458)** | - |
| Share of loss of joint venture | **82** | 350 |
| Share of loss of associate including impairment | **14,658** | 5,166 |
| Change in fair value of financial assets | **5,075** | 6,493 |
| Other | **186** | - |
| Tax expense | **122,172** | 14,556 |
| **Changes in operating assets and liabilities** | | |
| Decrease/(increase) in trade and other receivables | **1,049** | (17,260) |
| Increase in prepayments | **(3,178)** | (4,565) |
| (Increase)/decrease in inventories | **(4,069)** | 2,206 |
| Decrease in security deposits | **-** | 33 |
| Increase/(decrease) in trade and other payables | **67,966** | (7,683) |
| Increase in employee entitlements | **1,016** | 232 |
| (Decrease)/increase in provisions | **(1,798)** | 110 |
| **Net cash inflow from operating activities** | **207,457** | 221,202 |

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and six months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

**(b) Reconciliation of cash and cash equivalents**

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Cash and cash equivalents comprises: | | |
| – cash at bank and in hand | **73,540** | 97,599 |
| – short-term deposits | **326,000** | 268,000 |
| Closing cash and cash equivalents balance | **399,540** | 365,599 |

**(c) Non-cash financing and investing activities**

During the year ended 30 June 2012, a total of 64,028,418 ordinary shares valued at $236,905,148 were issued to acquire FerrAus Resources Limited and 8,406,433 ordinary shares were issued to acquire tenements relating to the Daltons Joint Venture for a value of $33,000,000.

During the year ended 30 June 2011, a total of 66,235,000 ordinary shares valued at $143,068,000 were issued to acquire Aurox Resources Limited and 273,151,000 ordinary shares valued at $1,036,578,000 were issued to acquire Giralia Resources NL.

# Notes to the Consolidated Financial Statements continued

| | 2012 $'000 | 2011 $'000 |
|---|---|---|

## 27. EXPENDITURE COMMITMENTS AND GUARANTEES

**(a) Exploration commitments**

The Group has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in.

Outstanding exploration commitments are as follows:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| – not later than one year | **11,681** | 11,541 |
| | **11,681** | 11,541 |

**(b) Contractual commitments**

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Port handling fees | | |
| - not later than one year | **9,471** | 13,235 |
| - one year or later and no later than five years | **21,096** | 24,692 |
| | **30,567** | 37,927 |

**(c) Lease expenditure commitments**

**Operating lease commitments – Group as lessee**

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| *Operating leases (non-cancellable):* | | |
| Minimum lease payments | | |
| – not later than one year | **8,170** | 2,043 |
| – later than one year and not later than five years | **27,345** | 6,165 |
| – more than five years | **46,974** | - |
| Aggregate expenditure contracted for at reporting date | **82,489** | 8,208 |

The Group has entered into leases for office and accommodation buildings, motor vehicles and office equipment.

**Operating lease commitments – Group as lessor**

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Operating leases (non-cancellable) | | |
| - not later than one year | **776** | - |
| - later than one year and not later than five years | **3,026** | - |
| Aggregate expenditure contracted for at reporting date | **3,802** | - |

The Group has entered into a commercial property lease to sublease the Group's surplus office building. All leases include a clause to enable upward revision of the rental change on a bi-annual basis according to prevailing market conditions.

**(d) Other commitments**

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Crush and screen plant * | **10,102** | 23,100 |

* Plus ancillary services estimated to be approximately $nil (2011: $15,000,000).

**(e) Guarantees**

Atlas has provided a guarantee to an unrelated party for the performance in a lease agreement. The maximum liability to Atlas is $6,000,000 over three years. No liability is expected to arise.

# Notes to the Consolidated Financial Statements continued

## 28. SUBSEQUENT EVENTS

In August 2012, the directors agreed that they, subject to shareholder approval of the proposed amendments to the constitution at the 2012 AGM, intend to pay a final unfranked dividend for the year ended 30 June 2012 of 3 cents per share.

On 13 July 2012, Shaw River announced a fully underwritten, renounceable pro-rata entitlements issue of 1.8 cents per new share to raise up to $8.1 million. On 15 August 2012, Atlas subscribed for its entitlement of $3.7 million worth of shares and, pursuant to Shaw River's underwriting agreement with Hartleys Limited, Atlas agreed priority to sub-underwrite up to $1.3 million of the entitlements issue representing approximately 72.7 million shares. On 21 August 2012, Atlas was notified of the shortfall for which it is required to subscribe. It is expected that an additional 72.7 million shares will be issued to Atlas on 31 August 2012 resulting in an interest in Shaw River greater than 50%. The impact on Atlas' financial statements has not been determined at this stage.

No other matters have arisen since 30 June 2012, which have significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

## 29. (LOSS)/EARNINGS PER SHARE

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| **(a) Reconciliation of earnings to profit or loss** | | |
| Net (loss)/profit | **(114,616)** | 168,617 |
| (Loss)/profit used in calculating basic (loss)/profit per share | **(114,616)** | 168,617 |
| | **Number of shares** | **Number of shares** |
| **(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic (loss)/(profit) per share** | | |
| Weighted average number of ordinary shares used in calculating basic (loss)/profit per share | **878,756,717** | 631,849,333 |

**Effect of dilutive securities:**

Atlas' potential ordinary shares at 30 June 2012, being its options and rights granted, are not considered dilutive as the conversion to these options and rights would result in a decrease in the net loss per share. The calculation of diluted earnings per share at 30 June 2011 was based on profit attributable to ordinary shareholders of $168,617,000 and a weighted average number of shares outstanding after adjustments for the effects of all dilutive potential ordinary shares of 646,551,074 calculated as follows:

| | | |
|---|---|---|
| **(d) Weighted average number of ordinary shares (diluted)** | | |
| Weighted average number of ordinary shares (basic) | **878,756,717** | 631,849,333 |
| Effect of share options/rights on issue | - | 14,701,741 |
| Weighted average number of ordinary shares (diluted) | **878,756,717** | 646,551,074 |

In the prior year, as there were dilutive potential ordinary shares on issue at balance date, diluted earnings per share for the year was 26.1 cents profit per share.

The average market value of the Group's shares, for the purposes of calculating the dilutive effect of share options, was based on quoted market prices for the period that the options were outstanding.

## 30. AUDITORS' REMUNERATION

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Amounts received or due and receivable by Stantons International (former auditor) for: | | |
| – Audit or review of the financial report of the Group | - | 20,000 |
| Amounts received or due and receivable by KPMG (current auditor) for: | | |
| – Audit or review of the financial report of the Group | **337,700** | 200,000 |
| | **337,700** | 220,000 |

# Notes to the Consolidated Financial Statements continued

## 31. KEY MANAGEMENT PERSONNEL

The following were directors and key management personnel of the group at any time during the reporting period and unless otherwise indicated were directors and key management personnel for the entire period:

| | |
|---|---|
| **Non- Executive Directors** | |
| Geoff Clifford | Chairman (retired 31 July 2011) |
| David Hannon | |
| David Smith | |
| Tai Sook Yee | |
| Jeff Dowling | (Appointed 8 November 2011) |
| Kerry Sanderson AO | (Appointed 21 February 2012) |
| Geoff Simpson | (Appointed 25 May 2012) |
| **Executive Directors** | |
| David Flanagan | Executive Chairman (Appointed 22 February 2012, formerly Managing Director) |
| Ken Brinsden | Managing Director (Appointed 22 February 2012, formerly Chief Development Officer) |
| Mark Hancock | Executive Director – Commercial (Appointed 25 May 2012, formerly Chief Commercial Officer) |
| **Key Executives** | |
| Anthony Walsh | Company Secretary |
| Robert Wilson | Chief Development Officer (appointed 28 February 2012) |
| Jeremy Sinclair | Chief Operating Officer |
| John McMath | General Manager Infrastructure Strategy (Resigned 20 April 2012) |

### (a) Option holdings of key management personnel

**30 June 2012**

| | Balance at beginning of year 1 July 2011 | Granted | Option disposals | Options exercised | Other | Balance at end of year 30 June 2012 | Vested at 30 June 2012 Exercisable |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Geoff Clifford** | 500,000 | - | - | - | (500,000) | - | - |
| David Flanagan | 5,000,000 | - | - | (2,500,000) | - | **2,500,000** | 2,500,000 |
| David Hannon | 1,000,000 | - | - | (500,000) | - | **500,000** | 500,000 |
| David Smith | 1,000,000 | - | - | - | - | **1,000,000** | 1,000,000 |
| Tai Sook Yee | 500,000 | - | - | - | - | **500,000** | 500,000 |
| Jeff Dowling | - | - | - | - | - | - | - |
| Kerry Sanderson AO | - | - | - | - | - | - | - |
| Geoff Simpson | - | - | - | - | - | - | - |
| Ken Brinsden | 1,400,000 | - | (100,000) | (350,000) | (200,000)* | **750,000** | 750,000 |
| Mark Hancock | 1,350,000 | - | (200,000) | (200,000) | (200,000)* | **750,000** | 750,000 |
| **Executives** | | | | | | | |
| Anthony Walsh | 1,000,000 | - | - | (300,000) | (100,000)* | **600,000** | 600,000 |
| Robert Wilson | - | - | - | - | - | - | - |
| Jeremy Sinclair | 720,000 | - | (370,000) | - | - | **350,000** | 350,000 |
| John McMath** | 600,000 | - | - | - | (600,000) | - | - |
| **Total** | **13,070,000** | **-** | **(670,000)** | **(3,850,000)** | **(1,600,000)** | **6,950,000** | **6,950,000** |

* Expired

** Resigned/retired during the current financial year

# Notes to the Consolidated Financial Statements continued

## 31. KEY MANAGEMENT PERSONNEL (CONTINUED)

### (a) Option holdings of key management personnel continued

**30 June 2011**

| | Balance at beginning of year 1 July 2010 | Granted | Option disposals | Options exercised | Balance at end of year 30 June 2011 | Vested at 30 June 2011 Exercisable |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Geoff Clifford | 500,000 | 1,000,000 | (1,000,000) | - | **500,000** | 500,000 |
| David Flanagan | 8,500,000 | 2,500,000 | (3,500,000) | (2,500,000) | **5,000,000** | 5,000,000 |
| David Hannon | 1,500,000 | 500,000 | - | (1,000,000) | **1,000,000** | 1,000,000 |
| David Smith | - | 1,000,000 | - | - | **1,000,000** | 1,000,000 |
| Tai Sook Yee | - | 500,000 | - | - | **500,000** | 500,000 |
| **Executives** | | | | | | |
| Anthony Walsh | 500,000 | 500,000 | - | - | **1,000,000** | 1,000,000 |
| Ken Brinsden | 1,000,000 | 750,000 | (350,000) | - | **1,400,000** | 1,400,000 |
| Mark Hancock | 1,050,000 | 750,000 | (225,000) | (225,000) | **1,350,000** | 1,350,000 |
| John McMath | 500,000 | 100,000 | - | - | **600,000** | 350,000 |
| **Total** | **13,550,000** | **7,600,000** | **(5,075,000)** | **(3,725,000)** | **12,350,000** | **12,100,000** |

### (b) Shareholdings of key management personnel

**30 June 2012**

| | Held at 1 July 2011 | Purchases | On exercise of options | Net change other | Held at 30 June 2012 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Geoff Clifford* | 50,000 | - | - | (50,000) | - |
| David Flanagan | 2,710,000 | - | 2,500,000 | (2,500,000) | 2,710,000 |
| David Hannon | 3,054,668 | - | 500,000 | (2,050,000) | 1,504,668 |
| David Smith | - | - | - | - | - |
| Tai Sook Yee | - | - | - | - | - |
| Jeff Dowling | - | 57,000 | - | - | 57,000 |
| Kerry Sanderson AO | - | 30,000 | - | - | 30,000 |
| Geoff Simpson | - | - | - | - | - |
| Ken Brinsden | 2,500 | - | 350,000 | - | 352,500 |
| Mark Hancock | 231,000 | - | 200,000 | - | 431,000 |
| **Executives** | | | | | |
| Anthony Walsh | 25,225 | - | 300,000 | (300,000) | 25,225 |
| Robert Wilson | - | - | - | - | - |
| Jeremy Sinclair | - | - | - | - | - |
| John McMath | - | - | - | - | - |
| **Total** | **6,073,393** | **87,000** | **3,850,000** | **(4,900,000)** | **5,110,393** |

* Retired during the current financial year

# Notes to the Consolidated Financial Statements continued

## 31. KEY MANAGEMENT PERSONNEL (CONTINUED)

### (b) Shareholdings of key management personnel (continued)

**30 June 2011**

| | Held at 1 July 2010 | Purchases | On exercise of options | Net change other | Held at 30 June 2011 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Geoff Clifford | 50,000 | - | - | - | 50,000 |
| David Flanagan | 210,000 | - | 2,500,000 | - | 2,710,000 |
| David Hannon | 2,054,668 | - | 1,000,000 | - | 3,054,668 |
| David Smith | - | - | - | - | - |
| Tai Sook Yee | - | - | - | - | - |
| **Executives** | | | | | |
| Anthony Walsh | 140,225 | - | - | (115,000) | 25,225 |
| Ken Brinsden | 2,500 | - | - | - | 2,500 |
| Mark Hancock | 6,000 | - | 225,000 | - | 231,000 |
| John McMath | - | - | - | - | - |
| **Total** | **2,463,393** | **-** | **3,725,000** | **(115,000)** | **6,073,393** |

### (c) Compensation of key management personnel by category

The information regarding individual directors and executives' compensation and some equity instrument required by Corporations Regulation 2M.3.03 is provided in the remuneration section of the Directors Report.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Short-term | **5,509** | 3,249 |
| Long-term | **114** | 42 |
| Post-employment | **425** | 264 |
| Share-based payment | **103** | 6,804 |
| | **6,151** | 10,359 |

### (d) Loans to key management personnel

There were no loans provided to key management personnel during the year.

There were no related party transactions between the key management personnel and the Group other than those related to compensation which has been disclosed above.

# Notes to the Consolidated Financial Statements continued

## 32. RELATED PARTY DISCLOSURES

The financial statements include the financial statements for the Group and the subsidiaries listed in note 35.

Summarised financial information for the Group's associates and joint ventures are contained within note 15.

**Investments in associates**

| Name of entity | Principal activity | 2012 Ownership interest % | 2011 % |
|---|---|---|---|
| Shaw River Manganese Limited *** | Mineral exploration | **45.40** | 45.40 |
| NWI Pty Limited | Port development | ***63.00** | 39.00 |
| Centaurus Metals Limited | Iron ore exploration | ****19.85** | - |

*The Group has an interest of 63.00% (2011: 39.00%) in relation to port related expenditure and 66.66% (2011: 33.33%) related to administrative expenditure in NWI Pty Limited.

** The Group has an interest of 19.85% in Centaurus Metals Limited (Centaurus) (2011: nil), a company incorporated in Australia and engaged in the exploration for iron ore resources in Brazil. The consideration for the acquisition was $18,656,000. The Group's interest in Centaurus has been equity accounted due to Atlas representation on their Board and share options available to the Group to increase the Group's shareholding in the future.

*** Ken Brinsden, Managing Director of Atlas Iron Limited is also on the Board of Shaw River Manganese Limited. Tony Walsh is a Company Secretary of Atlas Iron Limited and Chairman of Shaw River Manganese Limited.

**Joint Venture in which the Group is a venturer**

1. Mt Webber Joint Venture

The Group has a 70% interest in the Mt Webber JV (2011: 70%).

2. Daltons Iron Ore Joint Venture

The Group has 100% interest in the Daltons JV, however retains a 75% interest in other minor tenements with the JV partner (2011: 75%).

| Name of related party | | Amounts owed by related parties $'000 | Amounts owed to related parties $'000 | Loans from/to related parties $'000 |
|---|---|---|---|---|
| Mt Webber Joint Venture | **2012** | **1,752** | - | - |
| | 2011 | 2,429 | - | - |
| Daltons Iron Ore Joint Venture | **2012** | **39** | - | - |
| | 2011 | 248 | - | - |
| Shaw River Manganese Limited | **2012** | **107** | **323** | **500 (A)** |
| | 2011 | 65 | - | - |
| NWI Pty Limited | **2012** | **8,876** | - | - |
| | 2011 | - | - | - |

Outstanding balances at year end are unsecured and interest free and settlement occurs in cash except for loans described below. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011:nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

*Loan to an associate*

During the year the Group provided an unsecured loan facility to Shaw River Manganese Limited of $2 million to support the continuation of the exploration and project studies at the Otjozondu project. Interest charged on the loan is 7.30% and is repayable upon Shaw River Manganese Limited completing a capital raising. At 30 June 2012, $500,000 of the facility had been drawn down.

As at 30 June 2012, the Group has a loan receivable from NWI Pty Limited of $8,876,000. This loan is unsecured, interest free for the first three years and then carry interest at Australian Government five year bond rate plus a margin of 2%, and repayable by May 2016.

# Notes to the Consolidated Financial Statements continued

## 33. SEGMENT INFORMATION

### Segment products and locations

The Group operates in the mineral exploration and extraction industry in Australia. For management purposes, the Group is organised into one main operating segment which involves the exploration and extraction of minerals in Australia. All of the Group's activities are interrelated and discrete financial information is reported to the Board of Directors (Chief Operating Decision Maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

## 34. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

### Financial risk management

The Group is exposed to risks that arise from its use of financial instruments. These risks arise in the normal course of business and are managed in accordance with the Group's Financial Risk Management policy. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and has delegated the authority for developing and monitoring risk management policies to the Audit & Risk Committee.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Executive Management team monitors and manages the financial risks relating to the Group's operations through regular reviews of the risks.

### Financial risks

The Group is exposed to credit risk, liquidity risk, market risk (including foreign exchange risk, interest rate risk and commodity price risk) and operational risk.

*Credit risk*

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents and receivables from customers.

To manage credit risk, the Group maintains policies governing credit approvals and investment counterparties.

The Group's exposure to credit risk is influenced by the characteristics of its customers. The majority of the Group's sales revenue arises from customers based in China and the Group has mitigated the risk of financial loss by undertaking trade finance through letters of credit.

The Group has limited its exposure to credit risk arising from cash and cash equivalents by investing and transacting with banks that hold minimum investment credit ratings of A-1, where exposure to an individual counterparty with this rating is limited to 20% of the total portfolio. Where an investment credit rating is above A-1, exposure is limited to 33% of the total portfolio.

*Exposure to credit risk*

The maximum exposure to credit risk at the reporting date is the carrying amount of the Group's financial assets:

| Carrying Amount | Notes | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| Cash and cash equivalents | 26(b) | **399,540** | 365,599 |
| Trade and other receivables* | 12 | **39,440** | 39,890 |
| Other receivables - non-current | 12 | **37,183** | 6,420 |
| | | **476,163** | 411,909 |

*Based on historical default rates, the group believes that no impairment allowance is necessary in respect of trade receivables past due.

No impairment losses have been recognised during the year as a result of credit risk.

*Liquidity risk*

The Group's liquidity risk arises from the possibility that it will not be able to meet financial obligations as they fall due. The Group manages its exposure to liquidity risk by monitoring forecast and actual cash flows to ensure that it maintains sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. The Group prepares detailed financial models as part of its budget planning process, which are used to predict liquidity needs to support the Group's funding requirements.

# Notes to the Consolidated Financial Statements continued

## 34. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The expected maturity profile of the Group's financial liabilities at the reporting date, based on contractual amounts including estimated interest payments, is as follows:

**30 June 2012**

| $'000 | Carrying amount | Contractual cash flows | 6 months or less | 6 - 12 months | 1 - 2 years | 2 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Interest bearing loans and borrowings | **21,097** | **(21,108)** | **(21,108)** | - | - | - | - |
| Trade and other payables | **176,559** | **(176, 559)** | **(176, 559)** | - | - | - | - |
| | **197,656** | **(197,667)** | **(197,667)** | - | - | - | - |

**30 June 2011**

| $'000 | Carrying amount | Contractual cash flows | 6 months or less | 6 - 12 months | 1 - 2 years | 2 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | 102,548 | (102,548) | (102,548) | - | - | - | - |
| Finance lease Liabilities | 109 | (122) | (44) | (34) | (44) | - | - |
| | 102,657 | (102,670) | (102,592) | (34) | (44) | - | - |

*Market risk*

Market risk is the risk that changes in market prices, including foreign exchange rates, commodity price and interest rate will affect the Group's income or the value of its holdings of financial instruments. The Group is exposed to fluctuations in commodity prices, foreign currency and interest rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising return.

*Commodity price risk*

Commodity price risk arises from fluctuations in market prices of iron ore. Contract iron ore sales are based on an international iron ore index. The Group has not entered into any forward commodity price contracts as at 30 June 2012 and is currently exposed to commodity price risk on future sales. The Group monitors market expectations on future commodity prices and considers entering into longer term contracts if necessary to manage the risks.

*Foreign currency risk*

The Group is exposed to foreign currency risk on sales and purchases which are denominated in currencies other than the Group's functional currency. The Group's sales are denominated in US dollars and approximately 15% (2011: 17%) of its operating costs are also denominated in US dollars. To hedge exposure to foreign exchange movements, the Group will enter into spot and forward foreign exchange contracts as required. There were no such contracts outstanding as at 30 June 2012. Where an investment grade credit rating is above A-1, the counterparty is limited to 33% of the total portfolio.

The Group's exposure to foreign currency risk at the reporting date was as follows, based on notional amounts and the AUD equivalent:

**30 June 2012**

| | Notes | AUD $'000 | USD $'000 | Total $'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 26(b) | 387,101 | 12,439 | **399,540** |
| Trade and other receivables | 12 | 50,586 | 26,037 | **76,623** |
| Trade and other payables | 21 | (175,504) | (1,055) | **(176,559)** |
| Interest bearing loans and borrowings | 22 | - | (21,097) | **(21,097)** |
| | | **262,183** | **16,324** | **278,507** |

# Notes to the Consolidated Financial Statements continued

## 34. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**30 June 2011**

| | Notes | AUD $'000 | USD $'000 | Total $'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 26(b) | 341,267 | 24,332 | **365,599** |
| Trade and other receivables | 12 | 21,625 | 24,685 | **46,310** |
| Trade and other payables | 21 | (101,478) | (1,221) | **(102,699)** |
| | | 261,414 | 47,796 | **309,210** |

The following significant exchange rates applied during the financial year:

| | Average rate 2012 | Average rate 2011 | Reporting date spot rate 2012 | Reporting date spot rate 2011 |
|---|---|---|---|---|
| US$ | 1.032 | 0.988 | 1.019 | 1.074 |

*Sensitivity analysis*

A 5% fluctuation of the Australian dollar against the US dollar at 30 June would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, including interest rates remain constant.

| | Strengthening | | Weakening | |
|---|---|---|---|---|
| | Equity $'000 | Profit or Loss $'000 | Equity $'000 | Profit or Loss $'000 |
| **30 June 2012** | | | | |
| **+/-5%** | - | **(777)** | - | **859** |
| | - | **(777)** | - | **859** |
| **30 June 2011** | | | | |
| **+/-5%** | - | (1,755) | - | 2,868 |
| | - | (1,755) | - | 2,868 |

*Interest rate risk*

The Group is exposed to interest rate risk on investments from the possibility that changes in interest rates will affect future cash flows. The Group does not manage its exposure to movements in market interest rates. The Group adopts a policy of ensuring that as far as possible, it maintains excess cash and cash equivalents in short-term deposits at interest rates with maturities not exceeding 180 days.

The interest rate profile of the Group's interest-bearing financial instruments at the reporting date was:

| Carrying amount | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Fixed rate instruments** | | |
| Financial assets (cash and cash equivalents) | **326,000** | 268,000 |
| Financial liabilities (interest bearing loan and borrowings) | **(21,097)** | - |
| | **304,903** | 268,000 |
| **Variable rate instruments** | | |
| Financial assets (cash and cash equivalents) | **73,540** | 97,599 |
| | **73,540** | 97,599 |

# Notes to the Consolidated Financial Statements continued

## 34. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, including foreign exchange rates, remain constant.

| | Profit or loss | | Equity | |
|---|---|---|---|---|
| | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| | $'000 | $'000 | $'000 | $'000 |
| **30 June 2012** | | | | |
| **Variable rate instruments** | **735** | **(735)** | **-** | **-** |
| | **735** | **(735)** | **-** | **-** |
| **30 June 2011** | | | | |
| **Variable rate instruments** | 979 | (979) | - | - |
| | 979 | (979) | - | - |

The carrying values of financial assets and financial liabilities approximately reflect their fair values.

**Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence whilst sustaining future development of the business. Capital consists of share capital plus retained (loss)/ earnings. The Board monitors both retained (loss)/ earnings in addition to the Group's underlying earnings. Underlying earnings adjust retained (loss)/ earnings for acquisition related costs and material non-cash, non-recurring adjustments such as asset impairment. The Board considers underlying earnings when determining dividends to ordinary shareholders.

The Board has closed the Employee Share Option Plan to new members and approved a Long-Term Incentive (LTI) Plan for senior management which provides for Performance Rights and Share Appreciation Rights over ordinary shares. The LTI may be settled in cash with approval of the Board.

The Group has no long-term borrowings at present; however the Board will reconsider with future expansions. During the year, the Group established a pre-export facility with a borrowing limit of US$30,000,000. The Group does not purchase its own shares. There are no externally imposed restrictions on capital management.

There were no changes to the Group's approach to capital management during the year.

**Fair value hierarchy**

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| | Level 1 and total | Level 1 and total |
| Financial assets classified as held for trading | **6,070** | 13,425 |
| | **6,070** | 13,425 |

Level 1 denotes: quoted prices (unadjusted) in active markets for identical assets

# Notes to the Consolidated Financial Statements continued

## 35. SUBSIDIARIES

| Name of entity | Country of incorporation | Ownership 2012 (% ) | Ownership 2011 (% ) |
|---|---|---|---|
| *Parent entity* | | | |
| Atlas Iron Limited (i) | Australia | | |
| *Subsidiaries* | | | |
| Atlas Operations Pty Ltd (ii) | Australia | **100** | 100 |
| St George Magnetite Pty Ltd (ii) | Australia | **100** | 100 |
| Mt Gould Minerals Pty Ltd (ii) | Australia | **100** | 100 |
| Weld Range Iron Ore Pty Ltd (ii) | Australia | **100** | 100 |
| Tiziflower Investments Inc (ii) | Panama | **100** | 100 |
| Jakkitower Enterprises SA (ii) | Panama | **100** | 100 |
| Warwick Resources Pty Ltd (ii) | Australia | **100** | 100 |
| Aurox Resources Pty Ltd (ii) | Australia | **100** | 100 |
| Ferro Metals Australia Pty Ltd (ii) | Australia | **100** | 100 |
| Giralia Resources Pty Ltd (ii) | Australia | **100** | 100 |
| Tallering Resources Pty Ltd (ii) | Australia | **100** | 100 |
| Carlinga Mining Pty Ltd (ii) | Australia | **100** | 100 |
| Wheelbarrow Prospecting Pty Ltd (ii) | Australia | **100** | 100 |
| PM Gold Asia Pty Ltd (ii) | Australia | **100** | 100 |
| FerrAus Pty Ltd (ii) | Australia | **100** | - |
| Australian Manganese Pty Ltd (ii) | Australia | **100** | - |
| FerrAus Manganese Pty Ltd (ii) | Australia | **100** | - |
| South East Pilbara Assets Pty Ltd (ii) | Australia | **100** | - |
| Minera Atacamena Limitada | Chile | **100** | 100 |

(i) Atlas Iron Limited is the head entity within the consolidated group.
(ii) These companies are members of the tax consolidated group.

# Notes to the Consolidated Financial Statements continued

## 36. PARENT COMPANY

As at and throughout the financial year ended 30 June 2012, the parent Company of the Group was Atlas Iron Limited.

### 36. (a) Financial position of parent Company at year end

| | PARENT | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Total current assets | **370,842** | 427,580 |
| Total non-current assets | **2,009,783** | 1,481,562 |
| **TOTAL ASSETS** | **2,380,625** | 1,909,142 |
| Total current liabilities | **183,640** | 45,480 |
| Total non-current liabilities | **195,619** | 86,509 |
| **TOTAL LIABILITIES** | **379,259** | 131,989 |
| **NET ASSETS** | **2,001,366** | 1,777,153 |
| **TOTAL EQUITY OF THE PARENT ENTITY COMPRISING OF:** | | |
| Issued capital | **1,977,877** | 1,703,394 |
| Reserves | **26,499** | 27,451 |
| Accumulated losses | **(3,010)** | 46,308 |
| **TOTAL EQUITY** | **2,001,366** | 1,777,153 |
| **RESULTS OF PARENT ENTITY** | | |
| (Loss)/profit for the year | **(49,319)** | 195,773 |
| Other comprehensive income for the year | (2,401) | - |
| **TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR** | **(51,720)** | 195,773 |

### 36. (b) Guarantees entered into by the Parent

Atlas Iron Limited has not entered into a deed of cross guarantee with its 100% owned subsidiaries.

The Parent has a guarantee in respect of a lease agreement as disclosed in Note 27(e).

### 36. (c) Contingent liabilities of the Parent

The Parent does not have any contingent liabilities.

# Directors' Declaration

The directors of Atlas Iron Limited declare that:

(1) (a) In the directors opinion, the consolidated financial statements and notes that are contained in pages 105 to 147 and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2012 and its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

(c) The directors have been given the declarations required by s295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Commercial Officer for the financial year ended 30 June 2012.

(2) The directors draw attention to note 1(a) to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Board of Directors.

Dated 24 August 2012

Ken Brinsden
Managing Director
Perth, Western Australia

# Auditor's Independence Declaration

***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Atlas Iron Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

R Gambitta
*Partner*

Perth

24 August 2012

# Independent Auditor's Report

## Independent auditor's report to the members of Atlas Iron Limited

### Report on the financial report

We have audited the accompanying financial report of Atlas Iron Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2012, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 36 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report continued

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

## Report on the remuneration report

We have audited the Remuneration Report included in pages 96 to 103 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Atlas Iron Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

R Gambitta
*Partner*

Perth

24 August 2012

# ASX Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 1 September 2012.

(a) Distribution of equity securities
The number of shareholders, by size of holding, in each class of share are:

| RANGE | Ordinary Shares Number of Holders |
|---|---|
| 1 - 1,000 | 6,683 |
| 1001 - 5,000 | 13,825 |
| 5,001 - 10,000 | 6,028 |
| 10,001 - 100,000 | 5,631 |
| 100,001 - and over | 351 |
| **Total number of shareholders** | **32,518** |
| The number of shareholders holding less than a marketable parcel of shares are: | 2,094 |

(b) Twenty largest shareholders of Atlas Iron Limited
The names of the twenty largest holders of quoted shares are:

| | Shareholder name | Number of ordinary shares held | Percentage shareholding |
|---|---|---|---|
| 1 | JP MORGAN NOMINEES AUSTRALIA LTD | 147,166,526 | 16.27% |
| 2 | NATIONAL NOMINEES LTD | 133,948,692 | 14.81% |
| 3 | HSBC CUSTODY NOMINEES AUSTRALIA LTD | 104,976,374 | 11.60% |
| 4 | IMC RESOURCES INVESTMENTS PTE LTD | 66,749,653 | 7.38% |
| 5 | CITICORP NOMINEES PTY LTD | 27,050,761 | 2.99% |
| 6 | JP MORGAN NOMINEES AUSTRALIA LTD (CASH INCOME A/C) | 19,857,516 | 2.20% |
| 7 | MACDONALD STANLEY ALLAN | 9,239,280 | 1.02% |
| 8 | HAOMA MINING NL | 8,406,433 | 0.93% |
| 9 | BNP PARIBAS NOMINEES PTY LTD | 7,683,338 | 0.85% |
| 10 | AMP LIFE LTD | 6,442,863 | 0.71% |
| 11 | HSBC CUSTODY NOMINEE AUSTRALIA LTD | 4,462,348 | 0.49% |
| 12 | UBS NOMINEES PTY LTD | 4,227,287 | 0.47% |
| 13 | PENFOLD LTD | 4,048,526 | 0.45% |
| 14 | CHINA WESTERN MINING HONG KONG LTD | 3,786,473 | 0.42% |
| 15 | QIC LTD | 3,759,554 | 0.42% |
| 16 | GRANICH NADA | 3,753,754 | 0.41% |
| 17 | SHARE DIRECT NOMINEES LTD | 3,729,371 | 0.41% |
| 18 | RBC INVESTOR SERVICES AUSTRALIA NOMINEES LTD | 3,580,278 | 0.40% |
| 19 | HSBC CUSTODY NOMINEES AUSTRALIA LTD | 2,619,442 | 0.29% |
| 20 | HSBC CUSTODY NOMINEES AUSTRALIA LTD NT COMMONWEALTH SUPER | 2,585,829 | 0.29% |
| | **Top 20 total** | **568,074,298** | **62.81%** |

# ASX Additional Information continued

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

| | **Number of Shares** |
|---|---|
| Schroder Investment Management Australia Limited | 77,596,319 |
| IMC Resource Investments Pte Ltd | 66,749,653 |
| Blackrock Investment Management (Australia) Limited | 48,985,998 |

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Unlisted Options

A listing of each class of option on issue is set out in the "Share Options" section in the Directors Report. As at 1 September 2012, the Company had 16,700,000 of unlisted options on issue. There are 132 classes of unlisted options as at 1 September 2012.

# Corporate Governance Statement

Atlas is committed to implementing and maintaining the highest standards of corporate governance. In determining what those standards should involve, Atlas has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations (the ASX Guidelines).* Atlas is pleased to advise its practices are largely consistent with those of the ASX guidelines.

Atlas continues to review all its corporate governance practices and policies and compare its current practices and policies against the ASX Guidelines with a view to ensuring Atlas' corporate governance practices and policies are up to date and reflect Atlas' current stage of development as well as accommodating Atlas' future growth.

The Board considers that Atlas is of a size and its affairs of such complexity to justify an Audit & Risk Committee, Remuneration Committee and a Nominations Committee. The Board is committed to Corporate Governance best practice and with this in mind, prior to year end, formed a Corporate Governance Committee to review Atlas' Corporate Governance to align with current best practice.

The charters for the Audit and Risk, Remuneration and Nominations Committee were formed in compliance with the guidelines set out in the ASX Guidelines and were reviewed and updated during the 2012 financial year. Atlas expects to finalise a Corporate Governance Committee Charter during the 2013 financial year. The Audit & Risk Committee, the Remuneration Committee and the Nomination Committee each make recommendations to the Board. The Board as a whole addresses the governance aspects of the full scope of Atlas' activities to ensure that it adheres to appropriate ethical standards.

## The Board of Directors

*Composition of the Board*

Atlas' Constitution reflects the requirements of the Corporations Act 2001 and ASX Listing Rules and is up to date with best corporate practice. Atlas' Constitution provides that the number of directors shall not be less than three. While there is no requirement for any shareholding qualification, most directors currently hold equity securities in Atlas.

Membership of the Board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within Atlas' scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next general meeting. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors deem appropriate and, subject to the terms of any agreement entered into, may revoke any appointment.

With the increased corporate activity, over the past year, a number of appointments were made to the Board. Three new independent non-executive directors were appointed, alongside two new executive directors. Since 8 November 2011 up to 30 June 2012, Atlas has complied with Recommendation 2.1 of the ASX Guidelines. Atlas intends that any new appointments to the Board will be made in accordance with the ASX Guidelines.

*Role of the Board*

Atlas has established a formal Board Charter in compliance with Recommendation 1.1 of the ASX Guidelines. In broad terms, the Board is accountable to the shareholders and must ensure that Atlas is properly managed to protect and enhance shareholders' wealth and other interests. The Board Charter sets out the role and responsibilities of the Board within the governance structure of Atlas and its related bodies corporate (as defined in the Corporations Act). During the year, the Board Charter was reviewed against the ASX Corporate Governance Principles and Recommendations and was updated. A revised Board Charter was adopted by the Board in 2012.

The Board is responsible for promoting the success of Atlas in a way which ensures that the interests of shareholders and stakeholders are promoted and protected. The Board may delegate some powers and functions to the Managing Director for the day-to-day management of Atlas. Powers and functions not delegated remain with the Board. The key responsibilities and functions of the Board are set out in the Board Charter available on the Company's website.

Other than as specifically reserved to the Board in the Board Charter, responsibility for the management of Atlas' business activities is delegated to the Managing Director who is accountable to the Board.

# Corporate Governance Statement continued

*Appointments to Other boards*

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards. In light of the time commitment required by appointment to the Board, non-executive directors are asked to limit the number of other directorships for the duration of their appointment with Atlas. Non-executive directors are asked to provide the Board with details of other commitments and an indication of time involved. The Board will regularly review the time required of a non-executive director and make an assessment as to whether the directors are able to meet their commitment to Atlas. The Nominations Committee is charged to regularly review the time required by a Director to effectively undertake his or her Board responsibilities (and Board committee responsibilities, where relevant) and determine whether each Director is meeting that requirement after identifying and considering details of that Director's other commitments.

*Chairman and appointment of a Lead Independent Director*

Mr. Flanagan, the founding Managing Director of Atlas was appointed to the role of Executive Chairman in February 2012. Post year end his role has reverted to Non- Executive Chairman. Mr. Flanagan succeeds Mr. David Hannon who has reverted to independent non-executive Director.
Mr. Flanagan, whilst being a Non-Executive Chairman is not currently considered as an independent director due to his prior role as Managing Director. In July 2012, Dr David Smith, an independent non-executive director was appointed as Lead Independent Director as part of the Company's desire to continue to implement Corporate Governance best practice.

The Chairman is responsible for leadership and effective performance of the Board and for the maintenance of relations between directors and management that are open, cordial and conducive to productive cooperation. The Chairman's responsibilities are set out in more detail in the Board Charter and Atlas' Constitution, which is available in the corporate governance section of Atlas' website.

*Director Independence*

The independence of a Director is assessed in accordance with the guidelines set out in the ASX Guidelines. In accordance with these guidelines, the Board assesses independence with reference to whether a Director is non-executive, not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment. In making this assessment, the Board considers all relevant facts and circumstances. Relationships that the Board will take into consideration when assessing independence are whether a director:

- is a substantial shareholder of Atlas or an officer of, or otherwise associated directly with, a substantial shareholder of Atlas;
- is employed, or in the last three years has previously been employed in an executive capacity by Atlas or another group member;
- has within the last three years been a principal of a material professional advisor or a material consultant to Atlas or another group member, or an employee materially associated with the service provided;
- is a material supplier or customer of Atlas or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with Atlas or another group member other than as a director.

The test of whether a relationship or business is material is based on the nature of the relationship or business and on the circumstances and activities of the director. Materiality is considered from the perspective of Atlas and its group members, the persons or organisations with which the director has an affiliation and from the perspective of the director. The Board reviews the independence of directors before they are appointed and on a regular basis. The Board has reviewed the independence of each of the Directors in office at the date of this report and has determined that five of the nine Directors are independent. The four Directors that are not considered independent are:

- Mr. David Flanagan as he was an executive director and a member of management until 31 August 2012;
- Mr. Ken Brinsden as he is an executive director and a member of management;
- Mr. Mark Hancock as he is an executive director and a member of management;
- Ms. Tai Sook Yee as she is a senior executive of IMC Group, which is currently a substantial shareholder of Atlas.

For the vast majority of decisions made by the Board, Ms. Tai brings substantial expertise and experience to the Board. The Board considers that the value of this expertise and experience outweighs any issues associated with Ms. Tai currently not having 'independent director' status.

*Nomination Committee*

The Board has determined that Atlas is of a size and its affairs of such complexity to justify a Nomination Committee. The charter for the Nomination Committees was approved in 2008. The charter for the Nominations Committee is reviewed regularly and updated to reflect changes in best practice. During the year, the Charter was reviewed against the ASX Corporate Governance Principles and Recommendations and was updated and adopted by the Board in 2012.

The role of the Committee is set out in the Nomination Committee Charter, available on the company's website.

Nomination Committee members are appointed by the Board for a term considered appropriate by the Board. The Board may appoint additional independent non-executive directors to the Nomination Committee and may remove or replace members of the Nomination Committee by ordinary resolution. The Nomination Committee must comprise a minimum of 3 non-executive Directors, with the majority being independent Directors. The Chairman of the Nomination Committee must be an independent director, and may be the Chairman of the Board.

# Corporate Governance Statement continued

The current Nomination Committee comprises of four members, three independent non-executive directors and one non independent non-executive director. The committee is chaired by an independent non-executive director.

The Nomination Committee will meet as often as the Committee members deem necessary in order to carry out the responsibilities of the Nomination Committee. Any Nomination Committee member may convene a meeting of the Nomination Committee.

*Remuneration Committee*

In reading this section, shareholders are encouraged to read the Remuneration Report set out in the Directors' Report in this Annual Report.
The Board has determined that Atlas is of a size and its affairs of such complexity to justify a Remuneration Committee. The charter for the Remuneration Committee was reviewed in and updated in 2012.

Within the scope of its duties and responsibilities, the Remuneration Committee is generally authorised to:

- consult with and seek any information from any Director or officer or employee of Atlas who has the opportunity to materially influence the integrity, strategy and operation of Atlas and its financial performance, being a Senior Executive or any external party;
- obtain (at the Company's expense) financial, legal or other professional advice from external consultants or specialists it considers necessary to assist the Remuneration Committee in meeting its responsibilities; and
- require the attendance of any Company employee at Remuneration Committee meetings.

Remuneration Committee members are appointed by the Board for a term considered appropriate by the Board. The Board may appoint additional independent non-executive Directors to the Remuneration Committee and may remove or replace members of the Remuneration Committee by ordinary resolution. The Committee currently comprises of four non-executive Directors, with the majority being independent non-executive Directors. The Remuneration Committee Charter requires that the Chairman of the Remuneration Committee should, where possible, be an independent non-executive director, and should, where possible, not be the Chairman of the Board. The current Remuneration Committee is chaired by an independent non-executive director.

The role of the Remuneration Committee is to assist the Board in developing Atlas' remuneration, recruitment, retention and termination policies. The specific duties and responsibilities of the Remuneration Committee are set out in the Remuneration Committee Charter, available on the Company's website.

As a result of legislative changes in June 2011 with respect to remuneration report disclosures, Company guidelines and policies have been developed, approved by the Board and implemented for the engagement of Remuneration Consultants, with all reporting from such Remuneration Consultants being delivered directly to the Remuneration Committee and/or the Board.

The Remuneration Committee will, where possible, meet at least twice each year or as often as the Committee members deem necessary in order to carry out the responsibilities of the Committee. Any Committee member may convene a meeting of the Committee.

*Independent Professional Advice*

Subject to a director not having a conflict of interest on a particular matter, directors have direct access to members of Company management and to Company information in the possession of management. The Board has determined that individual directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at Atlas' expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

*Conflicts of Interest*

The Board reviews at each Board meeting any conflicts of interest that may occur and which apply if there is, or may be, a conflict between the personal interests of a director, or the duties a director owes to another company, and the duties the director owes to Atlas. A director with an actual or potential conflict of interest in relation to a matter before the Board does not receive the Board papers relating to that matter and when the matter comes before the Board for discussion, the director withdraws from the meeting for the period the matter is considered and takes no part in the discussions or decision-making process. Minutes reporting on matters in which a director is considered to have a conflict of interest are not provided to that director. However, a conflicted director is given notice of the broad nature of the matter for discussion and is updated in general terms on the progress of the matter.

Atlas' Code of Conduct requires that all business transactions must be conducted solely in the best interests of Atlas. The Code of Conduct which can be found on Atlas website, was reviewed during the 2012 financial year against the ASX Corporate Governance Principles and Recommendations and updated.

Employees must avoid situations where their personal interests could conflict with the interests of Atlas. A conflict of interest exists where loyalties are divided. A person can have a potential conflict of interest if, in the course of their employment or engagement with Atlas, any decision they make could provide for an improper gain or benefit to themselves or an associate. A conflict of interest may be defined as an issue that may occur when personal interests, the interests of an associate or relative or a duty or obligation to some other person or entity, conflict with a person's duty or responsibility to Atlas. Employees must notify their manager, the chief executive officer or company secretary if the individual suspects that there is a conflict of interest or a potential conflict of interest.

# Corporate Governance Statement continued

*Directors Retirement and Re-election*

Non-executive directors must retire at the third Annual General Meeting (AGM) following their election or most recent re-election. At least one non-executive director must stand for election at each AGM. Any director appointed to fill a casual vacancy since the date of the previous AGM must submit themselves to shareholders for election at the next AGM. Board support for a director's re-election is not automatic and is subject to satisfactory director performance.

*Continuous Review of Corporate Governance*

Directors consider and review, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of Atlas. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions.

The directors recognise that mining production, mineral exploration and mine development are inherently risky business activities and that the corporate and operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of Atlas.

## Ethical Standards – Code of Conduct

Atlas has a formal Code of Conduct in compliance with Recommendation 3.1 of the ASX Guidelines. The Code of Conduct was reviewed during the year against ASX Corporate Governance Principles and Recommendations and updated. The Code of Conduct outlines how Atlas expects its directors and employees and those of its related bodies corporate to behave and conduct business in the workplace on a range of issues. Atlas is committed to the highest level of integrity and ethical standards in all business practices. Directors and employees must conduct themselves in a manner consistent with current community and corporate standards and in compliance with all legislation. The objective of the Code of Conduct is to provide a benchmark for professional behaviour throughout Atlas, support Atlas' business reputation and corporate image within the community; and make directors and employees aware of the consequences if they breach the Code of Conduct.

Atlas aims to maintain the highest standard of ethical behaviour in business dealings and to behave with integrity in all its dealings with customers, clients, shareholders, government, employees, suppliers and the community. Directors and employees are expected to perform their duties in a professional manner and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of Atlas.

Atlas is committed to maintaining a healthy and safe working environment for its Employees. Atlas continues to add to its professional occupational health and safety staff to ensure appropriate occupational health and safety standards, systems and procedures are introduced and implemented. All appropriate laws and internal regulations (including occupational health and safety laws) must be fully complied with. Atlas' occupational health and safety standards, systems and procedures are currently subject to independent audit each year. Atlas will take into account the impact of health and safety issues when making business decisions, setting short term incentive program targets and must ensure that business decisions do not compromise the commitment to avoiding injury to people. In addition, the Board subscribes to the Statement of Ethical Standards as published by the Australian Institute of Company Directors.

## Equal Employment Opportunity and Diversity

Atlas has adopted an Equal Employment Opportunity and Diversity Policy which can be found on Atlas website. This Policy applies to all Company employees, contractors and stakeholders.

Atlas values diversity in all aspects of its business and is committed to creating a working environment that recognizes and utilises the contribution of all of its employees. Atlas will actively ensure equal opportunity in relation to

- Gender
- Marital Status
- Sexual orientation
- Age
- Race/Cultural background
- Religious or political opinions
- Family responsibilities
- Disability

# Corporate Governance Statement continued

### Privacy Policy

Atlas has a formal Privacy Policy and is committed to respecting the privacy of stakeholders' personal information. This Privacy Policy sets out its personal information management practices and covers the application of privacy laws, personal information collection, the use and disclosure of personal information, accessing and updating stakeholders' information and the security of stakeholders' information.

Other than the introduction of a formal Privacy Policy and a formal Code of Conduct, both described above, the Board has not adopted any additional formal codes of conduct to guide compliance with Atlas' legal and other obligations to legitimate stakeholders as per Principle 3 of the ASX Guidelines.

### Directors' and Employees' Dealings in Company Shares

Atlas has formal Guidelines for Dealing in Securities. This was amended in December 2011 following Board approval, released to the ASX in December 2010. These Guidelines can be found on Atlas' website. Atlas' Guidelines for Dealing in Securities aim to ensure that Atlas complies with the current ASX Listing Rules and complies with best practices outlined in the ASX Listing Rules and it's Guidance Notes on Trading Policies. This policy applies to all directors, employees and contractors of Atlas. In addition, directors must, via the Company Secretary, notify the Australian Securities Exchange Limited of any acquisition or disposal of shares by lodgment of a Notice of Director's Interests. Appropriate approvals and notification systems and procedures are set out in the Guidelines for Dealing in Securities. Board policy is to prohibit directors and employees from dealing in shares of Atlas whilst in possession of price sensitive information and during prohibited periods. Any non-compliance with the Company's Guidelines for Dealing in Securities will be regarded as serious misconduct which may entitle Atlas to terminate the employment of any employee or contractor found to be in breach of these guidelines.

### Continuous Disclosure and Shareholder Communication

Atlas has a formal Continuous Disclosure and Information Policy as per Recommendation 5.1 of the ASX Guidelines. This policy is reviewed periodically. This policy ensures that material price sensitive information is identified and reported to Management for release, ensures Atlas achieves best practice in complying with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules, and ensures Atlas and individual officers do not contravene the Corporations Act or ASX Listing Rules. The Board aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors.

Information is communicated to shareholders through:

- the Annual Report, which is distributed to all shareholders who have requested either printed or electronic copy;
- Half-Yearly Reports, Quarterly Reports, and all Australian Securities Exchange announcements which are posted on the Company's website;
- the Annual General Meeting (AGM) and other general meetings so called to obtain approval for Board action as appropriate; and
- compliance with the continuous disclosure requirements of the Australian Securities Exchange Listing Rules.

In addition, the Company's auditor is required to be present, and be available to shareholders, at the AGM.

### Audit & Risk Committee and Audit & Risk Committee Charter

One of the key objectives of the Board is to ensure timely, transparent and accurate communication with all shareholders and compliance with all regulatory requirements. To this effect in 2006 the Board established an Audit & Risk Committee as required by Recommendation 4.1 of the ASX Guidelines. The Audit & Risk Committee's primary function is to give additional assurance regarding the quality and reliability of financial information used by the Board and financial information provided by Atlas pursuant to its statutory reporting requirements. At 30 June 2012, the Audit & Risk Committee is comprised of three directors, David Hannon, Geoff Simpson and Jeff Dowling (Chairman). These Directors are considered to be independent and all three members are non-executive Directors.

The role of the Audit & Risk Committee is to assist the Board to meet its oversight responsibilities in relation to the Company's financial reporting, compliance with legal and regulatory requirements, internal control structure, risk management procedures and the internal and external audit functions. Management reports quarterly on risk and opportunity management to the Audit and Risk Committee and the Board. Key activities undertaken by the Audit & Risk Committee during the 2012 financial year included:

- review preparation for and advice on disclosures for the Minerals Resource Rent Tax;
- approval of the scope, plan and fees for the external audit;
- review of the independence and performance of the external auditor;
- review of significant accounting policies and practices and any changes significant accounting policies and practices;
- review of the Company's key risks and risk management framework as developed by management;
- review of reports from Management on the effectiveness of the Company's management of its material business risks; and
- review and recommendation to the Board for the adoption of the Company's half year and annual financial statements.

# Corporate Governance Statement continued

The external auditors, the Managing Director and the Chief Financial Officer attend Audit & Risk Committee meetings by invitation. At all of the Audit & Risk Committee meetings, time is scheduled for the Audit & Risk Committee to meet with the external auditors.

In 2006, the Board approved a formal Audit & Risk Committee Charter as required by Recommendation 4.3 of the ASX Guidelines. This Charter was introduced to ensure Atlas achieves best practice in safeguarding the integrity of the Company's financial reporting. The Charter was reviewed against best practices and amended in 2012.

## Atlas' Risk Management Policy

As required by Recommendation 7.1 of the ASX Guidelines, Atlas has established policies for the oversight and management of material business risks. During the year, Atlas has reviewed, amended and updated its formalised policies on risk and opportunity management.

The Board recognises its responsibility for identifying areas of material business risks and for ensuring that arrangements are in place to adequately manage these risks. Material business, strategic, corporate, operational, project and Occupational Health & Safety (OH&S) risks are regularly reviewed at Board meetings and a risk management culture is practiced by employees and contractors.

Determined areas of risk which are regularly considered include performance and funding of exploration, development and operations activities, budget control and asset protection, status of mineral tenements, land access and native title considerations, compliance with government laws and regulations, safety, the environment, continuous disclosure obligations and privacy. The Directors have received and considered the financial statement and risk management certification from the Chief Executive Officer and the Chief Financial Officer in accordance with the Corporations Act 2001.

Atlas has reviewed, amended and updated its formalised policies on strategic, corporate and operational risk management. The Company's Risk Registers and Treatment Plan was updated and further developed with analysis conducted on all risks with a rating of high-medium and above. As part of the Risk and Opportunity Management review process, Atlas has Risk and Opportunity Management ("ROM") program, which incorporates processes for identifying, evaluating and managing material risks to the achievement of Atlas' strategic, operational, project and corporate objectives.

The Atlas Risk and Opportunity Management (ROM) program recognises the importance of risk management to the business success and in meeting corporate governance requirements. The program provides a framework to prioritise, manage, escalate and delegate risks to appropriate levels within Atlas. The ROM program is designed to assist our people in meeting their risk management performance targets, whilst informing key decision making and priority planning initiatives. Atlas' focus is on ensuring risk management is a key driver of business growth and improvement. The ROM program enables us to undertake risk management activity in a systematic and consistent manner by effectively and efficiently:

- Focusing on material risks (those considered important to the business by reference to our risk criteria and tolerance limits)
- Clarity of approach (one structure and approach for all activity)
- Integrating risk and opportunity management with strategic and business planning
- Emphasising, resourcing and monitoring of control improvement activity
- Ensuring management ownership and accountability for risk management
- Ensuring our personnel understand the objectives and rationale of the ROM Program and actively participate in ROM activities; and
- Providing Audit & Risk Committee and Board with concise and up to date information on material and emerging material risks and assurance on means of controlling them.

*Key ROM Initiatives*

ROM activity is governed by a rolling three year plan which is reviewed against business priorities annually. ROM work plans recognise the requirement to continually develop and enhance our system for effective management of risk in all areas of the business, and to ensure our approach mirrors the need of a developing and expanding organisation.

During the year the emphasis has been on integrating risk management with existing business practices and development of risk registers to ensure a consistent Atlas approach and understanding of risk.

Key initiatives undertaken during the year include:

- Alignment of the ROM program and annual business planning
- Operational risk, HSEC and ROM integration
- Project management and ROM integration
- Development of Atlas' investment pipeline and project governance framework
- Capture and analysis of opportunities for business improvement
- Capture and analysis of core business process risks; and
- Implementation of the ROM intranet site.

# Corporate Governance Statement continued

*ROM Program Planning*

The Company's focus for the 2013 financial year will be to:

- Deliver a ROM training program to improve awareness and understanding throughout the business
- Undertake reporting of risk against the Atlas Value Chain to highlight areas requiring improvement
- Increase risk assessment activity in:
  - Supporting annual business planning within all business units and alignment to strategic plan
  - Investment planning and business case development, program management, project delivery and operational readiness
- Develop our Corporate Social Responsibility (CSR) framework and understand the material risks impacting our CSR objectives; and
- Embed ROM within Business Development to provide a structured but flexible approach to decision making, prioritising and action implementation as Atlas enters the next phase of growth.

Outcomes and status of ROM activities are reported to the Audit and Risk Committee on a quarterly basis. The Audit and Risk Committee undertakes a detailed review of the ROM program each year.

**The following table sets out Atlas' present position with regard to adoption of the ASX Guidelines.**

| | ASX Principle/Recommendation | Status | Reference/comment |
|---|---|---|---|
| Principle 1: Lay solid foundations for management and oversight | | | |
| 1.1 | Establish the functions reserved to the Board and those delegated to senior executives and disclose those roles | A | In 2007 the Board approved a Board Charter which sets out the key responsibilities and functions of the Board. The Board Charter was reviewed and amended in 2012. Each new director receives a formal letter of appointment which sets out the terms of the director's appointment including remuneration, term, responsibilities, special duties, conflict management and has a copy of the constitution and all corporate governance policies and charters attached. |
| 1.2 | Disclose the process for evaluating the performance of senior executives | A | The performance of senior executives is fully reviewed on an annual basis with a half year assessment of performance also completed. The performance of senior executives is assessed against key performance indicators set at the start of the assessment period. |
| 1.3 | Provide the information indicated in Guide to reporting on Principle 1 | A | |
| Principle 2: Structure the Board to add value | | | |
| 2.1 | A majority of Board members should be independent directors | A | For the year ended 30 June 2012, the Board comprised of a majority of independent directors Where, due to the resignation of an independent director or the appointment of a person who is not an independent director, the Board will endeavor to appoint sufficient independent directors to ensure that a majority of Board members are independent directors |
| 2.2 | The chairperson should be an independent director | N/A | In light of the fact that the non-executive Chairman is currently not considered independent, the Company has appointed a Lead Independent Director in line with Corporate Governance best practice. |
| 2.3 | The roles of chairperson and chief executive officer should not be exercised by the same individual | A | The positions of chairman and managing director are held by separate persons. |
| 2.4 | The Board should establish a nomination committee | A | In 2008, the Board formed a Nomination Committee which is in compliance with Recommendation 2.4. In 2008, the Board approved a Nomination Committee Charter. This charter was reviewed and updated in 2012. The Nomination Committee is made up of four directors, three independent , one non-independent director. The committee is chaired by an independent non-executive director. |
| 2.5 | Disclose the process for evaluating the performance of the Board, its committees and individual directors | A | |

A = Adopted N/A = Not adopted

# Corporate Governance Statement continued

| | ASX Principle/Recommendation | Status | Reference/comment |
|---|---|---|---|
| 2.6 | Provide the information indicated in Guide to reporting on Principle 2 | A | The skills and experience of directors are set out in the Company's annual report and on its website.<br>Atlas is cognisant of its growth to a medium sized producer and a S&P/ASX 200 company, continues to develop policies and procedures to reflect its growing position as an established and growing iron ore producer. |
| **Principle 3: Promote ethical and responsible decision making** | | | |
| 3.1 | Establish a code of conduct and disclose the code or a summary of the code as to:<br>the practices necessary to maintain confidence in the Company's integrity<br>the practices necessary to take into account their legal obligations and the reasonable expectation of stakeholders<br>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices | A | The Board has approved a Code of Conduct which can be viewed on the Company's website. This Code of Conduct was reviewed and updated in 2012.<br>Atlas has a formal Privacy Policy which can be viewed on the Company's website. This Policy was reviewed and updated in 2012. |
| 3.2 | Establish a policy concerning diversity and disclose the policy or a summary of the policy | A | Atlas has formulated an equal employment opportunity and diversity policy which can be viewed on its website.<br>The EEO and Diversity Policy is a commitment by Atlas to actively seek to maintain a diverse workforce to create a workplace that is fair and inclusive, applies fair and equitable employment practices and provides a working environment that will allow all employees to reach their full potential. |
| 3.3 | Disclose measurable objectives for achieving gender diversity set by the Board in accordance with the equal employment opportunity and diversity policy and progress towards achieving them | A | Atlas is of the view that any measurable statistical objectives on a diverse workforce must be fit for purpose, in line with the Company's strategic objectives and ensure Atlas is in compliance with all relevant legislative requirements.<br>It is the intention of Atlas that all matters related to employment and career development will be free from discriminatory practices by ensuring that selection for jobs and career progression will be determined by personal merit, competency, qualifications and ability to effectively perform the role. The objective is that Atlas is and remains at all times in compliance with legislative requirements including the Fair Work Act 2009, the Anti-Discrimination Act 1998, the Equal Employment Opportunity Act 1984, the Sex Discrimination Act 1984, the Racial Discrimination Act 1975, the Human Rights and Equal Opportunity Act 1986, the Disability Discrimination Act 1992 and all other relevant legislative requirements.<br>At the date of this report, Atlas is of the opinion that it is in compliance with all EEO and diversity legislative requirements. |
| 3.4 | Disclose in its annual report the proportion of women employees in the whole organization, women in senior executive positions and women on the Board | A | At the date of this report, 22% of Board, 34% of employees and over 30% of senior executives are women. |
| 3.5 | Provide the information indicated in Guide to Reporting on Principle 3 | A | |
| **Principle 4: Safeguard integrity in financial reporting** | | | |
| 4.1 | The Board should establish an audit committee | A | Atlas has established an Audit & Risk Committee which comprises at the date of this report of three independent non-executive directors. The chairman is an independent director who is not Chairman of the Board. |

A = Adopted  N/A = Not adopted

# Corporate Governance Statement continued

| | ASX Principle/Recommendation | Status | Reference/comment |
|---|---|---|---|
| 4.2 | The audit committee should be structured so that it:<br>• consists only non-executive directors<br>• consists of a majority of independent directors<br>• is chaired by an independent chairperson, who is not the chairperson of the Board<br>• has at least three members | A | |
| 4.3 | The audit committee should have a formal charter | A | The charter for the Audit & Risk Committee is disclosed on the Company's website. The Audit and Risk charter was reviewed and updated in 2012. |
| 4.4 | Provide the information indicated in Guide to reporting on Principle 4 | A | |
| **Principle 5: Make timely and balanced disclosure** | | | |
| 5.1 | Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies | A | The Company has a formal Continuous Disclosure and Information Policy which can be viewed on its website. |
| 5.2 | Provide the information indicated in Guide to reporting on Principle 5 | A | |
| **Principle 6: Respect the rights of shareholders** | | | |
| 6.1 | Design a communications strategy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy | A | Atlas has a formal Continuous Disclosure and Information Policy to ensure information is made available in a timely and balanced way, following release to ASX, allow shareholders to make informed decisions. To encourage greater shareholder participation in general meetings, under the Company's Constitution can vote at general meetings by Direct Vote. This has increased the number of shareholders voting at general meetings by over 50%. |
| 6.2 | Provide the information indicated in Guide to reporting on Principle 6 | A | |
| **Principle 7: Recognise and manage risk** | | | |
| 7.1 | Establish policies for the oversight and management and management of material business risks and disclose a summary of those policies | A | Atlas has an Audit & Risk Committee and a charter for that Audit & Risk Committee. During the year, Atlas has again reviewed, amended and updated its formalised policies on risk and opportunity management to reflect the growing size and complexity of the Company. The Board recognises its responsibility for identifying areas of significant material business risks and for ensuring that arrangements are in place for adequately managing these risks. Material business strategic, corporate, operational, project and OH&S risks are regularly reviewed at Audit & Risk Committee and Board meetings, and a risk management culture is practiced by employees and contractors. |

A = Adopted N/A = Not adopted

# Corporate Governance Statement continued

| | ASX Principle/Recommendation | Status | Reference/comment |
|---|---|---|---|
| 7.2 | The Board has required management to design and implement risk management and internal control systems to manage the Company's material business risks and report on it on whether those risks are being managed effectively. The Board confirms that management has reported to it as to the effectiveness of the Company's management of its material business risks. | A | The Company's Audit & Risk Committee has considered the risk management and internal control systems introduced by Management in 2007 and updated in 2008, 2009, 2010 2011 and 2012, and reported to the Board. Management now reports quarterly to the Audit & Risk Committee and the Board. As Atlas continues to expand to a multiple mine environment, Management has designed and continues to implement a risk and opportunity management program and internal control systems to manage the Company's material business risks across this multiple mine environment.<br>Determined areas of risk which are regularly considered include:<br>• performance and funding of exploration, development and operations activities<br>• budget control and asset protection<br>• status of mineral tenements, resources and reserves<br>• land access, approvals and native title considerations<br>• compliance with government laws and regulations<br>• safety<br>• the environment<br>• continuous disclosure obligations<br>• privacy |
| 7.3 | The Board has received assurance from the chief executive officer and the chief financial officer that:<br>• the statement given in accordance with Section 294A of the Corporations Act is founded on a sound system of risk management and internal control and control which implements the polices adopted by the Board<br>• the Company's risk and opportunity management and internal control system is operating effectively in all material respects in relation to financial report risks | A | |
| 7.4 | Provide information indicated in Guide to Reporting on Principle 7 | A | |
| Principle 8: Remunerate fairly and responsibly | | | |
| 8.1 | The Board should establish a remuneration committee | A | In September 2008 the Board formed a Remuneration Committee which is in compliance with Recommendation 8.1. In September 2008, a Remuneration Committee Charter was approved by the Board. The Charter was reviewed and amended in 2012 and can be viewed on the Company's website. |
| | The remuneration committee should be structured so that it:<br>• consists of a majority of independent directors<br>• is chaired by an independent chairperson<br>• has at least three members | A | The Remuneration Committee consists of four directors. Three independent non-executive directors and one non independent non-executive director. The Committee is chaired by an independent non-executive director. |
| 8.3 | Clearly distinguish the structure of non-executive directors remuneration from that of executives | A | As set out in the Remuneration Report, non-executive directors do not receive equity based remuneration. Executive directors, subject to achievement of long term incentive targets, may receive equity based remuneration. |
| 8.4 | Provide information indicated in ASX Guide to Reporting on Principle 8 | A | The Board has formed a Remuneration Committee and the Company's existing Remuneration Committee Charter was reviewed and amended in May 2012. Appropriate remuneration policies are developed and approved by the Remuneration Committee and the Board each year to reflect the Company's plans for growth. |

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