ATLAS

# ANNUAL **REPORT** 2018

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## ABOUT ATLAS

Atlas Iron Limited is an independent Australian company, mining and exporting direct shipping iron ore from its operations in the Northern Pilbara region of Western Australia. Atlas’ large Pilbara landholding is also prospective for other minerals including lithium, copper and gold and its existing operating and infrastructure platform provides a major competitive advantage.

## ATLAS’ VALUES

**Work Safely**
We consider the safety aspect of everything we do. Employees own their own safety and wellbeing, in and out of work.

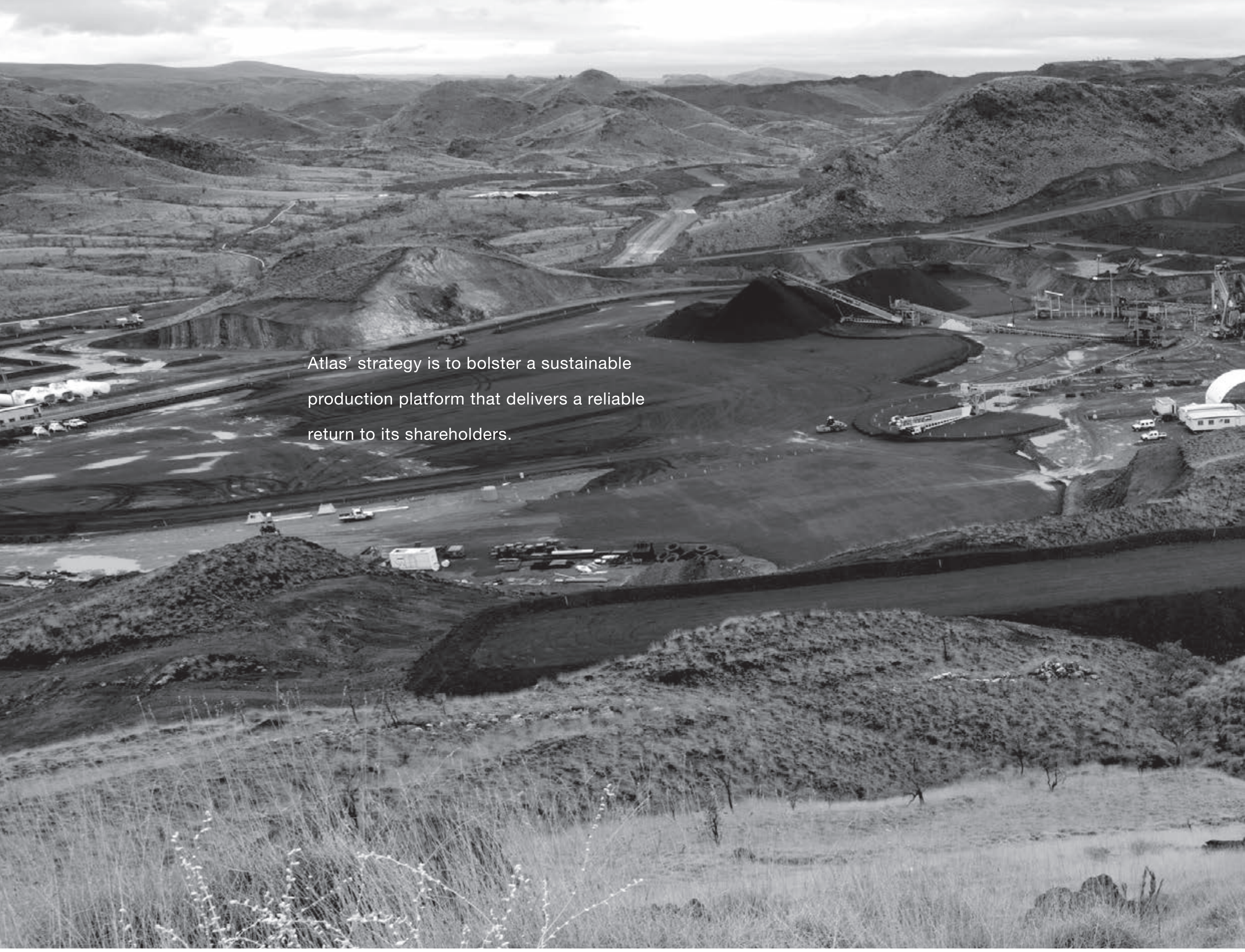
**Do the Right Thing**
We are honest and fair in all our dealings and courageous in making hard decisions that support our business goals. Our decisions and actions will make our families proud.

**Strive for Business Excellence**
We challenge ourselves to be efficient and effective with available resources. We seek improvement and embrace change.

**Work as a Team**
Working together to meet challenges and develop solutions, we actively engage with and support our people and understand and value the contribution of others.

**Think win-win**
The people and organisations we engage with will benefit fairly. We give every opportunity a go and think long-term with respect to the relationships we cultivate and nurture.

**Indomitable Spirit**
Our people are resilient. We approach challenges with courage and passion.




## FY2018 HIGHLIGHTS

- **Revenue of $547m**
  (FY2017: $871m)
- **Underlying* EBITDA of $19m**
  (FY2017: $116m)
- **Average realised price of $59/wmt CFR**
  excluding financial instruments (FY2017: $61/wmt)
- **Full cash cost of $59/wmt CFR**
  (FY2017: $53/wmt)
- **Cash on hand of $57m**
  at 30 June 2018 down from $81m plus $20m in reserve at 30 June 2017
- **Secured debt facility reduced to $86m**
  at 30 June 2018 down from $103m at 30 June 2017
- **Non-cash impairment of $92m**

FY2018 PERFORMANCE AGAINST GUIDANCE

| | FY2018 Actual | FY2018 Guidance [(1)] |
|---|---|---|
| Ore tonnes shipped (m wmt) [(2)] | 9.2 | 9-10 |
| C1 cash costs (A$/wmt FOB) | 39 | 39-40 |
| Full cash cost (A$/wmt CFR China) | 59 | 58-59 |
| Rehabilitation ($m) | 3 | 3-4 |
| Depreciation & Amortisation (A$/wmt) | 8 | 8-9 |
| Development Capital excluding Corunna Downs (A$m) | 8 | 8-9 |

Note (1): Atlas revised its C1 cash cost and Full cash cost guidance for FY2018 in a financial update released to ASX on 17 May 2018.

Note (2): Guidance relates to iron ore tonnes only. Atlas also shipped 85,000 tonnes of lithium DSO and 45,000 tonnes of manganese lump during FY2018.

# CHAIRMAN'S REPORT

Dear Shareholder

It is with mixed feelings that I write what is likely to be my last Annual Report address to you as Chairman of your Company.

The events of recent months have been challenging for all of us – Directors, management and shareholders alike – as we weighed the merits of the Mineral Resources scheme and then the superior takeover offer from Hancock Prospecting, against the outlook for Atlas as a stand-alone ASX-listed company.

Recommending shareholders accept a takeover bid for their company is one of the most difficult decisions a director can make. However, on this occasion your Board believes that the offer from Hancock Prospecting represents the best outcome for shareholders given the harsh environment in which Atlas finds itself.

The reality is that Atlas' profit margins have been squeezed and squeezed again by a combination of lower benchmark prices for iron ore and the substantial discounts applied to that price for lower-grade ore such as ours.

The impact of this has been so severe that it has offset the remarkable efforts of our management team, staff and contractors to devise and implement a host of initiatives aimed at strengthening Atlas' financial position.

In light of these factors, your Board has recommended that shareholders accept the all-cash offer from Hancock Prospecting.

At the time of writing, Hancock Prospecting had acquired a 88 per cent stake in Atlas and its offer remained open. Hancock Prospecting has also undertaken to increase the amount it pays for every Atlas share it has acquired, or will acquire, from 4.2c to 4.6c.

Your Board believes that this represents an attractive outcome for Atlas shareholders in the circumstances. The support of a large, well-resourced company such as Hancock Prospecting also increases the ability of the Atlas business to combat the financial challenges it currently faces, giving it a chance to prosper in the longer term.

I would like to thank the Atlas management team, staff and contractors for the immense contribution they have made as the Company has sought to reduce costs and implement strategic initiatives since the recapitalisation process of 2016.

It is a huge credit to everyone involved that Atlas emerged from that restructure and continues to produce and ship iron ore in the face of substantial challenges.

Finally, I would also like to thank Atlas shareholders for your support as we sought to confront these difficult conditions.

On behalf of the Board, I wish everyone involved with Atlas all the very best for the future.

Yours Faithfully

Eugene I Davis,
Non-Executive Chairman

# OUR PEOPLE AND CULTURE

Atlas has grown from small beginnings in 2004 to become one of Australia's leading junior iron ore exporters traversing the enormous challenges of start-up, rapid growth, commodity price collapse with its devastating consequences, and then steady corporate turnaround.  This achievement has required a team of exceptional, high performing people, passionate to succeed.  These qualities have been important to grow and stabilise the Company year on year, develop the resource base and ensure that Atlas remains a good corporate citizen in the communities in which it is based.

Atlas' values are embedded throughout the Company, and are the guiding principles behind the way all employees work. They are the critical drivers to develop and nurture the culture within Atlas that aligns everyone in the Company to work collectively towards achieving Atlas' vision.

Current market volatility and a reduction in export volumes has contributed to Atlas repositioning its workforce to 75 employees (at the date of this report), working in Perth and the Pilbara. These employees remain positively engaged with a stable and strong focus on the Company's vision and strategic direction.

Atlas' direct workforce is complemented by approximately 382 contractors (as at 30 June 2018) working across Atlas' various mine sites, haulage and port operations.

Atlas' structure has been designed to be flexible and "fit for purpose", with a lean, efficient and capable workforce throughout all areas of business activities.

Our organisational structure has been designed to better enable leadership and to support our people in doing the right work at the right level with appropriate accountability and authority moving forward. We are committed to driving a high performance culture where our leaders and their teams are clearly aligned to the strategic objectives of the organisation.

# HEALTH AND SAFETY

Atlas continues to be committed to the health and safety of our people.

To achieve this there is a strategic business plan and a health and safety framework built around the four pillars of exceptional leadership, engaged employees, risk management and enabling systems.

Site-specific Safety Management Plans are in place at all operational Atlas sites and serve as our basis to ensure risks are appropriately managed.

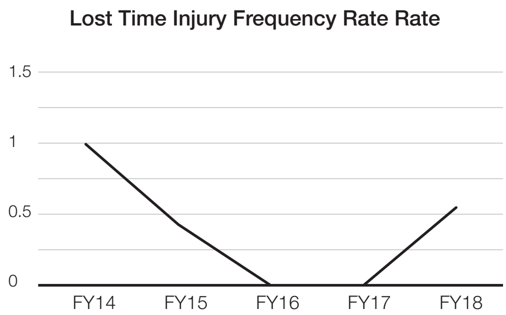
In FY2018 the focus has been on streamlining and reducing complex processes in our existing systems as well as embedding and monitoring those elements of our health and safety system that support Atlas' injury and fatality risk prevention program, the "Principal Hazards" program.

As a large portion of the workforce at Atlas' operations are contractors, Atlas works very closely with its contracting partners and their workforce to enshrine a shared culture of working safely. Any incidents involving contractors are investigated with Atlas involvement, with the incidents included in Atlas' safety statistics.

Integral to providing a safe working environment is ensuring the Company tracks and reports safety performance and reviews incidents so as to continuously improve and reduce the risk of future injury to our workforce.

## LOST TIME INJURY FREQUENCY RATE

Atlas measures its safety performance by reporting on the Lost Time Injury Frequency Rate (**LTIFR**). The LTIFR for FY2018 was 0.54




Atlas has also achieved a Total Recordable Injury Frequency Rate (TRIFR) of 5.45 in FY2018

Our organisational structure has been designed to better enable leadership and to support our people to do the right work at the right level with appropriate accountability and authority moving forward.

# REPORT ON OPERATIONS

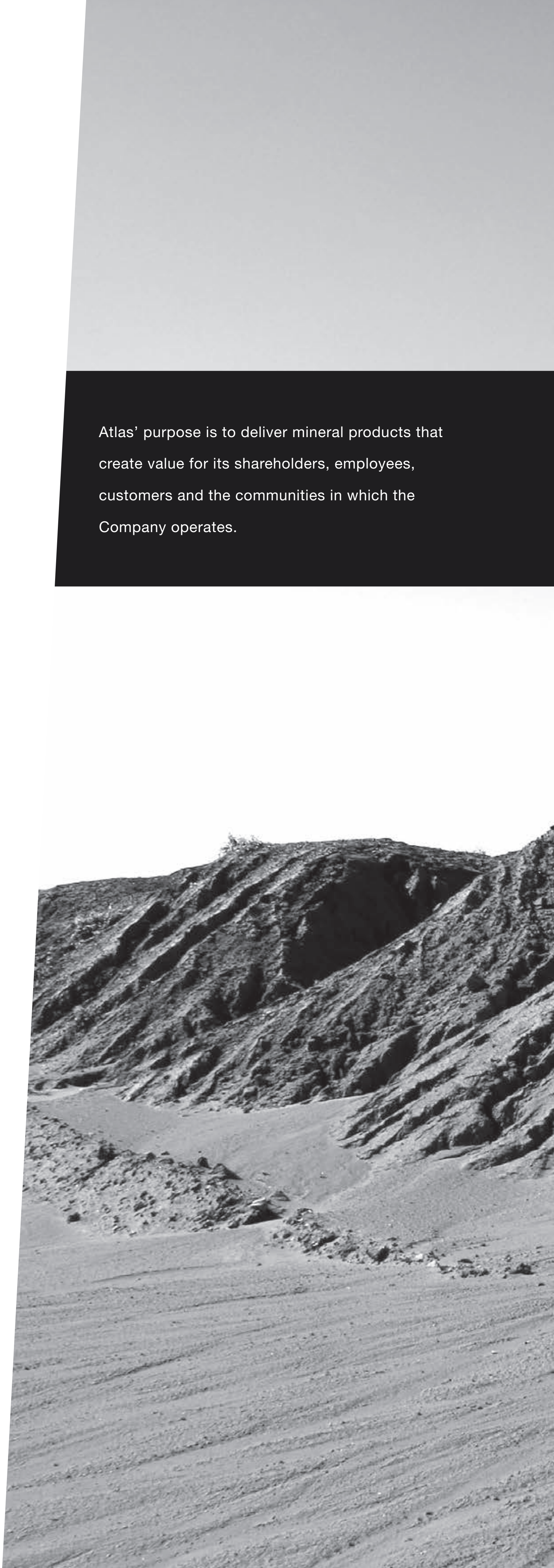
Atlas' report on operations should be read in conjunction with the Directors' Report and the Financial Statements.

## OUR STRATEGY

Atlas' purpose is to deliver mineral products that create value for its shareholders, employees, customers and the communities in which the Company operates.

Atlas' strategy is to bolster a sustainable production platform that delivers a reliable return to its shareholders. Consistent with this strategy, Atlas seeks to:

- Strengthen its balance sheet through continued debt reduction;
- Develop its Pilbara mines to maintain production levels consistent with Atlas' position in the market; and
- Maximise the margin generated by the business through continued focus on cost reduction and revenue enhancing opportunities.



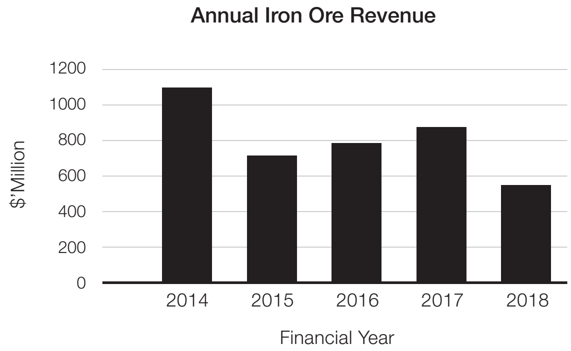
Atlas' purpose is to deliver mineral products that create value for its shareholders, employees, customers and the communities in which the Company operates.

REVENUE

FY2018 saw a decline in revenue driven by lower sales volumes, lower USD headline price and higher discounts for low-grade product more than offsetting a higher proportion of lump product and increased lump premiums.

While Atlas' revenue is predominantly derived from iron ore, for the first time, logistics services for lithium DSO and manganese lump have contributed to net income.

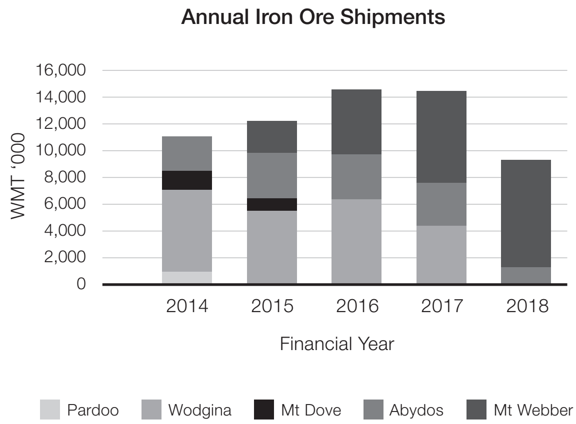
The following graph shows revenue at Atlas for FY2014 to FY2018.

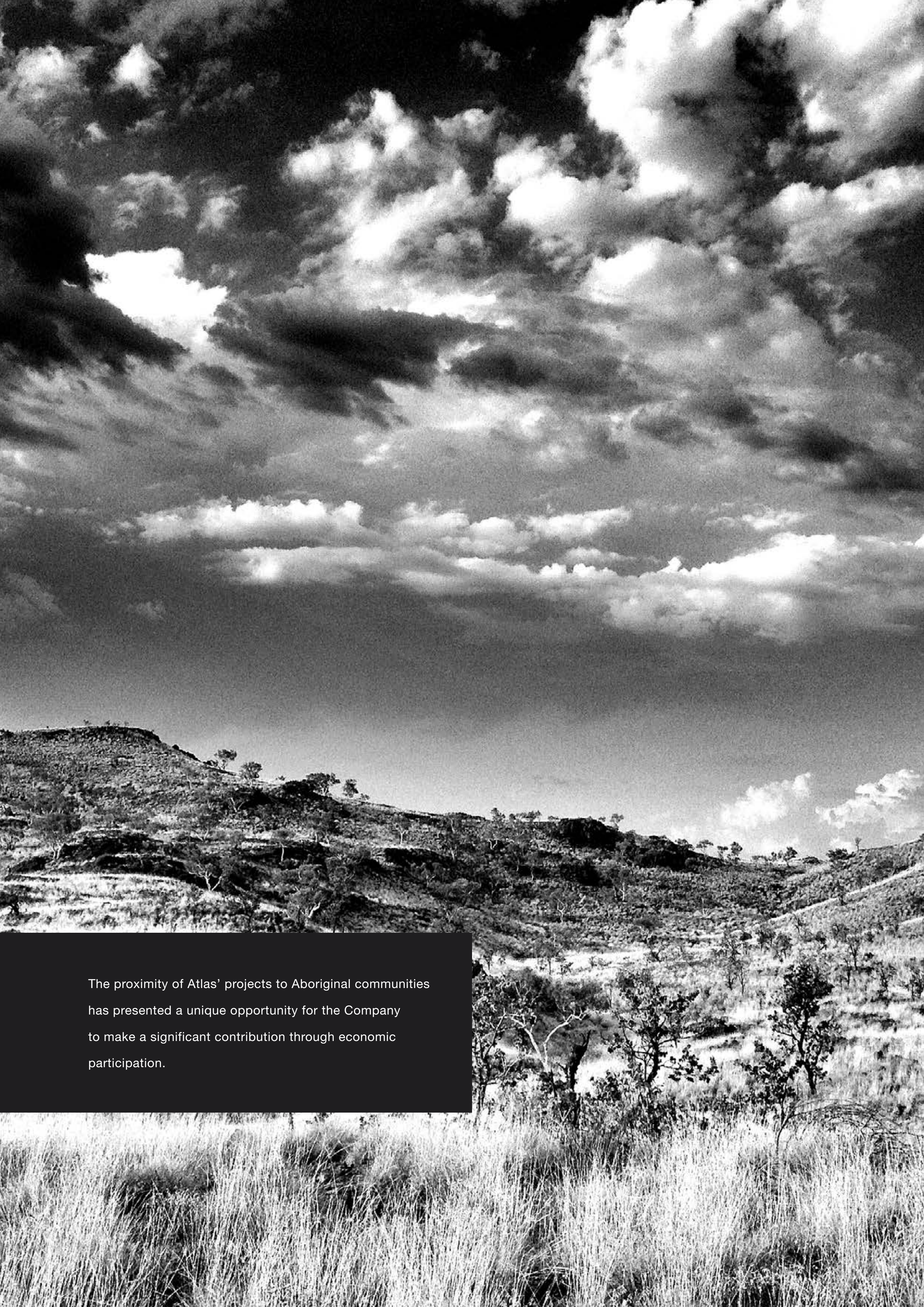



OUR PERFORMANCE

During FY2018 Atlas exported 9.2m wmt of iron ore (4.8mt of lump and 4.4m wmt of fines) down from 14.4m wmt (4.9m wmt of lump, 7.9m wmt of fines and 1.6m wmt of value fines) in FY2017. The reduction was caused by the end of mine life at Wodgina (May 2017) and Abydos (October 2017).

The following graph illustrates tonnes sold by mine for FY2014 to FY2018.





The proximity of Atlas' projects to Aboriginal communities has presented a unique opportunity for the Company to make a significant contribution through economic participation.

# LAND ACCESS, HERITAGE AND ENVIRONMENT

Atlas is committed to maintaining strong and respectful relationships with landholders and Traditional Owners impacted by its operations. These relationships have been formalised through agreements which include commitments around minimising impacts to the environment and cultural heritage, compensation for access to land, employment opportunities and contracting.

Atlas requires its contractors to demonstrate successful implementation of structured Aboriginal employment programs and a commitment to build or form new sustainable relationships with Aboriginal contracting organisations. In addition, Atlas directly invites Aboriginal contractors to tender for opportunities.

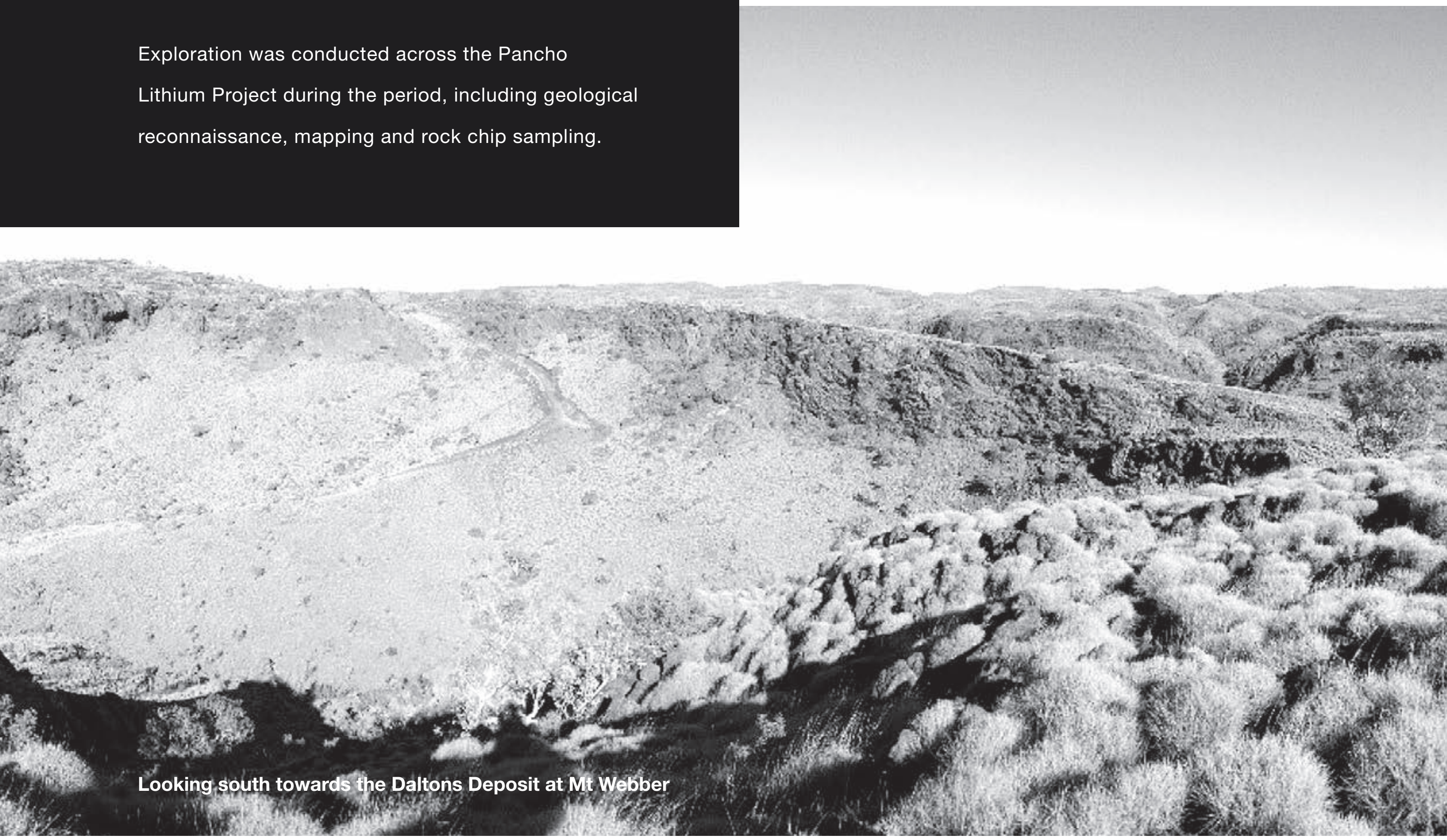
Atlas recognises the importance of all staff and contractors participating in cultural awareness training to ensure our mining operations are free of racism and are inclusive and welcoming workplaces for Aboriginal people. Accordingly, cultural awareness training sessions were delivered by the Njamal Native Title Claimants to Atlas' employees and contractors at the Mt Webber mine.

During the year, Atlas continued to acquire new tenure and maintain its existing extensive tenure portfolio in alignment with the needs of existing production projects and future growth projects. Comprehensive assessments were also carried out in alignment with these requirements which resulted in the surrender and divestment of non-core tenure and assets, as well as the conversion of existing iron ore assets from exploration licences to retention licences in the South East Pilbara region.

Atlas promotes a culture of responsible environmental management to ensure we protect the natural environment, indigenous and social surroundings. Atlas and its contractors complied with all environmental reporting requirements throughout the year. During FY2018, rehabilitation activities were undertaken at both the Wodgina and Abydos mines following mine closure in accordance with approved Mine Closure Plans.

During FY2018, Atlas continued to undertake extensive environmental surveys and studies at Corunna Downs in anticipation of future environmental approvals.

Exploration was conducted across the Pancho Lithium Project during the period, including geological reconnaissance, mapping and rock chip sampling.



Looking south towards the Daltons Deposit at Mt Webber

# EXPLORATION & RESOURCE DEVELOPMENT

Exploration and Resource Development work during FY2018 was initially focussed on completing resource definition drilling across the Daltons and Fender deposits at Mt Webber. This drilling program, which commenced in May 2017, closed the nominal drill spacing across these deposits to 20m x 20m to provide greater confidence in the resource information feeding into the Medium and Short Term Production Plans for Mt Webber mining operations.

Within the 2018 financial year, a total of 347 RC drill holes were completed for a total of 20,332 metres on the Daltons/Gibson deposit at Mt Webber. A further 109 RC drill holes for a total of 4,644 metres were completed on the Fender deposit.

Exploration work conducted during the period included a small RC drilling program at the Copper Range Project east of Newman. A total of 6 holes for 1,363 metres were drilled at the Copper Knob prospect. All holes intersected anomalous copper mineralisation, confirming continuity between near surface mineralisation and previously drilled deeper zones, and extending the historically identified copper enrichment to the east and west.

RC drilling at the Walker Copper Project

Exploration drilling was also conducted at the Walker Copper Project, located near the Company's Miralga Creek Iron Ore Project in the North Pilbara. A total of 9 RC holes for 1,062m were drilled to test the potential for an undercover geophysical anomaly to be a buried volcanic sequence that may host a VHMS-style polymetallic deposit. Three holes intersected copper mineralisation across several disseminated to semi-massive sulphide zones. Atlas plans to conduct further work on additional anomalies across the project area in FY19.

Exploration was conducted across the Pancho Lithium Project during the period, including geological reconnaissance, mapping and rock chip sampling. Lithium-caesium-tantalum (LCT) pegmatites that have the potential to host lithium enrichment were identified at the project. A subsequent Mobile Metal Ion (MMI) soil sampling program was conducted across the most prospective area and coupled with targeted FTIR mineralogy work has succeeded in identifying an anomalous zone in the alluvial cover. Program planning and approvals are currently underway for RC drilling to test this undercover target in FY19.

# COMMUNITY

In the 2018 financial year Atlas' community investment strategy saw the company focus on its Community Partnership Program, Helping Hands Grants and Philanthropic Grants.


Atlas Community Partnerships are multi-year partnerships to deliver significant outcomes for the community, with a particular focus on communities in the Pilbara.

A new partnership was formed with the Earbus Foundation (www.earbus.org.au) a WA-based charity that works to reduce the incidence of middle ear disease in Aboriginal and at-risk children in Western Australia. The Earbus mobile ear health clinic visits the remote communities of Strelley, Warralong and Yandeyarra.

Atlas also provided support to the following organisations through its Helping Hands and Philanthropic Grant Programs:

- Helping Hands Mental Health Support
- 514 Army Cadet Unit, Port Hedland
- Town of Port Hedland
- WA Police Legacy
- Port Hedland Primary School
- Hedland Little Athletics Club
- The Marble Bar Cup Ball Committee
- The Homeless and Abused Animal Rescue Team Inc.
- Woodbridge Equestrian Centre
- Patricia Giles Women's Refuge
- Hedland BMX Club
- Port Hedland Netball Association
- Rose Nowers Early Learning Centre Inc.
- Kalparrin (Parents of Children with Special Needs Inc.)
- Prostate Cancer Foundation of Australia
- Special Olympics of Australia – Perth Metro

In line with the 2018 NAIDOC theme **"Because of her, we can"**, Atlas proudly hosted the 'Warralong Women Art Exhibition' at its offices and invited various stakeholders to attend the exhibition. The artworks celebrated the invaluable contribution that Aboriginal and Torres Strait Islander women have made – and continue to make - to our communities, our families, our rich history and to our nation.

Mineral Resources and Ore Reserves in the following tables are as of 30 June 2018. Comparative totals from 30 June 2017 are provided for reference.

## MINERAL RESOURCES AND ORE RESERVES AS AT 30 JUNE 2018

### 2018 MINERAL RESOURCES

| | Mining Method | Measured Resources at end June 2018 | | Indicated Resources at end June 2018 | | Inferred Resources at end June 2018 | | Total resources 2018 compared with 2017 | | | | Atlas Interest | Reporting Cut-Off |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Tonnage | | Grade | | | |
| | (b) | Tonnage | Grade | Tonnage | Grade | Tonnage | Grade | **2018** | 2017 | **2018** | 2017 | | |
| Iron Ore (a) | | Kt | % Fe | Kt | % Fe | Kt | % Fe | **Kt** | Kt | **% Fe** | % Fe | % | % Fe |
| Pardoo | O/P | - | - | - | - | 9,000 | 55.7 | **9,000** | 9,000 | **55.7** | 55.7 | 100 | 53 |
| Abydos (c) | O/P | - | - | - | - | 2,000 | 55.9 | **2,000** | 9,600 | **55.9** | 56.8 | 100 | 50 |
| Mt Webber (d) | O/P | 23,200 | 58.6 | 13,300 | 56.2 | 1,000 | 56.9 | **37,500** | 47,500 | **57.7** | 57.1 | 100 | 50 |
| McPhee Creek | O/P | 32,500 | 57.4 | 205,100 | 56.2 | 8,000 | 55.2 | **245,600** | 246,900 | **56.3** | 56.3 | 100 | 48.5 |
| Miralga Creek | O/P | - | - | - | - | 4,000 | 57.6 | **4,000** | 4,000 | **57.6** | 57.6 | 100 | 50 |
| Corunna Downs | O/P | - | - | 51,100 | 57.2 | 13,000 | 57.0 | **64,100** | 64,100 | **57.2** | 57.2 | 100 | 50 |
| Mid-West | O/P | - | - | - | - | 7,000 | 57.2 | **7,000** | 7,000 | **57.2** | 57.2 | 100 | 50 |
| Hickman | O/P | - | - | - | - | 70,000 | 55.4 | **70,000** | 70,000 | **55.4** | 55.4 | 100 | 50 |
| Western Creek | O/P | - | - | - | - | 79,000 | 56.0 | **79,000** | 79,000 | **56.0** | 56.0 | 100 | 50 |
| Jimblebar (e) | O/P | - | - | 41,100 | 58.1 | 27,000 | 55.6 | **68,100** | 69,100 | **57.1** | 57.1 | 100 | 50/53 |
| Warrawanda | O/P | - | - | - | - | 24,000 | 56.8 | **24,000** | 24,000 | **56.8** | 56.8 | 100 | 53 |
| Davidson Creek Hub | O/P | 52,000 | 57.1 | 330,300 | 55.9 | 94,000 | 55.8 | **476,300** | 476,300 | **56.0** | 56.0 | 100 | 50 |
| West Pilbara | O/P | - | - | - | - | 38,000 | 53.6 | **38,000** | 38,000 | **53.6** | 53.6 | 100 | 50 |
| Total Mineral Resource | | 107,700 | 57.5 | 640,900 | 56.3 | 376,000 | 55.7 | **1,124,600** | 1,144,500 | **56.2** | 56.2 | | |

Mineral resources are reported inclusive of reserves

a - Iron Ore Resource tonnes are reported on a dry weight basis

b - Likely mining method: O/P=Open Pit

c - Atlas completed mining of the Cove, Mullaloo, Contacios and Scarborough deposits at Abydos in FY2018. Remaining Mineral Resources are limited to the Sandtrax and Avalon Point deposits

d - Mt Webber Mineral Resources have decreased due to production at Ibanez, Fender and Daltons and includes 400kt of crushed fines material stockpiled on site

e - Jimblebar Resources reported at 50%Fe cut-off except McCameys North (47Mt) which is reported at a 53% cut-off

### 2018 ORE RESERVES

| | Product Type (a) | Proved Ore Reserves at end June 2018 | | Probable Ore Reserves at end June 2018 | | **Total Ore Reserves at end of June 2018** | | Total Ore Reserves at end of June 2017 | | Atlas Interest | Reporting Cut-Off |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Kt | % Fe | Kt | % Fe | **Kt** | **% Fe** | Kt | % Fe | % | % Fe |
| Abydos (b) | Standard Fines (c) | - | - | - | - | **-** | **-** | 1,000 | 57.1 | 100 | 52.0 |
| Mt Webber (d) | Saleable Product (e) | 18,700 | 58.6 | 11,300 | 56.1 | **30,000** | **57.6** | 39,800 | 57.2 | 100 | 50.0 - 53.5 |
| Wodgina | Value Fines | - | - | - | - | **-** | **-** | 150 | 53.0 | 100 | |
| Corunna Downs | Standard Fines | - | - | 20,900 | 57.0 | **20,900** | **57.0** | 20,900 | 57.0 | 100 | 51.0 - 53.0 |
| Abydos Stocks | Standard Fines | 60 | 54.4 | - | - | **60** | **54.4** | - | - | 100 | |
| Mt Dove Stocks | Standard Fines | 90 | 54.9 | - | - | **90** | **54.9** | 50 | 56.1 | 100 | |
| Port Stocks | Standard Fines | 130 | 58.0 | - | - | **130** | **58.0** | 300 | 56.7 | 100 | |
| Total Fe Ore Reserves (f) | | 19,000 | 58.5 | 32,200 | 56.7 | **51,100** | **57.4** | 62,100 | 57.1 | | |

| | Product Type (g) | Proved Ore Reserves at end June 2018 | | Probable Ore Reserves at end June 2018 | | **Total Ore Reserves at end of June 2018** | | Total Ore Reserves at end of June 2017 | | Atlas Interest | Reporting Cut-Off |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Kt | % $Li_2O$ | Kt | % $Li_2O$ | **Kt** | **% $Li_2O$** | Kt | % $Li_2O$ | % | % $Li_2O$ |
| Mt Dove Stocks | Lithium DSO (h) | 8 | 1.63 | - | - | **8** | **1.63** | - | - | 90 | |
| Port Stocks | Lithium DSO | 61 | 1.60 | - | - | **61** | **1.60** | - | - | 90 | |
| Total $Li_2O$ Ore Reserves (f) | | 69 | 1.60 | - | - | **69** | **1.60** | - | - | | |

a - Fe Ore Reserves are Iron Ore, reported on an in-situ dry weight basis to be mined by open pit method or a loose dry weight basis for site based stockpiles

b - Mining at Abydos ceased in October 2017

c - Standard Fines product targets a grade at or above 56.4% Fe

d - Ore reserves at Mt Webber decreased following production depletion

e - Saleable Product includes both Lump and Fines products

f - The presented tonnages and grades are rounded. Total tonnages and grade are summed on the raw data then rounded.

g - $Li_2O$ Ore Reserves are Lithium DSO Ore stockpiles, reported on a loose dry weight basis

h - Lithium DSO product targets a grade at or above 1.50% $Li_2O$

## MINERAL RESOURCES AND ORE RESERVES CORPORATE GOVERNANCE

Atlas has an established Ore Reserve Steering Committee (ORSC) that oversees the Mineral Resources and Ore Reserves processes and reporting. The committee includes management from geology, operations and mine planning. It meets regularly and is responsible for reconciliation, estimation and reporting of Mineral Resources and Ore Reserves. Ore Reserves undergo rigorous governance and signoff processes extending to all disciplines responsible to satisfy JORC compliance with this process audited by external consultants. Atlas continues to develop its internal systems and controls in order to maintain JORC (2012) compliance in all external reporting, including the preparation of all reported data by Competent Persons as members of the Australasian Institute of Mining and Metallurgy.

## COMPETENT PERSONS STATEMENTS

*Mining Ore Reserve Estimates - Compliance with the JORC code assessment criteria*

This mining Ore Reserve statement has been compiled in accordance with the guidelines defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code - 2012 Edition).

*Ore Reserve Estimation – Wodgina, Abydos, Mt Webber, Corunna Downs and Ore Stocks at Utah Port and Mt Dove*

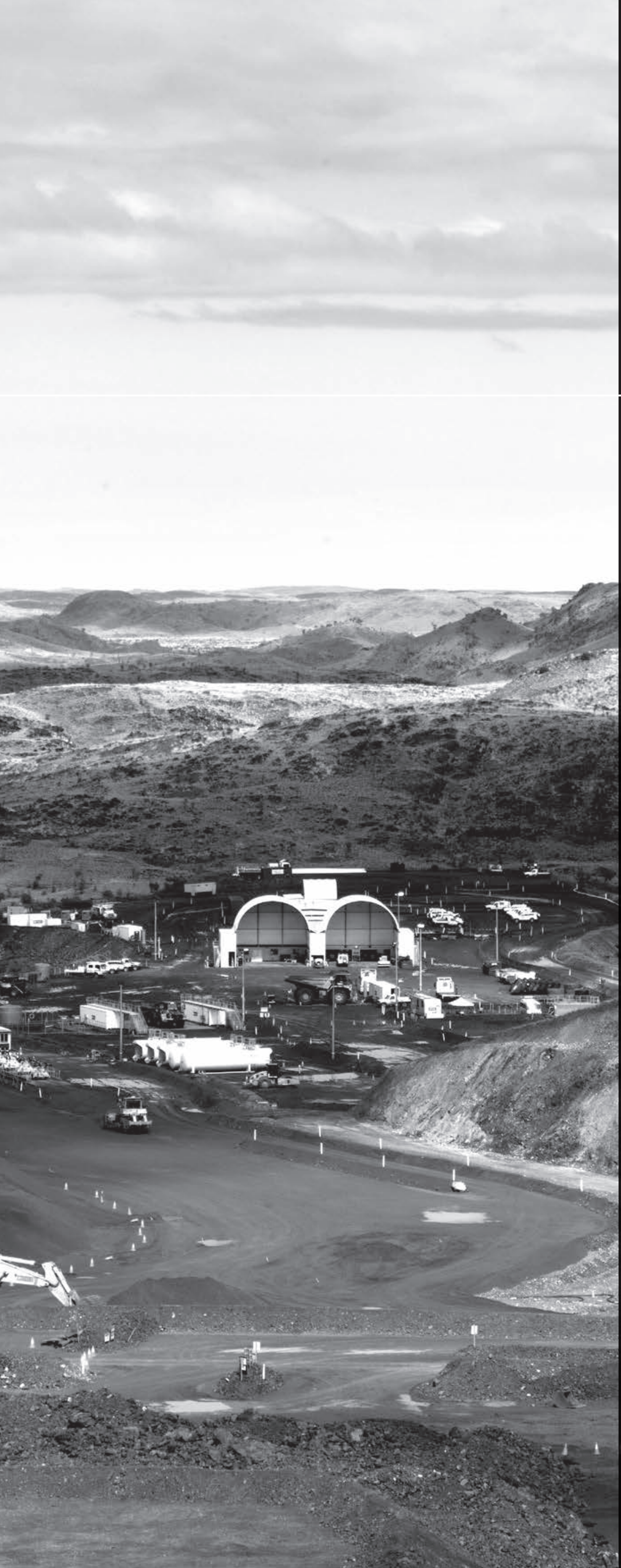
The information in this report that relates to Ore Reserve estimations for the Wodgina, Abydos, Mt Webber, Corunna Downs Areas and ore stocks at Utah Port and Mt Dove, is based on information compiled under the guidance of and audited by Mr Adam Liebenberg who is a member of the Australasian Institute of Mining and Metallurgy. Adam Liebenberg is a full time employee and security holder of Atlas. Adam Liebenberg has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Adam Liebenberg consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

*Geological Data, Interpretation and Resource Estimation – Davidson Creek Hub Project (excluding Miji Miji deposit)*

The information in this report that relates to mineral resource results on Atlas' Davidson Creek Hub Project is based on information compiled by Mr John Graindorge who is a Chartered Professional member of the Australasian Institute of Mining and Metallurgy. John Graindorge is a full time employee of Snowden Mining Industry Consultants Pty Ltd. John Graindorge has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. John Graindorge consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

*Geological Data, Interpretation and Resource Estimation – Atlas DSO Projects*
*(including Miji Miji deposit but excluding all other deposits at Davidson Creek Hub)*

The information in this report that relates to mineral resource results on Atlas' DSO Projects, other than Davidson Creek Hub, is based on information compiled by Mr Leigh Slomp who is a member of the Australasian Institute of Mining and Metallurgy. Leigh Slomp is a full time employee and shareholder of Atlas. Leigh Slomp has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Leigh Slomp consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.



# FINANCIAL REPORT 2018

FOR THE YEAR ENDED 30 JUNE 2018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## DIRECTORS

The Directors of Atlas Iron Limited (the Company) present their report together with the financial statements of the Group comprising the Company and its subsidiaries (together referred to as the Group or Atlas), and the Group's interest in associates and jointly controlled entities for the financial year ended 30 June 2018 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 Australian listed public companies over the last three years have been detailed below. Directors were in office throughout the reporting period unless otherwise noted.

## NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

***Eugene Davis (Non-Executive Chairman)***
Mr Davis was appointed Non-Executive Director on 6 May 2016 and subsequently Non-Executive Chairman on 6 June 2016 (Period of service: 2 years and 4 months).

Mr Davis is the founder, Chairman and Chief Executive Officer of PIRINATE Consulting Group, LLC, a privately-held consulting firm specialising in turnaround management, merger and acquisition consulting, hostile and friendly takeovers, proxy contests and strategic planning advisory services for domestic, international public and private business entities.

Since forming PIRINATE in 1999, Mr Davis has advised, managed and served as a Chief Executive Officer, Chief Restructuring Officer, Director, Committee Chairman and Chairman of the board of a number of businesses operating in diverse sectors including metals, energy, oil & gas, import-export, mining and transportation and logistics. Previously, Mr Davis served as Chief Executive Officer of Total-Tel Communications, President, Vice Chairman and Director of Emerson Radio Corporation and Chief Executive Officer and Vice Chairman of Sport Supply Group, Inc. Mr Davis serves as a director of various companies including Seadrill Limited, Verso Corporation and VICI Properties Inc.

Mr Davis began his career as an attorney and international negotiator with Exxon Corporation and Standard Oil Company (Indiana), and has also been a partner at two Texas-based law firms, specialising in corporate and securities law.

Mr Davis is a member of the Remuneration Committee and Chairman of the Nomination and Governance Committee.

***Mark Clifford Lawrenson (Managing Director)***
Mr Lawrenson joined Atlas in January 2017 (period of service: 1 year and 8 months). Prior to this Mr Lawrenson was Managing Director of early-stage phosphate producer Avenira Limited (formerly Minemakers Limited) from 2012 until January 2017. Mr Lawrenson led Avenira from exploration to early stage production.

Mr Lawrenson joined Avenira Limited after holding the position of Chief Executive Officer of Pilbara iron ore development company FerrAus Limited, which he led to a recommended takeover by Atlas Iron Limited in December 2011. Mr Lawrenson held the position of Group Chief Executive Officer of GRD Limited from 2006 to 2009. GRD incorporated GRD Minproc Limited, OceanaGold Limited and Global Renewables. Prior to joining GRD Limited, Mr Lawrenson was a senior executive and vice president of CMS Energy Corporation in the USA and Singapore for seven years.

Mr Lawrenson has worked extensively in investment banking around the world and has served on several boards in international locations, leading the development and financing of numerous major infrastructure projects. He has been Non-Executive Chairman of ASX-listed Pacific Energy Limited (ASX: PEA) since August 2010.

***Alan Carr (Non-Executive Director)***
Mr Carr was appointed Non-Executive Director on 6 May 2016 (Period of service: 2 years and 4 months).

Mr Carr is an investment professional with 20 years' experience with investing in and leading complex financial restructurings globally, as well as serving on boards of directors. He is currently the Chief Executive Officer of Drivetrain LLC, which he founded in 2013. Mr Carr also served as Managing Director at Strategic Value Partners UK LLP from 2003 to 2013. Prior to these positions, Mr Carr worked as an attorney at Skadden, Arps and at Ravin, Sarasohn, specialising in corporate restructuring.

Mr Carr currently serves as a director of various companies, including Tidewater Inc., Midstates Petroleum Company, Inc., Verso Corporation and TEAC Corporation. Mr Carr has served on various boards of other private companies in North America, Europe and Asia.

Mr Carr is Chairman of the Remuneration Committee, a member of Audit and Risk Committee, and a member of the Nomination and Governance Committee.

***Hon. Cheryl Edwardes AM (Non-Executive Director)***
Mrs Edwardes AM was appointed Non-Executive Director on 6 May 2015 and subsequently acted in the role of Non-Executive Chairman from 11 June 2015 until she reverted to Non-Executive Director on 6 June 2016 (period of service: 3 years and 4 months).

A solicitor by profession, Mrs Edwardes is a former Minister in the Western Australian Legislative Assembly with extensive experience and knowledge of WA's legal and regulatory framework relating to mining projects, environmental, native title, heritage and land access. Mrs Edwardes assists the clients of FTI Consulting with a range of complex statutory approvals required for resources and infrastructure projects. During her political career, Mrs Edwardes held positions including WA Attorney General, Minister for the Environment and Minister for Labour Relations. Mrs Edwardes has been a member of the Foreign Investment Review Board since 14 August 2017 and is a Commissioner of the West Australian Football Commission, Non-Executive Chairman of CropLogic (ASX: CLI) and Non-Executive Chairman of Vimy Resources Limited (ASX: VMY). Mrs Edwardes also serves as a director of AusCann Group Holdings Limited (ASX: AC8).

Mrs Edwardes is a member of the Remuneration Committee, a member of the Audit and Risk Committee, and acted as Chair of the Audit and Risk Committee from 28 June 2016 to 16 January 2017. Mrs Edwardes is also a member of the Nomination and Governance Committee.

***Daniel Harris (Non-Executive Director)***
Mr Harris was appointed Non-Executive Director on 6 May 2016 (Period of service: 2 years and 4 months).

Following the resignation of Mr Flanagan as Managing Director on 28 June 2016, Mr Harris was appointed as Managing Director and Chief Executive Officer and continued in this role until Mr Lawrenson was appointed as Managing Director on 16 January 2017. Thereafter, Mr Harris resumed his role as Non-Executive Director and Chairman of the Audit and Risk Committee.

Mr Harris brings a wealth of mining and resources industry experience to Atlas from a career spanning more than 35 years, having worked previously as Chief Executive Officer and Chief Operating Officer of Atlantic Ltd and Chief Executive Officer and Chief Financial Officer of Strategic Minerals Corporation's (formerly Union Carbide) vanadium business. Mr Harris has also worked for Evraz in Moscow as Vice President & Head of Vanadium Assets and Managing Director of Vametco Alloys. Mr Harris is a consultant and member of the Advisory Board of Black Rock Metals and is the Chief Advisor to the Board of Directors of Queensland Energy Minerals. Mr Harris serves as a director of Australian Vanadium Ltd (ASX: AVL), Paladin Energy Ltd (ASX: PDN) and QEM Limited.

Mr Harris is Chairman of the Audit and Risk Committee and a member of the Nomination and Governance Committee.

## GROUP COMPANY SECRETARIES

***Bronwyn Kerr, FCIS***
Ms Kerr was appointed as General Counsel and Company Secretary on 20 December 2016. Prior to this appointment, Ms Kerr was General Counsel and held other legal roles since joining Atlas in July 2010 (period of service: 8 years and 2 months).

Ms Kerr is an experienced lawyer and governance professional. Prior to joining Atlas, Ms Kerr worked for a leading international law firm where she advised companies in relation to mining and infrastructure projects as well as a broad range of corporate matters.

***Christiaan Els, CA***
Mr Els joined Atlas in July 2017 as Chief Financial Officer and was appointed as Joint Company Secretary on 29 January 2018 (period of service: 1 year and 2 months)

Mr Els is a finance executive with over 25 years' industry experience spanning mining, manufacturing, agribusiness services and fast-moving consumer goods in Australia, South Africa, Brazil and Eritrea. His areas of expertise include, amongst others, business and financial strategy development, equity and debt funding, M&A, corporate governance and statutory and covenant compliance.

Prior to joining Atlas, Mr Els held Chief Financial Officer positions in Danakali Ltd, Mirabela Nickel Ltd and Norilsk Nickel (Australia). He also held the position of Company Secretary at Danakali Ltd and Mirabela Nickel Ltd.

## DIRECTORS' AND OTHER OFFICERS' INTERESTS IN THE SHARES, OPTIONS AND RIGHTS OF THE GROUP AND RELATED BODIES CORPORATE

The interests of each Director and officer 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 | Share appreciation rights and performance rights |
|---|---|---|---|
| Eugene Davis | - | - | - |
| Mark Clifford Lawrenson | - | - | - |
| Alan Carr | - | - | - |
| Hon. Cheryl Edwardes (AM) | - | - | - |
| Daniel Harris | - | - | - |
| Bronwyn Kerr | - | - | - |
| Christiaan Els | - | - | - |

## DIVIDENDS
Directors resolved not to pay a dividend for the year ended 30 June 2018.

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

## OPERATING AND FINANCIAL REVIEW

**Strategy and Purpose**
Atlas' purpose is to deliver mineral products that create value for all stakeholders including shareholders, customers, suppliers, and the communities in which the Group operates. In order to achieve this goal, Atlas' strategy is to consolidate its current production base with a competitive cost base and to pursue opportunities through optimising near term production to maximise profitability and cash flow, developing customer and market focused solutions, and maintaining options for diversification and growth, as market conditions allow.

*Optimising and Growing the Existing Iron Ore Business*
In response to the high discount on ore of Atlas grade, especially on Atlas' Fines product, Atlas implemented measures to generate an improved product characterised by lower impurities. After successful trial shipments, this product is regularly priced at a premium to conventional Atlas fines. The pricing premium achieved more than offset any increased costs associated with supplying the product.

During the year, the premium on lump product improved compared to historical rates and the Company responded by changing its product strategy to increase the proportion of lump product in the sales mix. The Company's output for the year was 52% lump and 48% fines compared to FY18 guidance of 40% lump and 60% fines.

In its June Quarterly report, the Company announced that in the light of market conditions, it would suspend iron ore crushing at Mt Dove and reduce the mining rate at Mt Webber to circa 7mtpa with effect from late July 2018. Atlas is constantly monitoring market conditions and will seek to ramp up iron ore production with a short lead-time if economics permit.

Atlas continues to progress the Corunna Downs Project, with the approvals process substantially completed. The Company has secured all approvals required from the Commonwealth departments and continues to liaise with Western Australia State departments in relation to the final approvals for mining.

*Diversification Beyond Iron Ore*
During the year Pilbara Minerals Limited (PLS) commenced an expedited lithium DSO mining program at its Pligangoora Project. Atlas agreed to purchase up to 1.5 million tonnes of lithium direct shipping ore over a 15-month period from PLS. Atlas will process and transport the ore using its existing infrastructure, including its Mt Dove crusher and Utah Port facilities. Atlas entered into a back-to-back fixed price offtake agreement with Sinosteel Australia Pty Ltd for the export of this product and expects to generate an operating margin of AU$15-20 per tonne. As part of the arrangement, Sinosteel advanced funds for pre-payments made by Atlas to PLS for lithium DSO mine development costs. The prepayments are repaid in US$500,000 instalments over the first six lithium shipments. The first lithium shipment of 85,000 tonnes was successfully completed in June 2018.

During the third quarter of 2018 financial year, Atlas signed a deal with Horseshoe Manganese Pty Ltd to purchase up to 100,000 tonnes of crushed manganese over a four-month period. The Company has prepared its logistics chain to handle manganese lump at very low capital cost and without affecting iron ore or scheduled lithium production. Atlas agreed to purchase the manganese as it reaches the north Pilbara and load it into a dedicated hold of vessels chartered for iron ore. The first manganese shipment was successfully completed in April 2018 with some 47,000 tonnes shipped by year end.

In addition to the external activities above, the Company continues to progress geological interpretation and modelling for the Copper Range Project east of Newman. This work will form the basis for the design of a more comprehensive drilling program to improve definition of the copper mineralisation at Copper Knob and test additional priority targets.

The Company continued early-stage exploration activities at its 100%-owned Pancho Lithium Prospect, located in the vicinity of known lithium deposits and in close proximity to the Company's existing infrastructure corridor. Detailed soil geochemistry and outcrop mineralogy work have identified a potential under cover target in a favourable geological setting. Planning and approvals are underway for a small drilling program to test the nature of this target and quantify its prospectivity.

The Company also progressed activities at its Mt Francisco lithium joint venture (Cisco), where operator Pilbara Minerals Ltd focused on obtaining the necessary native title and land access arrangement to permit on-ground exploration activities including drilling to occur in the 2018/19 year.

Subsequent to the internal review of conglomerate-hosted gold prospectivity across the Company's tenure, Atlas engaged an external consultant to conduct a broader, high level review of gold prospectivity irrespective of mineralisation style. This review identified several areas of tenure that display regional features and geological characteristics that are seen as conducive to hosting gold occurrences. These findings have now been incorporated in strategic exploration planning and tenure status assessments.

*Debt Reduction*
During the March 2018 quarter, a further amendment to the Term Loan B was implemented subsequent to Atlas repaying a further AU$20 million of its debt. The key features of the amendment eased certain loan covenants, including reducing the minimum cash balance requirement at the end of each month from AU$35 million to AU$15 million (refer Note 16).

A discussion on factors that will impact the achievement of the Group's Strategy can be found later in this Operating and Financial Review in "Factors and Business Risks that affect Future Performance".

**Performance Indicators**

Management and the Board use a number of financial and operating performance indicators to measure performance over time against our overall strategy. Selected performance indicators are summarised below:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| **1. Revenue** | | | |
| Tonnes sold ('000 wmt) | 9,217 | 14,351 | 14,485 |
| Revenue (AU$'000) | 546,819 | 871,051 | 785,755 |
| Average price per tonne received (including Lump & Value fines) (AU$/wmt CFR) | 59.32 | 60.69 | 55.47 |
| **2. Operating Results** | | | |
| Underlying cash gross margin (AU$'000)* | 41,050 | 152,660 | 97,721 |
| Underlying EBITDA (AU$'000)* | 19,224 | 116,261 | 74,466 |
| Underlying (loss)/profit after tax (AU$'000)* | (62,577) | 30,841 | (57,694) |
| C1 cash costs (AU$/wmt FOB) | 39.30 | 34.76 | 34.39 |
| All-in cash costs (AU$/wmt)** | 57.62 | 51.02 | 49.35 |
| Full cash costs (AU$/wmt)*** | 58.98 | 53.08 | 52.59 |
| **3. Liquidity** | | | |
| Cash flow from operations (AU$'000) | (2,723) | 153,897 | 31,105 |
| Cash (AU$'000) | 56,664 | 80,769 | 80,853 |
| Working capital (AU$'000) | 30,900 | 75,325 | 69,744 |
| Borrowings (AU$'000) | (86,367) | (104,753) | (189,347) |

* The underlying basis is a non-IFRS measure that in the opinion of Atlas' Directors provides useful information to assess the financial performance of the Company. A reconciliation between statutory results and underlying results is provided in "Underlying cash gross margin" section below. These non-IFRS measures are unaudited.

** All-in cash costs includes C1 cash costs, royalties, freight, corporate and administration, expensed exploration and evaluation but excludes interest expense, capital expenditure, one-off restructuring costs, suspension and ramp up costs of operating mine sites, contractor collaboration margin and other non-cash expenses. C1 cash costs are inclusive of contractors and Atlas' costs including contractor rate uplift. All-in cash costs are unaudited.

*** Full cash costs includes All-in cash costs, contractor collaboration margin, capitalised exploration and evaluation, interest expense and sustaining capital expenditure, but excludes depreciation and amortisation, one-off restructuring and suspension costs of operating mine sites, take-over transaction costs and other non-cash expenses. Full cash costs are unaudited.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 9 April 2018, Atlas and Mineral Resources Ltd (MinRes) announced a proposal to combine by scheme of arrangement (the Scheme), subject to court and shareholder approval and other conditions precedent. Pursuant to the scheme, MinRes offered Atlas shareholders 1 MinRes share for every 571 Atlas shares held at the record date.

Separate to the Scheme, Atlas and MinRes, also announced an Alliance Agreement that provided a framework for the parties to pursue existing and future commodity opportunities. Under the Alliance Agreement, MinRes purchased 10% of the share capital of an Atlas Pty Ltd, a subsidiary responsible for managing lithium and manganese opportunities, for AU$4 million. Atlas used the funds for working capital requirements. The Alliance Agreement and the Scheme are not inter-conditional. The Alliance Agreement may be terminated by either party should binding legal documents to govern the relationship between the parties not be executed by 9 October 2018. In this case, Atlas will reimburse MinRes with the AU$4 million equity it originally contributed to acquire 10% of Atlas Pty Ltd (Atlas controlled vehicle) and the rights to dividends will transfer back to Atlas.

On 18 June 2018, Redstone Corporation Pty Ltd (Redstone), a wholly-owned subsidiary of Hancock Prospecting Pty Ltd, lodged a Bidder's Statement with ASIC and ASX, in relation to an off-market takeover bid for 100% of the shares in Atlas for cash consideration of AU$0.042 per Atlas share (Hancock Offer). The offer was subject only to the condition that "prescribed occurrences" as defined by the Corporations Act do not occur in relation to Atlas or its subsidiaries prior to the date that is three Business days after the end of the offer period. The offer was not conditional on due diligence, financing, regulatory approval or further internal approvals.

Pursuant to the Hancock Offer Atlas commenced the matching rights process under the MinRes Scheme Implementation Deed (SID), giving MinRes the opportunity to make a counter proposal to the takeover bid. MinRes declined to make a counter proposal to the Hancock Offer. Therefore, the Atlas Board unanimously recommended the Hancock Offer to shareholders and withdrew their support for the MinRes offer and MinRes terminated the SID as a result of the change of recommendation. Atlas paid an AU$3.1 million break fee to MinRes as determined by the SID.

Atlas lodged its Target's Statement in relation to the Hancock Offer with ASX on 16 July 2018 and dispatched its Target's Statement to shareholders on 19 July 2018. The Target's Statement included a report from an independent expert, which concludes that the Hancock Offer is fair and reasonable to Atlas shareholders.

On 3 August 2018, Hancock acquired more than 50% of the Atlas shares on issue and gained control of the company. The Hancock Offer remains open at the date of this report.

### Revenue

Tonnes sold (wmt) were 36.1% lower from the prior year at 9.2 million wmt. predominantly due to the planned cessation of production at Wodgina (May 2017) and Abydos (October 2017) operations.

The table below outlines the breakdown of product that was shipped over the current and previous two years:

| | **30-Jun-18 wmt millions** | 30-Jun-17 wmt millions | 30-Jun-16 wmt millions |
|---|---|---|---|
| Atlas fines | 4.4 | 7.9 | 10.8 |
| Atlas lump | 4.8 | 4.9 | 3.4 |
| Value fines | - | 1.6 | 0.3 |
| **Total** | **9.2** | **14.4** | **14.5** |

Revenue for the year ended 30 June 2018 was AU$546.8 million at an average realised selling price of AU$59.32 per tonne. The decrease in revenue of 37.2% was primarily due to lower tonnes shipped and higher discounts applicable to iron ore of Atlas grade. This is partially offset by increased lump premiums and additional lump sales in the product sales mix which attract a premium.

### Operating Results

*Underlying cash gross margin*

The following table reconciles underlying cash gross margin to statutory profit/(loss) after tax:

| | **30-Jun-18 $ 000** | 30-Jun-17 $ 000 | 30-Jun-16 $ 000 |
|---|---|---|---|
| **Underlying cash gross margin*** | **41,050** | **152,660** | **97,721** |
| Exploration and evaluation expense | (5,223) | (3,482) | (3,526) |
| Other income and gain on dilution of associate | 2,965 | 1,780 | 12,426 |
| Net Income Lithium/Manganese (attributable to owners) | 2,256 | - | - |
| Loss on sale of assets | - | (98) | (349) |
| Other costs | (18,584) | (11,888) | (25,837) |
| Share of loss of associates, joint ventures and (loss)/gain on financial instruments | (3,240) | (22,711) | (5,969) |
| **Underlying EBITDA*** | **19,224** | **116,261** | **74,466** |
| Depreciation and amortisation | (69,870) | (74,519) | (85,033) |
| **Underlying EBIT*** | **(50,646)** | **41,742** | **(10,567)** |
| Net finance expense | (9,802) | (12,628) | (34,027) |
| Net foreign exchange (loss)/gain | (1,452) | 1,727 | (13,100) |
| **Underlying (loss)/profit before tax*** | **(61,900)** | **30,841** | **(57,694)** |
| Underlying tax expense* | (677) | - | - |
| **Underlying (loss)/profit after tax*** | **(62,577)** | **30,841** | **(57,694)** |
| Inventory write-down | (11,720) | - | (3,652) |
| Impairment of assets | (92,000) | (1,041) | (97,098) |
| Break fee on termination of Scheme Implementation Deed | (3,120) | - | - |
| Gain on debt restructure | - | - | 5,452 |
| Corporate transactions (incl. onerous lease provision movement) | 2,511 | 6,784 | (3,783) |
| Other | - | 11,397 | (2,239) |
| **Statutory (loss)/profit after tax** | **(166,906)** | **47,981** | **(159,014)** |

* The underlying basis is a non-IFRS measure that in the opinion of Atlas' Directors provides useful information to assess the financial performance of the Group. These non-IFRS measures are unaudited.

*Underlying EBITDA*

Underlying EBITDA has decreased by AU$97.0 million to AU$19.2 million as a result of the decrease in tonnes shipped, impact of decrease in the average price per tonne received due to lower headline price, elevated discount on Atlas fines product and higher haulage and sea freight charges, partly offset by increased lump premium and lump in the product mix.

Lithium DSO sales and Manganese service income contributed AU$2.3 million net income to underlying EBITDA which represents the share attributable to the owners of the group (90%).

*Underlying Loss After Tax*

The Company achieved an underlying loss after tax of AU$62.6 million compared to a profit AU$30.8 million in the prior year due to the negative movement in underlying EBITDA outlined above and negative foreign exchange movement since last year, partly offset by lower depreciation and amortisation as a result of the cessation of the Company's Wodgina and Abydos operations and AU$2.8 million reduction in net finance expenses due to the lower interest expense on Term Loan B as a result of the significant cash sweep repayments in the second half of 2017 financial year and the AU$20 million principal down payment made in January 2018.

*Statutory Loss After Tax*
The AU$166.9 million statutory loss after tax compares unfavourably with the prior year profit of AU$48.0 million due to the reduction in revenue and increased costs detailed above. The following one-off transactions also contributed to the statutory loss:

- impairment charges on assets of AU$92.0 million (30 June 2017: AU$1.0 million);
- inventory valuation write-down of AU$11.7 million (30 June 2017: Nil);
- break fee on termination of scheme implementation deed of AU$3.1 million (30 June 2017: Nil); and
- the impact of other one-off benefits and business combinations of AU$2.5 million gain (30 June 2017: AU$18.2 million)

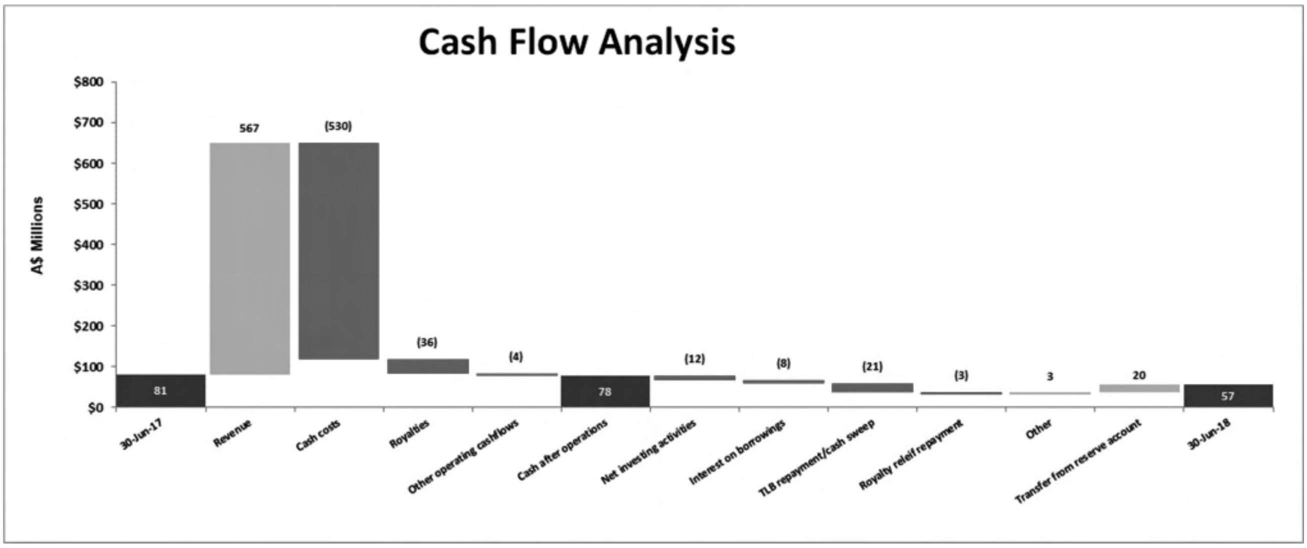
*C1 Cash Cost Per Tonne*
C1 cash cost per tonne increased by 13.1% (AU$4.54 per tonne) from the prior year to AU$39.30 per tonne. Driven primarily by a decrease in tonnes across the value chain from the cessation of Wodgina and Abydos operations affecting fixed cost dilution. Overall unit costs rose due to increased haulage costs as a result of higher fuel costs and longer average haulage distance to the Port.

*All-In Cash Cost Per Tonne*
The All-in cash costs per tonne increased by 12.9% (AU$6.60 per tonne) from the prior year to AU$57.62 per tonne due to an increase in C1 cash cost per tonne detailed above, decrease in tonnes shipped unfavourably impacting fixed cost dilution of corporate costs and exploration and evaluation expense and an increase in freight rates during the period, partly offset by lower royalties and cessation of the contractor collaboration program as it reached the end of the negotiated term.

*Full Cash Cost Per Tonne*
Full cash cost per tonne increased 11.1% (AU$5.90 per tonne) from the prior year to AU$58.98 due to an increase in All-in cash costs noted above offset by lower contractor margin share due to the cessation of the collaboration agreements following the closure of Wodgina and Abydos operations and a decrease in interest expense per tonne on the back off the additional Term Loan B repayments made during the year.

**Liquidity**
Net operating cash flows are the Group's main sources of cash. These cash flows have been fundamental to the Group's ability to fund ongoing operations of its existing mine sites and future developments.

*Cash*
At the end of the financial year, Atlas had AU$56.7 million in cash and cash equivalents. The following graph outlines the cash inflows and outflows during the year:




Following is a summary of key sources and uses of cash. A full statement of cash flow is contained in the financial statements and explanatory notes appear in Note 20 to the financial statements.

*Net Operating Cash Flows*
There has been a reduction in cash flows from operations of AU$156.6 million to a net cash outflow of AU$2.7 million during the year ended 30 June 2018 compared to the previous financial year. Atlas had net cash outflow from operations of $2.7 million for the year ended 30 June 2018. This compared unfavourably to the previous corresponding period predominantly due to a decrease in underlying EBITDA of AU$97.0 million and partially offset by a lower cost of iron ore hedges (Refer to *Underlying EBITDA*).

*Net Investing Flows*
Cash outflows from investing activities have decreased from the prior year by AU$17.6 million to AU$11.7 million due to the lower payments on iron ore hedging instruments AU$2.6m (2017: AU$24.7 million). The majority of capital spent related to Utah intersection works, Mt Dove camp upgrade and crusher works to accommodate lithium DSO at Mt Dove.

*Net Financing Flows*
Cash outflows from financing activities have decreased by AU$113.1 million in the year ended 30 June 2018 to AU$10.6 million due to lower additional principal repayments on Term Loan B compared to the reductions made during the previous financial year and draw down of the reserve account compared to the increase in the reserve account during 2017.

## Working Capital

The following table summarises Atlas' working capital position:

| | **30-Jun-18 $ 000** | 30-Jun-17 $ 000 | 30-Jun-16 $ 000 |
|---|---|---|---|
| Cash | 56,664 | 80,769 | 80,853 |
| Trade and other receivables | 22,239 | 41,421 | 36,509 |
| Inventories | 22,283 | 19,094 | 16,728 |
| Trade and other payables | (70,286) | (66,049) | (64,346) |
| **Working capital** | **30,900** | **75,235** | **69,744** |

The impact of the reduction in tonnes shipped, the lower FOB iron ore price and repayment of AU$20 million on Term Loan B contributed in the AU$44.3 million lower working capital position as at 30 June 2018 compared to the prior year. For further information, refer to Note 1 (a) *Going Concern* in this report.

*Borrowings*
Borrowings have decreased by AU$18.4 million primarily as a result of contractual TLB and finance lease repayments. In addition, a further AU$20.0 million was repaid during the year as part of an amendment to Term Loan B, reducing the debt to AU$86.4 million.

Borrowings have been unfavourably impacted by the change in the AU$:US$ foreign exchange rate from 0.7692 at 30 June 2017 to 0.7391 at 30 June 2018.

## Factors and Business Risks that Affect Future Performance

Atlas operates in a changing environment and is therefore subject to factors and business risks that will affect future performance. The following factors and business risks could have a material effect on Atlas' future results from operations and financial position:

*Commodity prices*
Atlas' revenues and cash flows are mainly derived from the sale of iron ore. The majority of Atlas' iron ore sales contracts use a pricing formula linked to the spot market for iron ore and market discounts. Contract pricing is often based on the spot market price in a future period. This has meant that Atlas' final received price is known one to two months after iron ore is shipped. Atlas' financial performance is exposed to fluctuations in the iron ore price, which has been volatile in the past.

Low grade product is subject to a discount factor. Over the year a number of factors have contributed to higher discounts for low grade product. During the year the average discount increased significantly compared to the year ending 30 June 2017.

Atlas looks to reduce volatility using hedging products, fixed price sales and shorter dated pricing periods. This will reduce exposure to iron ore price risk, but may also limit Atlas' ability to leverage any potential iron ore price appreciation.

Iron ore prices, including product discounts, may be influenced by numerous factors and events that are beyond the control of Atlas, including increased global supply, actions of other producers, decreased demand, currency exchange rates, general economic conditions, regulatory changes and other global, regional, political and economic factors. Atlas cannot provide any assurance as to the prices Atlas will achieve for its iron ore. Changes in iron ore prices may have a positive or negative effect on various aspects of Atlas' business including debt covenants, profit margins, project development and production plans and activities, together with its ability to fund those plans and activities.

Atlas sells iron ore products of differing nature and grade. The market for such products varies depending on factors outlined above. As the lump product market is smaller than the fines product market the impact of competitor activity or changes in demand have the potential to be amplified and therefore impact the price received. The average lump premium for 2018 was US$0.21/dmtu compared to the average for 2017 of US$0.11/dmtu. Product of Atlas grade typically attract a discount to the indexed lump premium.

Atlas also earns revenue and cash flow from the sale of Lithium DSO under a fixed price contract.

The following table shows the average prices based on Platts 62% Fe and freight (CFR) to China over the last three years:

| | **30-Jun-18 $** | **30-Jun-17 $** | **30-Jun-16 $** |
|---|---|---|---|
| 62% CFR (US$/DMT) | 69.12 | 69.53 | 51.37 |
| Average price per tonne received CFR (including Atlas Value Fines) (AU$/wmt) | 59.32 | 60.69 | 55.47 |

The price received by Atlas is adjusted for Fe grade, quality and product discount.

*Exchange Rates*
Atlas is exposed to fluctuations in the US dollar as all sales are denominated in US dollars. The Company borrows money and holds a portion of cash in US dollars, which provides a partial natural hedge.

Accordingly, Atlas' income from, and the value of its business, will be affected by fluctuations in the rates by which the US dollar is exchanged with Australian dollars.

Although steps may be undertaken to manage currency risk (e.g. via hedging strategies), adverse movements in the Australian dollar against the US dollar may have an adverse impact on Atlas.

The following table shows the average USD/AUD exchange rate for the financial year over the last three years:

| | **30-Jun-18** **$** | 30-Jun-17 $ | 30-Jun-16 $ |
|---|---|---|---|
| USD/AUD | 0.7753 | 0.7545 | 0.7283 |

Refer to Note 26 to the financial statements for details of the Company's foreign currency exposure and sensitivity analysis.

*Operating and Development Risks*
Atlas' operations and development activities could be affected by various unforeseen events and circumstances, which may result in increased costs, lower production levels and, following on from that, lower revenue levels. Any negative outcomes flowing from these operational risks could have an adverse effect on Atlas' business, financial condition, profitability and performance.

Mining requires significant interaction with the natural environment and is impacted by inherent vulnerability including (but not limited to) weather, ground conditions, mineral enrichment, mineral endowment and ore physical characteristics, each of which might have an impact on the overall deliverability or cost of the ore delivered to customers. Atlas seeks to minimise the potential damage flowing from these risks by obtaining business interruption insurance for certain events and appropriate indemnities from suppliers and contractors.

*Debt Covenants*
Atlas has financing arrangements in place which are at risk of acceleration and enforcement if a default arises under them. A change of control event can give rise to an acceleration of the debt. The Term Loan B is secured, so enforcement may involve enforcement of security over the assets of Atlas and its material subsidiaries, including appointing a receiver.

Under the Term Loan Agreement there is a minimum cash balance covenant requiring Atlas to have a minimum of AU$15 million at the end of each month. A 100% cash sweep pay down is in force for any cash in excess of AU$80 million at the end of each quarter to be paid to the lenders in the following month.

Following an amendment to the Term Loan B facility in 2017, the Company was allowed to accumulate up to AU$45 million into a reserve account subject to certain rules. During the life of the reserve account AU$34.4 million was transferred to the account. The Reserve Account was depleted by 30 June 2018 as the Company required the funds to sustain liquidity. (Refer Note 16)

*Regulatory and Title Risk*
Changes in legislative and administrative regimes, taxation laws, interest rates and other legal and government policies in Australia may have an adverse effect on the assets, operations and ultimately the financial performance of Atlas and the market price of Atlas shares.

Exploration and production are dependent on the granting and maintenance of appropriate licences, permits and regulatory consents and authorisations (including those related to interests in tenements), which may not be granted or may be withdrawn or be made subject to limitations at the discretion of government or regulatory authorities. Atlas also relies on authorisations pursuant to contractual regimes with various counterparties in relation to its ongoing operations and development activities. Although such authorisations may be renewed following expiry or granted (as the case may be), there can be no assurance that such authorisations will be continued, renewed or granted, or as to the terms of renewals or grants. If there is a failure to obtain or retain the appropriate authorisations or there is a material delay in obtaining or renewing them or they are granted subject to onerous conditions, then Atlas' ability to conduct its exploration, development or operations may be adversely affected.

*Interest Rates*
Atlas is exposed to interest rate risk on its borrowings, which are predominately held in US dollars and have a floating interest rate above a LIBOR floor. Fluctuation in interest rates above that LIBOR floor will have an impact on the Company's earnings.

*Health, Safety and Environment*
Atlas is subject to regulation in respect of the health and safety of our people and the protection and rehabilitation of our environment. This is an area that is continually evolving and the expectations of communities can be different to the regulations in place. Health, safety and the environment is a key focus area of Atlas and the Company does all that it can do to comply with regulations and meet the expectations of the community. Given the sensitive nature of this area, Atlas may be exposed to litigation, foreseen and unforeseen compliance and rehabilitation costs, despite its best efforts.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 3 August 2018, Redstone Corporation Pty Ltd (Redstone), a wholly-owned subsidiary of Hancock Prospecting Pty Ltd advised that its voting power in Atlas increased above 50%.

As per Redstone's most recent notice its voting power in Atlas is 77.06%. Redstone's offer remains open at the date of this report.

As foreshadowed in the Target's Statement, the change in the control of Atlas caused by shareholders accepting the Hancock Offer gives lenders under the Term Loan B Facility the option to accelerate repayment of the debt. If the lenders choose to accelerate repayment of the debt, the debt will immediately become due and payable.

Redstone has confirmed in its Bidder's Statement that it will offer to make available to Atlas (by way of a loan facility) such amount as may be necessary to enable Atlas to meet its repayment obligations in relation to the Term Loan B Facility, or will offer to step-in to the Term Loan B Facility (by way of acquiring that debt from the lenders under the Term Loan B Facility). However, Atlas and Redstone have not agreed to the terms for the provision of such funding to Atlas and there is a risk such agreement may not eventuate.

On 27 September 2018, the Term Loan B lenders have agreed to immediately waive this event of default on the following terms:

- Redstone has granted the lenders a 60-day put option commencing on 3 October 2018.
- During the put option period, a majority of lenders can require Redstone (or an associate or a nominee of Redstone) to purchase all Term Loan B debt at face value.
- If the lenders exercise the put option, Redstone or its associate or its nominee will step in as the lender under the Term Loan B facility and have the benefit of the existing Term Loan B security package.

While formal funding agreements with Redstone are not yet agreed, the Board expects, based on the significant investment Redstone has made in the Company and a letter of comfort issued to the Directors by Redstone, that funding will be obtained if it is required.

No other matters have arisen since 30 June 2018, 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.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Redstone has indicated in the Bidder's Statement (see Section 5 of the Bidder's Statement) that as it conducted limited due diligence in relation to Atlas, it intends to conduct a strategic review of Atlas once the Hancock Offer has closed. Such a review will be an important step in informing and determining Redstone's approach to its investment in Atlas, including the potential integration of Atlas' business and mining assets into the Hancock Group.

Redstone has indicated that it intends to seek representation on the Atlas Board so that the proportion of Redstone nominees is broadly in line with its voting power in Atlas.

Since the balance sheet date, the Group has decreased the annual production rate at its Mt Webber project from 9mtpa to 7mtpa (wmt) with the suspension of iron ore crushing at the Mt Dove site due to the challenging market conditions. Atlas is constantly monitoring market conditions and will seek to ramp up iron ore production with a short lead time if economics permit.

The start of the Corunna Downs project development was deferred in June 2017 primarily due to prevailing market conditions and government approval processes taking longer than expected. The deferral of the commencement date will allow the Company to further de-risk Corunna Downs in anticipation of improved market conditions. Corunna Downs remains an important project for the Group to sustain its production base and Atlas in consultation with Redstone, will assess its status once environmental approvals are received.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation in respect of its exploration and mining activities. The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, 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.

## HISTORICAL FINANCIAL DATA

Atlas' information technology systems were disrupted by a security breach late in the fourth quarter, causing some data encryption (see ASX Announcement 29 June 2018). Work on data recovery is ongoing. Although these systems issues have had no impact on production activities, significant tranches of financial data were encrypted. The Company commenced a systematic process of recovering financial information from source documents, hard copy reports and other sources.

## 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 Listed Options | Number of Unlisted Options |
|---|---|---|---|
| Balance at the beginning of the period | **0.07** | **4,513,986,260** | **156,913,683** |
| Options granted | 0.00 | - | 206,081,063 |
| Options exercised | 0.00 | - | (18,434,437) |
| Options forfeited | 0.00 | - | (5,196,018) |
| Options expired | 0.07 | (4,513,986,260) | - |
| **Total number of options outstanding as at 30 June 2018** | **0.00** | **-** | **339,364,291** |
| Options all vested subsequent to reporting date | **-** | - | (339,364,291) |
| **Total number of options outstanding at the date of this report** | **0.00** | **-** | **-** |

As at the date of this report following the change of control, the Atlas Employee Share Option Plan (ESOP) has vested any unvested options as per the rules of the ESOP.

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 a Director, Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract. 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.

## REMUNERATION REPORT (AUDITED)

The Directors present the Atlas Iron Limited 2018 Remuneration Report. The Remuneration Report forms part of the Directors' Report for the year ended 30 June 2018 and outlines the Group's remuneration arrangements in accordance with the requirements of the *Corporations Act 2001* (Cth) (the Act) and associated regulations. The information in the Remuneration Report has been audited pursuant to section 308(3C) of the Act.

The report is structured as follows:

1. Executives covered in this report
2. Remuneration governance
3. Executive remuneration principles and framework
4. Directors' and Executive remuneration for the financial year
5. Equity instruments disclosure

### 1. EXECUTIVES COVERED IN THIS REPORT

For the purposes of this report, "Executives" include Executive Directors, Non-Executive Directors and Key Management Personnel (KMP). KMPs are those persons who, directly or indirectly, have authority and responsibility for planning, directing and controlling the major activities of the Group.

The following table sets out the Group's Executives during the financial year:

| Non-Executive Directors (NEDs) | | |
|---|---|---|
| Eugene I Davis | Chairman<br>Director | Full Year<br>Full Year |
| Alan J Carr | Director | Full Year |
| Cheryl Edwardes AM (Hon) | Director | Full Year |
| Daniel C Harris | Director | Full Year |
| **Executive Director** | | |
| Mark Clifford Lawrenson | CEO and Managing Director | Full Year |
| **Other Executive KMP** | | |
| Christiaan Els | Chief Financial Officer (25 July 2017) and Joint Company Secretary (2 February 2018) | Part Year |
| Mark Hancock | Chief Commercial Officer* | Full Year |
| Jeremy Sinclair | Chief Operating Officer | Full Year |
| Bronwyn Kerr | General Counsel and Company Secretary | Full Year |

*Mark Hancock transitioned from the Group's Chief Financial Offer to Chief Commercial Officer on 25 July 2017.

### 2. REMUNERATION GOVERNANCE

*2.1 Role of Remuneration Committee*

The role of the Remuneration Committee is to advise the Board on Executive remuneration. The Committee makes recommendations to the Board on the executive remuneration framework, the remuneration level of Executives including, where appropriate, all awards under the Long Term Incentive (LTI) plan, and approves the Short Term Incentive (STI) award. The aim is to ensure that remuneration policies align to the long-term objectives of the Company, are fair and competitive and reflective of generally accepted market practices.

From time to time, the Committee engages independent remuneration consultants to assist with the periodic review of the Group's remuneration framework. Please refer to section 3.3 for further information on the Group's use of remuneration consultants.

The Remuneration Committee comprises the following Directors:

| Remuneration Committee Members | | |
|---|---|---|
| A. Carr | Committee Chair | Full Year |
| C. Edwardes AM (Hon) | Committee Member | Full Year |
| E. Davis | Committee Member | Full Year |

The Remuneration Committee meets throughout the year as required and, where Management input is required, Management attends by invitation. Refer to Page 38 for the number of Committee meetings held during the year. Further information on the role of the Remuneration Committee can be found in the Company's Corporate Governance Statement, available from the Corporate Governance section of the Company's website.

## REMUNERATION REPORT (AUDITED)

### 3. EXECUTIVE REMUNERATION PRINCIPLES AND FRAMEWORK

The Atlas Board is responsible for ensuring that the remuneration arrangements for the Group are aligned with the overall business strategy and shareholders' interests. The Board is committed to driving alignment between the remuneration arrangements of its Executives and KMP within the expectation of our shareholders, its employees and the Company's sustainability.

The Board believes the remuneration framework to be appropriate and effective in its ability to attract and retain KMPs and to operate and manage the Group effectively.

The Company 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, where applicable, internationally;
- Benchmarks remuneration against appropriate comparator groups;
- Aligns Executive incentives with the creation of value for shareholders; and
- Complies with applicable legal requirements and appropriate standards of governance.

The strategic purpose of the Group is to deliver mineral products that create value for our shareholders, our people, customers and the communities we operate in. The remuneration strategy seeks to align the interest of Executives with shareholders to attract, motivate and retain high performing individuals.

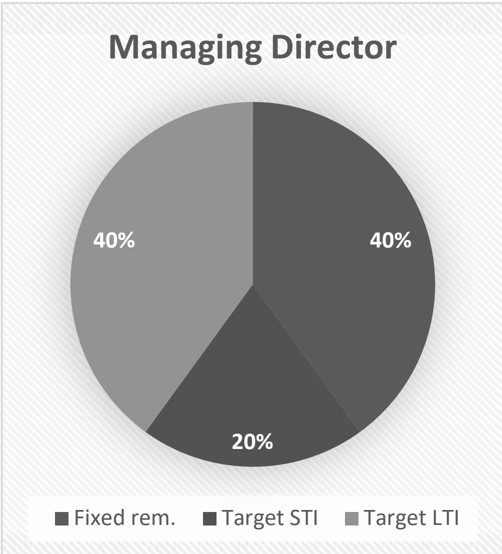
The following table illustrates how the remuneration strategy aligns with the strategic direction, and how the various elements of the remuneration arrangements for Executives are linked to performance.

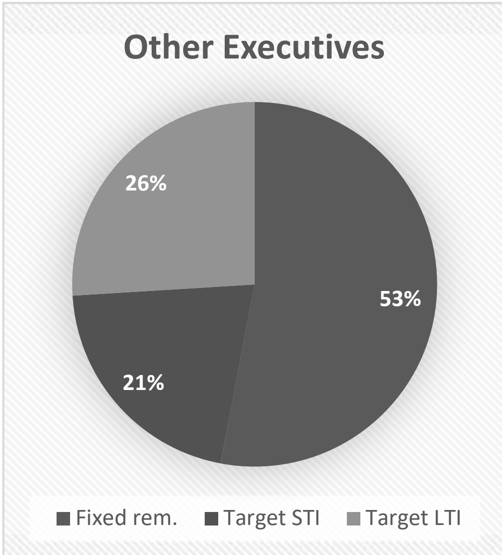
| Component | Purpose | Instrument | Performance link |
|---|---|---|---|
| **Total Fixed Remuneration (TFR)** | To provide a competitive fixed remuneration element based on criticality of role, market and individual skills and experience. | Comprises base salary and statutory superannuation contributions. | Individual performance objectives are determined based on the individual's position and key business imperatives and assessed during annual remuneration reviews. |
| **At-risk Short Term Incentive (STI)** | To reward Executives for business success in achieving short term objectives and for their contribution to the achievements of the business as a whole. | Paid in cash. | The STI Plan comprises a mix of corporate elements focusing on. safety outcomes, cash earnings and cost control. Individuals on performance management are not eligible to participate in the STI Plan. |
| **At-risk Long Term Incentive (LTI)** | To reward Executives for business success in achieving long term objectives and for their contribution to the achievements of the organisation as a whole. | Paid in equity | The LTI Plan is linked to performance outcomes determined by the Board, with a focus on enhancing shareholder value. |

*3.1 Elements of Executive Remuneration*

The remuneration arrangements for Executives consist of fixed remuneration, statutory superannuation, short term incentives and long term incentives. The Company considers factors including market trends, strategic business objectives and shareholder interests when determining the appropriate mix of remuneration and how each component will drive desired outcomes. On this basis, the following summarises the target remuneration components for Atlas Executives for the 2018 financial year:

## REMUNERATION REPORT (AUDITED)




*3.1.1 Fixed Remuneration*

KMP are provided a competitive fixed remuneration element based on criticality of role, market comparator data and individual skills and experience. Fixed remuneration consists of base pay and superannuation. Superannuation is paid at the statutory level. KMPs may elect to contribute additional amounts to superannuation subject to statutory limits.

*3.1.2 Short Term Incentive (STI) Plan*

The STI is an annual at-risk component of KMP remuneration. The STI Plan is linked to an overall corporate cash earnings objective plus safety and cost control metrics. At the beginning of the 2018 financial year, targets aimed at driving safe working practices, generating efficiencies in cost and growing cash earnings were approved.

The STI Plan aims to drive the organisation to achieve its short terms milestones that, in turn, provide the foundations for long term growth and greater shareholder wealth. The STI is payable in cash after allowing for tax deductions.

KMP are only eligible for the 2018 STI Plan if the business achieves a certain positive cash generation measure. In the event that the Earnings Performance Gateway hurdle is not met, STI will not be awarded. The Earnings Performance Gateway is calculated as the Atlas realised selling price less Full Cash Costs including contractor profit share adjusted for non-core operating expenses multiplied by tonnes sold in the period.

The STI award will increase as Earnings Performance, Total Recordable Injury Frequency Rate (TRIFR) and C1 Cash Cost improve.

The STI target is set at the levels indicated in the table below, however if all target performance criteria are achieved and exceeded, KMP can earn up to an additional 40% of their STI entitlement. This can result in a total STI payment of up to 70% of TFR for the Managing Director and 56% for Other Executives in STI.

Individuals on performance management are not eligible to participate in the STI Plan.

Target framework for FY2018 STI Plan:

| FY18 Corporate Target | | | | | |
|---|---|---|---|---|---|
| Earnings weighting – 60% | | Safety weighting – 20% | | Cost control – 20% | |
| Earnings ($) | Component outcome | TRIFR | Component outcome | C1 Cash Cost ($/t) | Component outcome |
| 28.7m | 150% | 4.4 | 125% | 34.24 | 125% |
| 24.6m | 125% | 5.2 | 100% | 36.14 | 112.5% |
| 20.5m | 100% | 5.9 | 70% | 38.04 | 100% |
| 16.4m | 80% | 7.1 | 35% | 39.94 | 50% |
| <16.4m | 0% | > 8.4 | 0% | >41.84 | 0% |

## REMUNERATION REPORT (AUDITED)

*3.1.3 Long Term Incentive (LTI) Plan*

Zero priced options were issued in FY18 pursuant to the Employee Share Option Plan approved at the 2015 AGM. The options are subject to the following vesting conditions:

- 30% of the Options will vest in thirds on the first three anniversaries of the issue date (10% each year) on the condition that the employee remains in the employment of the Company at the vesting date;
- 30% of the Options will vest at the end of FY2020 on the basis of improvement in the Company's ROIC for FY2020 equal to or greater than 15% over ROIC for FY2017;
- 40% of the Options will vest at the end of FY2020 on the basis of absolute improvement in the Company's total shareholder return (TSR) calculated as an improvement in the share price adjusted for dividends paid during the period in FY2020 over FY2017; and
- Any unvested Option will vest on the occurrence of a Change of Control Event (as that term is defined in the option plan rules).

70% of the FY18 LTI Plan Options are linked to performance-based hurdles, with the remaining 30% being tied to retention. The Board considers that this combination of performance and retention-based hurdles accurately reflects the Group's remuneration strategy which is to attract, motivate and retain high performing individuals.

The Board considers that the inclusion of performance hurdles tied to ROIC and absolute TSR provide an appropriate balance between the desire to motivate and reward Executives for their contribution to the Company's growth whilst at the same time ensuring that Executives are not inappropriately penalised by market conditions outside of their control. Further, the Board is satisfied that the ROIC threshold target is at an appropriate level to promote the creation of long-term shareholder value.

The zero priced options percentage of Total Fixed Remuneration (TFR) issued for Executives is shown in the table below.

| | Managing Director* | Other KMP |
|---|---|---|
| LTI target % of TFR | 100% | 50% |

*Zero priced options Issued to Managing Director with shareholder approval obtained at the 2017 AGM.

*3.2 Executive Contractual Arrangements*

Remuneration arrangements and conditions of employment for Executives are formalised in Executive Services Agreements or Contracts of Employment. All employment agreements for Executives comply with the provisions of Part 2D.2, Division 2, of the Corporations Act.

The agreements relating to remuneration for the 2018 financial year are set out below:

| | M.C. Lawrenson[1] | C. Els[2] | M. Hancock[3] | J. Sinclair[4] | B Kerr[5] |
|---|---|---|---|---|---|
| TFR per annum (inclusive of superannuation) | $669,790 | $427,050 | $492,750 | $574,875 | $348,260 |
| Resignation notice | 6 months | 3 months | 3 months | 3 months | 3 months |
| Termination notice for cause | None | None | None | None | None |
| Termination notice without cause | 12 months | 6 months | 6 months | 6 months | 6 months |
| Termination in case of illness, injury or incapacity | 3 months | 3 months | 3 months | 3 months | 3 months |
| STI target % of TFR FY 2018 | 50% | 40% | 40% | 40% | 40% |
| Maximum STI target % of TFR FY 2018 | 70% | 56% | 56% | 56% | 56% |
| Redundancy | NES* | Greater of 4 weeks for every year of service or 6 months | Greater of 4 weeks for every year of service or 6 months | Greater of 4 weeks for every year of service or 6 months | Greater of 4 weeks for every year of service or 6 months |

1. CEO and Managing Director.
2. Chief Financial Officer from 25 July 2017.
3. Chief Commercial Offer. Mr Hancock transitioned from the Company's Chief Financial Officer to Chief Commercial Officer on 25 July 2017.
4. Chief Operating Officer.
5. General Counsel and Company Secretary.

*in line with National Employment Standards

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

## REMUNERATION REPORT (AUDITED)

*3.3 Independent Remuneration Consultants*

The Company engages remuneration consultants from time to time based on the policy set out in the Remuneration Committee Charter. The Charter provides, inter alia, that the Remuneration Committee must:

- ensure that the remuneration consultant is sufficiently independent and that the Committee has set aside sufficient time to ensure such independence;
- review the appointment of the remuneration consultant each year, having regard to their independence, competence to provide unbiased advice, consultancy fees, and any question of resignation or dismissal; and
- ensure that no Executive Director is provided with any recommendation(s) from the remuneration consultant (whether such executive director is a member of the Committee or otherwise).

The most recent independent review of Board and Executive remuneration was undertaken by Lyons, Benenson & Company Inc. (Lyons) during July 2017 and covered:

- base salary, short-term incentives and long-term incentives for management; and
- cash and equity remuneration levels for the non-employee members of the Board.

Throughout FY18, Lyons was paid US$80,250 in total for services rendered in relation to Board and Executive remuneration.

The engagement of Lyons by the Remuneration Committee was based on the Company's policy for retaining remuneration consultants, contained in the Remuneration Committee Charter. The Charter provides, inter alia, that the Remuneration Committee must:

- ensure that the remuneration consultant is sufficiently independent and that the Committee has set aside sufficient time to ensure such independence;
- review the appointment of the remuneration consultant each year, having regard to their independence, competence to provide unbiased advice, consultancy fees, and any question of resignation or dismissal; and
- ensure that no Executive Director is provided with any recommendation(s) from the remuneration consultant (whether such executive director is a member of the Committee or otherwise).

The Remuneration Committee Charter is available from Atlas' website.

The Group's policy on remuneration consultants was implemented to ensure that the remuneration consultant would be able to carry out its work, including information capture and the formation of its recommendations, free from undue influence by members of the Remuneration Committee. The terms on which Lyons was engaged by the Group is reflective of the Group's policy.

The Board is satisfied that the remuneration review was conducted by Lyons free from undue influence by members of the key management personnel about whom Lyons' recommendations may relate.

The Board undertook its own inquiries and review of the processes and procedure followed by Lyons during the course of its assignment, and is satisfied that the remuneration review was conducted free from undue influence.

The Remuneration Committee Charter is available in the corporate governance section of Atlas' website.

*3.4 Non-Executive Director Remuneration*

The key principle underpinning Non-Executive Director (NED) remuneration is the need to attract high calibre and resilient Directors to direct the current business and into the future.

The Board's policy is to periodically review its approach to NED remuneration and seek independent advice to ensure its NED fees remain competitive with other similarly sized mining production companies listed on the ASX.

No element of NEDs remuneration is linked to the performance of the Company as Directors' fees are the only form of remuneration for the NEDs. However, to create alignment with shareholders, NEDs are encouraged to hold equity securities in the Company. All Directors are subject to the Company's Securities Trading Policy.

The Company makes superannuation contributions on behalf of the NEDs in accordance with its statutory superannuation obligations, and each Director may sacrifice part of their fee for a further superannuation contribution by the Company.

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

The annual aggregate of the amount of remuneration available to NEDs for their services is $1,500,000. Actual aggregate NED remuneration falls well below this level.

No Director receives additional fees for his or her role on a Committee.

## REMUNERATION REPORT (AUDITED)

### 4. DIRECTORS’ AND EXECUTIVE REMUNERATION FOR THE FINANCIAL YEAR

Details of the nature and amount of each major element of remuneration of each Director of the Company and KMPs are:

| | Short Term Employee Benefits | | | | Post-employment benefits | | Accounting value of long-term benefits (non-cash) | | | Total $ | % of rem. performance based |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary & Fees | STI (1) | Short-term compensated absences | Other | Superannuation | Termination benefit | Movement in long service leave provision | Rights | Options (2) | | STI and Rights |
| **Non-Executive Directors** | | | | | | | | | | | |
| **Eugene Davis - Chairman** | | | | | | | | | | | |
| 2018 | 200,000 | - | - | - | - | - | - | - | - | 200,000 | 0% |
| 2017 | 200,000 | - | - | - | - | - | - | - | - | 200,000 | 0% |
| **Cheryl Edwardes (Hon) - Director** | | | | | | | | | | | |
| 2018 | 136,986 | - | - | - | 13,014 | - | - | - | - | 150,000 | 0% |
| 2017 | 135,014 | - | - | - | 12,826 | - | - | - | - | 147,840 | 0% |
| **Alan Carr - Director** | | | | | | | | | | | |
| 2018 | 150,000 | - | - | - | - | - | - | - | - | 150,000 | 0% |
| 2017 | 150,000 | - | - | - | - | - | - | - | - | 150,000 | 0% |
| **Daniel Harris - Director effective 16 January 2017** | | | | | | | | | | | |
| 2018 | 150,000 | - | - | - | - | - | - | - | - | 150,000 | 0% |
| 2017 | 62,500 | - | - | - | - | - | - | - | - | 62,500 | 0% |
| **Executive Directors** | | | | | | | | | | | |
| **Cliff Lawrenson - Managing Director effective 16 January 2017** | | | | | | | | | | | |
| 2018 | 635,626 | - | 47,053 | - | 24,519 | - | - | - | 1,621,848 | 2,329,046 | 70% |
| 2017 | 281,176 | 219,517 | 19,551 | | 26,712 | | | | 301,406 | 848,362 | 61% |
| **Daniel Harris - CEO and Managing Director to 15 January 2017** | | | | | | | | | | | |
| 2018 | - | - | - | - | - | - | - | - | - | - | 0% |
| 2017 | 454,858 | - | - | 57,285 | 43,212 | | | | | 555,355 | 0% |
| **David Flanagan - Managing Director retired effective 5 August 2016** | | | | | | | | | | | |
| 2018 | - | - | - | - | - | - | - | - | - | - | 0% |
| 2017 | 64,369 | - | - | | 31,688 | 268,992 | | | - | 365,049 | 0% |

# DIRECTORS' REPORT (continued)

## REMUNERATION REPORT (AUDITED)

| | Short Term Employee Benefits | | | | Post-employment benefits | | Accounting value of long-term benefits (non-cash) | | | Total $ | % of rem. performance based |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary & Fees | STI (1) | Short-term compensated absences | Other | Superannuation | Termination benefit | Movement in long service leave provision | Rights | Options (2) | STI and Rights | |
| **Key Management Personnel (KMP)** | | | | | | | | | | | |
| **Chris Els - Chief Financial Officer effective 25 July 2017** | | | | | | | | | | | |
| 2018 | 334,290 | - | 27,022 | - | 27,563 | - | - | - | 86,427 | 475,302 | 18% |
| 2017 | - | - | - | - | - | - | - | - | - | - | 0% |
| **Mark Hancock - Chief Commercial Officer effective from 25 July 2017 (Chief Financial Officer to 24 July 2017)** | | | | | | | | | | | |
| 2018 | 415,385 | - | 34,615 | - | 42,750 | - | - | - | 233,587 | 726,337 | 32% |
| 2017 | 462,750 | 285,795 | 1,310 | | 30,000 | - | 13,000 | - | 96,086 | 888,941 | 43% |
| **Jeremy Sinclair - Chief Operating Officer** | | | | | | | | | | | |
| 2018 | 491,317 | - | 40,385 | 3,849 | 28,837 | - | 5,250 | - | 272,518 | 842,156 | 32% |
| 2017 | 544,459 | 333,428 | 5,419 | - | 36,336 | - | 34,000 | - | 112,101 | 1,065,743 | 42% |
| **Bronwyn Kerr - General Counsel and Company Secretary effective 1 September 2017** | | | | | | | | | | | |
| 2018 | 282,207 | - | 30,706 | 10,000 | 34,201 | - | 13,078 | | 157,229 | 527,421 | 30% |
| 2017 | - | - | - | - | - | - | - | - | - | - | 0% |
| **Tony Walsh - Company Secretary to 31 August 2017** | | | | | | | | | | | |
| 2018 | - | - | - | - | - | - | - | - | - | - | 0% |
| 2017 | 215,961 | - | 10,592 | - | 24,143 | - | - | - | - | 250,696 | 0% |
| **Total** | | | | | | | | | | | |
| **2018** | 2,795,811 | - | 179,781 | 13,849 | 170,884 | - | 18,328 | | 2,371,609 | 5,550,262 | 43% |
| **2017** | 2,571,087 | 838,740 | 36,872 | 57,285 | 204,917 | 268,992 | 47,000 | - | 509,593 | 4,534,486 | 30% |

Superannuation is paid on salaries, fees and STI.

(1) Comprises STI awarded based on current year performance.

(2) Accounting fair value of employee share options at grant date. Actual value to the individuals will depend on the Atlas share price at date of exercise or sale.

## REMUNERATION REPORT (AUDITED)

*4.1 Directors' Fees*

Directors' fees for the financial year (including superannuation payments) are as follows:

| Director Fees (including superannuation) | $ |
|---|---|
| Chairman | 200,000 |
| Non-Executive Directors | 150,000 |

*4.2 Analysis of Incentives Included in Remuneration*

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:

| | 30-Jun-18 | 30-Jun-17 | 30-Jun-16 | 30-Jun-15 | 30-Jun-14 |
|---|---|---|---|---|---|
| (Loss)/profit attributable to owners of the company ($'000) | (166,906) | 47,981 | (159,014) | (1,377,689) | 17,437 |
| Underlying (loss)/profit after tax * (unaudited) ($'000) | (62,577) | 30,841 | (57,694) | (240,168) | 18,590 |
| Cash earnings ($'000)** | 6,067 | 99,306 | 40,230 | (109,449) | 115,542 |
| Change in share price ($) | 0.03 | - | (0.11) | (0.51) | (0.10) |
| Ore shipped (wmt) – mtpa | 9.2 | 14.4 | 14.5 | 12.2 | 10.9 |
| Basic earnings per share (cents per share) | (1.80) | 0.52 | (4.5) | (150.1) | 1.6 |
| Dividend (cents per share) | - | - | - | - | 2.0 |
| TRIFR | 5.45 | 3.73 | 8.69 | 7.36 | 6.69 |

* 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.

** Cash earnings is EBITDA adjusted for non-core operating expenses.

*4.2.1 Short Term Incentives – Performance and Outcomes for FY2018*

Details of the Group's policy and FY18 target framework in relation to the proportion of remuneration that is performance related is discussed in paragraph 3.1.2.

At 30 June 2018, the TRIFR for the period was 5.45 and the C1 Cash Cost was $39/wmt. Cash Earnings for the period totaled $6.1m. As such, the minimum Earning Performance Gateway was not met and, in turn, no STI was earned in relation to the financial year.

### 5 EQUITY INSTRUMENT DISCLOSURES

All rights and options refer to rights and options over ordinary shares of Atlas Iron Limited, which are exercisable on a one-for-one basis under the Employee Share Option Plan.

*5.1 Modification of Terms of Equity Settled Share-Based Transactions*

No terms of options or rights have been altered or modified by the issuing entity during the year or the prior year.

*5.2 Securities Trading Policy*

Atlas' Securities Trading Policy prohibit employees, who are participants in any equity-based incentive plan established by Atlas, from entering into transactions (whether through the use of derivatives or otherwise) that limit the economic risk of the securities or rights allocated under the plans during the period prior to vesting or the end of any restrictions imposed on the securities or rights or otherwise prior to the date of exercise of any securities. The Policy also impose so-called 'blackout periods' during which KMPs and other employees of Atlas are prohibited from trading in the Company's securities.

Atlas' Securities Trading Policy is available on Atlas' website.

*5.3 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 Employee Share Option Plan (ESOP) option and right 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. The LTIP rules state that an employee must not transfer, assign, dispose of or grant any security interests over or otherwise deal with any rights.

*5.4 Analysis of Options Granted as Compensation*

Details of options over ordinary shares in Atlas Iron Limited that were granted during FY2018 as compensation to Directors, Executives and Key Management Personnel and other Officers are as follows:

## REMUNERATION REPORT (AUDITED)

| | Grant Date | Granted during FY2018 | Vesting Date[3] | Fair Value at Grant Date[1] | Exercise price per Option | Expiry Date | Number of Options vested during FY2018 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mark Clifford Lawrenson[2] | 23/10/2017 | 47,842,143 | - | 813,316 | 0.00 | 25/10/2022 | 6,697,900 |
| **Executives** | | | | | | | |
| Chris Els | 5/10/2017 | 15,251,786 | - | 259,280 | 0.00 | 25/10/2022 | - |
| Mark Hancock | 5/10/2017 | 17,598,214 | - | 299,170 | 0.00 | 25/10/2022 | 2,463,750 |
| Jeremy Sinclair | 5/10/2017 | 20,531,250 | - | 349,031 | 0.00 | 25/10/2022 | 2,874,375 |
| Bronwyn Kerr | 5/10/2017 | 5,653,571 | | 96,111 | | 25/10/2022 | |
| | 16/01/2018 | 6,784,286 | - | 237,450 | 0.00 | 25/10/2022 | 654,625 |

Note 1: The fair value of all Options granted during the year is calculated at grant date using the closing share price.

Note 2: Mr Lawrenson was also granted 66,979,000 Options under the FY17 LTI Plan in February 2017. The issue of Mr Lawrenson's FY17 and FY18 Options received shareholder approval at the 2017 AGM held on 23 October 2017.

Note 3: The options are subject to the following vesting conditions:

(i) 30% of the Options will vest in thirds on the first 3 anniversaries of grant (10% each year) on condition the employee remains in the employment of the Company at the vesting date;

(ii) 30% of the Options will vest at the end of FY2020 on the basis of improvement in Atlas' return on invested capital (ROIC) for FY2019 equal to or greater than 15% over ROIC for FY2017;

(iii) 40% of the Options will vest at the end of FY2020 on the basis of an absolute improvement in Atlas' total shareholder return (TSR) in FY2020 over FY2017;

(iv) Any unvested Option will vest if a Change of Control Event occurs, as that term is defined in the Atlas Iron Limited Option Plan Rules approved by Shareholders at the 2015 AGM.

The options were provided at no cost to the recipients. Valuation assumptions are disclosed in Note 4 of the financial statements.

All options expire on their expiry date or can be forfeited on termination of the individual's employment.

### *5.5 Exercise of Options Granted As Compensation*

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

| | Number of shares | Amount paid per share $ |
|---|---|---|
| **Executives** | | |
| Mark Clifford Lawrenson | 6,697,900 | 0.00 |
| Jeremy Sinclair | 2,874,375 | 0.00 |

### *5.6 Analysis of Movement in Options*

The movement during FY 2018, by value of options over ordinary shares granted in Atlas Iron Limited as remuneration held by each of the Directors and Executives is detailed below:

| | No of Options granted (A) | Value of Options granted (B) $ | Value of Options exercised (C) $ | Value of Options disposed (C) $ | Value of Options lapsed $ |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Eugene Davis | - | - | - | - | - |
| Mark Clifford Lawrenson (D) | 47,842,143 | 813,316 | 115,874 | | - |
| Alan Carr | - | - | - | - | - |
| Hon. Cheryl Edwardes (AM) | - | - | - | - | - |
| Daniel Harris | - | - | - | - | - |
| **Executives** | | | | | |
| Chris Els | 15,251,786 | 259,280 | - | - | - |
| Mark Hancock | 17,598,214 | 299,170 | - | - | - |
| Jeremy Sinclair | 20,531,250 | 349,031 | 53,463 | - | - |
| Bronwyn Kerr | 12,437,857 | 333,561 | - | - | - |
| **Total** | **113,661,250** | **2,054,358** | **169,337** | **-** | **-** |

(A) Includes options granted as remuneration

(B) The value of options granted as remuneration during the year is the fair value of the options calculated at grant date using closing share price

(C) The value of options exercised, or disposed of, during the year is calculated as 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 option

(D) Mr Lawrenson was also granted 66,979,000 FY17 LTI Plan Options in February 2017 subject to shareholder approval which was obtained at the 2017 AGM held on 23 October 2017. The FY17 Options granted were valued at $2,478,223 as at the effective grant date.

## REMUNERATION REPORT (AUDITED)

### *5.7 Option holdings of Directors and Key Management Personnel*

| | Balance at 1 July 2017 | Options granted (A) | Options exercised | Held at 30 June 2018 (vested and exercisable) | Held at 30 June 2018 (unvested) |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Eugene Davis | - | - | - | - | - |
| Mark Clifford Lawrenson | - | 114,821,143* | 6,697,900 | - | 108,123,243 |
| Alan Carr | - | - | - | - | - |
| Hon. Cheryl Edwardes (AM) | - | - | - | - | - |
| Daniel Harris | - | - | - | - | - |
| **Executives** | | | | | |
| Chris Els | - | 15,251,786 | - | - | 15,251,786 |
| Mark Hancock | 31,944,711 | 17,598,214 | - | 2,463,750 | 47,079,175 |
| Jeremy Sinclair | 28,743,750 | 20,531,250 | 2,874,375 | - | 46,400,625 |
| Bronwyn Kerr | 6,637,932 | 12,437,857 | - | 746,307 | 18,329,482 |
| **Total** | **67,326,393** | **180,640,250** | **9,572,275** | **3,210,057** | **235,184,311** |

(A) Includes options granted as remuneration
*66,979,000 of these options related to FY17 LTIP, approval for which was obtained at the 2017 AGM.

### *5.8 Shareholdings of Directors and Key Management Personnel*

| | Balance at 1 July 2017 | Shares purchased | Shares acquired on vesting of LTIP and exercise of option | Shares sold | Held at 30 June 2018 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Eugene Davis | - | - | - | - | - |
| Mark Clifford Lawrenson | 193,124 | 2,000,000 | 6,697,900 | - | 8,891,024 |
| Alan Carr | - | - | - | - | - |
| Hon. Cheryl Edwardes (AM) | 208,100 | - | - | - | 208,100 |
| Daniel Harris | - | - | - | - | - |
| **Executives** | | | | | |
| Chris Els | - | 500,000 | - | - | 500,000 |
| Mark Hancock | 1,154,734 | - | - | - | 1,154,734 |
| Jeremy Sinclair | 6,025,214 | - | 2,874,375 | 8,874,375 | 25,214 |
| Bronwyn Kerr | 33,484 | - | - | - | 33,484 |
| **Total** | **7,614,656** | **2,500,000** | **9,572,275** | **8,874,375** | **10,812,556** |

**REMUNERATION REPORT ENDS HERE.**

## REMUNERATION REPORT (AUDITED)

### DIRECTORS' MEETINGS

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

| | Directors' Meetings | | Audit & Risk Committee | | Remuneration Committee | | Nomination and Governance Committee | |
|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| Eugene Davis | **14** | **14** | **6** | **6** | **2** | **2** | **1** | **1** |
| Mark Clifford Lawrenson | **14** | **14** | - | - | - | - | - | - |
| Alan Carr | **14** | **14** | **6** | **6** | **2** | **2** | **1** | **1** |
| Hon. Cheryl Edwardes (AM) | **14** | **14** | **6** | **5** | **2** | **2** | **1** | **1** |
| Daniel Harris | **14** | **14** | **6** | **6** | - | - | **1** | **1** |

A - Number of meetings held during the time the Director held office during the year.
B - Number of meetings attended.

### 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 27 of the financial statements.

### ROUNDING

The Group is of the kind specified in ASIC Corporations (Rounding in Financial/Directors' Report) Instruments 2016/191. 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 39 and forms part of the Directors' Report for the financial year ended 30 June 2018.

### NON-AUDIT SERVICES

Non-audit services provided by the Group's auditor, KPMG, and associated entities, during the year ended 30 June 2018 are disclosed in Note 23 to the financial statements. The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with and did not compromise, the auditor independence requirements of the *Corporations Act 2001*.

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

Mark Clifford Lawrenson
*Managing Director*
Perth, 28 September 2018

KPMG

# 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 of Atlas Iron Limited for the financial year ended 30 June 2018 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

KPMG

Trevor Hart
*Partner*

Perth
28 September 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**YEAR ENDED 30 JUNE 2018**

| | Notes | **2018 $'000** | 2017 $'000 |
|---|---|---|---|
| Revenue | | 546,819 | 871,051 |
| Operating costs | 2 | (586,258) | (787,543) |
| **Gross (loss)/ profit** | | **(39,439)** | 83,508 |
| Other income | 6 | 6,127 | 16,844 |
| Net income Lithium/Manganese operations | | 2,507 | - |
| Exploration and evaluation expense | | (5,223) | (3,482) |
| Impairment loss | 3 | (92,000) | (1,041) |
| Loss on listed investments | | 241 | (24) |
| Loss on financial instruments | | (3,240) | (22,711) |
| Depreciation and amortisation | | (1,101) | (1,472) |
| Gain/(Loss) on sale of property, plant and equipment | | - | 6,999 |
| Administrative expenses | | (18,191) | (18,395) |
| Other expenses | | (635) | (1,345) |
| **Results from operating activities** | | **(150,954)** | 58,881 |
| Finance income | 7 | 855 | 1,021 |
| Finance expense | 7 | (10,657) | (13,648) |
| (Loss)/gain on foreign exchange | 7 | (1,452) | 1,727 |
| **Net finance expense** | | **(11,254)** | (10,900) |
| Contractual break fee expense | | (3,120) | - |
| Restructure expenses | | (650) | - |
| **(Loss)/profit before income tax** | | **(165,978)** | 47,981 |
| Tax expense | 8 | (752) | - |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(166,730)** | 47,981 |
| **Other comprehensive income/(loss) for the year** | | **-** | - |
| **TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR** | | **(166,730)** | 47,981 |
| **ATTRIBUTABLE TO :** | | | |
| **Owners of the Group** | | **(166,906)** | 47,981 |
| **Non-Controlling interests** | | **176** | - |
| | | **(166,730)** | 47,981 |
| **(Loss)/Profit per share** | | | |
| Basic (loss)/profit per share (cents per share) | 22(b) | (1.80) | 0.52 |
| Diluted (loss)/profit per share (cents per share) | 22(c) | (1.80) | 0.51 |

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**AS AT 30 JUNE 2018**

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 19(b) | 56,664 | 80,769 |
| Trade and other receivables | 9 | 22,239 | 41,421 |
| Prepayments | | 4,285 | 1,356 |
| Financial assets | | 640 | 1,070 |
| Inventories | 10 | 22,283 | 19,094 |
| **TOTAL CURRENT ASSETS** | | **106,111** | 143,710 |
| **NON-CURRENT ASSETS** | | | |
| Other receivables | 9 | 6,130 | 6,015 |
| Property, plant and equipment | 11 | 44,005 | 84,351 |
| Intangibles | | - | 281 |
| Mine development costs | 12 | 156,450 | 268,788 |
| Evaluation expenditure - reserve development | 13 | 4,749 | 4,592 |
| Mining tenements | 14 | 62,499 | 62,499 |
| **TOTAL NON-CURRENT ASSETS** | | **273,833** | 426,526 |
| **TOTAL ASSETS** | | **379,944** | 570,236 |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 15 | 70,286 | 66,049 |
| Interest bearing loans and borrowings | 16 | 2,939 | 2,775 |
| Income tax payable | 8 | 752 | - |
| Employee benefits | | 1,064 | 1,097 |
| Provisions | 17 | 13,230 | 10,019 |
| **TOTAL CURRENT LIABILITIES** | | **88,271** | 79,940 |
| **NON-CURRENT LIABILITIES** | | | |
| Trade and other payables | 15 | - | 822 |
| Interest bearing loans and borrowings | 16 | 83,428 | 101,978 |
| Employee benefits | | 1,303 | 1,093 |
| Provisions | 17 | 50,712 | 64,155 |
| **TOTAL NON-CURRENT LIABILITIES** | | **135,443** | 168,048 |
| **TOTAL LIABILITIES** | | **223,714** | 247,988 |
| **NET ASSETS** | | **156,230** | 322,248 |
| | | | |
| **EQUITY** | | | |
| Share capital | 18(a) | 2,203,510 | 2,203,203 |
| Reserves | | 41,221 | 40,816 |
| Accumulated losses | | (2,088,677) | (1,921,771) |
| **Equity attributable to owners of the Group** | | **156,054** | 322,248 |
| Non-controlling interests | | 176 | - |
| **TOTAL EQUITY** | | **156,230** | 322,248 |

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 2018

| | Share capital $'000 | Share-based payments reserve $'000 | Accumulated (losses) $'000 | Non-Controlling Interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **BALANCE AT 1 JULY 2017** | **2,203,203** | **40,816** | **(1,921,771)** | **-** | **322,248** |
| **Total comprehensive income for the year** | | | | | |
| Loss for the year | - | - | (166,906) | 176 | **(166,730)** |
| **Total comprehensive loss for the year, net of tax** | - | - | **(166,906)** | **176** | **(166,730)** |
| **Contributions by and distributions to owners of the Group** | | | | | |
| Issue of ordinary shares | 3 | - | - | - | **3** |
| Share based payment transactions | - | 709 | - | - | **709** |
| Transfers from share based payments | 304 | (304) | - | - | **-** |
| **Total transactions with owners of the Company** | 307 | 405 | - | - | **712** |
| **BALANCE AT 30 JUNE 2018** | **2,203,510** | **41,221** | **(2,088,677)** | **176** | **156,230** |

### YEAR ENDED 30 JUNE 2017

| | Share capital $'000 | Share-based payments reserve $'000 | Accumulated (losses) $'000 | Non-Controlling Interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **BALANCE AT 1 JULY 2016** | **2,197,388** | **42,030** | **(1,969,752)** | **-** | **269,666** |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | - | - | 47,981 | - | 47,981 |
| **Total comprehensive income for the year, net of tax** | - | - | **47,981** | **-** | **47,981** |
| **Contributions by and distributions to owners of the Group** | | | | | |
| Issue of ordinary shares through debt restructure | 3,132 | - | - | - | 3,132 |
| Issue of ordinary shares through tenement acquisition | 1,000 | - | - | - | 1,000 |
| Share based payment transactions | - | 469 | - | - | 469 |
| Transfers from share based payments | 1,683 | (1,683) | - | - | - |
| **Total transactions with owners of the Company** | 5,815 | (1,214) | - | - | **4,601** |
| **BALANCE AT 30 JUNE 2017** | **2,203,203** | **40,816** | **(1,921,771)** | **-** | **322,248** |

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 2018**

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES** | | | |
| Cash receipts from customers | | 567,493 | 890,262 |
| Payments to suppliers and employees | | (565,722) | (733,655) |
| Interest received | | 729 | 772 |
| Payments for expenditure on exploration and evaluation activities | | (5,223) | (3,482) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 19(a) | **(2,723)** | 153,897 |
| **CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES** | | | |
| Payments for property, plant and equipment | | (4,058) | (1,743) |
| Payments for mine development | | (6,565) | (4,493) |
| Payment for reserve development costs | | (157) | (3,412) |
| Loan to joint venture | | - | (259) |
| Net proceeds received from sale of tenements | | - | 2,530 |
| Proceeds from release of bank guarantees | | 1,652 | 2,777 |
| Net payments for financial instruments | | (2,569) | (24,678) |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | | **(11,697)** | (29,278) |
| **CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES** | | | |
| Debt restructure costs | | - | (1,241) |
| Repayment of Term Loan B | 16 | (21,498) | (79,385) |
| Transfer from/(to) reserve account | 16 | 20,000 | (20,000) |
| Interest payments on borrowing facilities | | (8,498) | (9,233) |
| Repayment of royalty assistance program | | (3,073) | (12,292) |
| Proceeds from/(payments for) issue of shares (net of costs) | | 3 | - |
| Proceeds from disposal of shares in subsidiary | | 4,000 | - |
| Repayment of finance lease | | (1,525) | (1,525) |
| **NET CASH FLOWS USED IN FINANCING ACTIVITIES** | | **(10,591)** | (123,676) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **(25,011)** | 943 |
| Cash and cash equivalents at 1 July | | 80,769 | 80,853 |
| Effect of exchange rate changes on cash and cash equivalents | | 906 | (1,027) |
| **CLOSING CASH AND CASH EQUIVALENTS** | 19(b) | **56,664** | 80,769 |

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

## 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 2018 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 exploration, development and operation of mines 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 28 September 2018.

### (a) Basis of Preparation

*Statement of Compliance*

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements issued by 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.

*Historical Financial Data*

Atlas' information technology systems were disrupted by a security breach late in the fourth quarter, causing some data encryption (see ASX Announcement 29 June 2018). Work on data recovery is ongoing. Although these systems issues have had no impact on production activities, significant tranches of financial data were encrypted. The Company commenced a systematic process of recovering financial information from source documents, hard copy reports and other sources.

*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 Corporations (Rounding in Financial/Directors' Report) Instruments 2016/191, and, in accordance with that Corporations Instrument, amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

*Going Concern*

The financial statements have been prepared on a going concern basis which contemplates the realisation of assets and the discharge of liabilities in the ordinary course of business.

As at 30 June 2018, the Company has net assets of AU$156.2 million which have decreased by AU$166 million since 30 June 2017 mainly from:

- Impairment of AU$92.0 million on Non-Current Assets;
- Write down of inventory to lower of cost and net realisable value of AU$11.7 million;
- Repayment of AU$20,0 million on its Term Loan B; and
- A gross margin loss due to an increase in full cash cost from the year ended 30 June 2017.

The Company has net current assets as at 30 June 2018 of AU$17.8 million and a net debt position (cash and cash equivalents less drawn debt facilities) of AU$35 million. The Group had operating cash outflows of $2.7 million during the year.

On 18 June 2018, Redstone Corporation Pty Ltd (Redstone), a wholly-owned subsidiary of Hancock Prospecting Pty Ltd (HPPL), lodged its original bidder's statement with ASIC that commenced an off-market takeover bid for the Company (including as subsequently varied, the **Hancock Offer**). The offer opened on 2 July 2018 with an initial closing date of 3 August 2018 unless extended or withdrawn.

Atlas lodged its Target's Statement in relation to the Hancock Offer with ASX on 16 July 2018. The Target's Statement includes a report from an independent expert, which concludes that the Hancock Offer is fair and reasonable to Atlas shareholders.

On 6 August 2018, Redstone advised that its voting power in Atlas increased to 56.07%. Subsequent extensions to the closing date of the bid and further acceptances by shareholders has seen Redstone increase its voting power to 77.06%. The most recent extension to the bid, on 25 September 2018, saw the offer price raised to 4.6 cents per share if Redstone's voting power in Atlas increases to 87% or more (**Condition**) before the close of the Hancock Offer. Redstone advised that if the condition is not satisfied, the offer price of 4.2 cent per share will not increase. Accordingly, Redstone has not yet sought to exercise its voting control.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As foreshadowed in the Target's Statement, the change in the control of Atlas caused by shareholders accepting the Hancock Offer represents an event of default which gives lenders under the Term Loan B Facility the right to accelerate repayment of the debt. If greater than 50% by value of the lenders choose to accelerate repayment of the debt, the full outstanding amount of the debt will immediately become due and payable. The lenders have not chosen to accelerate Atlas' repayment obligations at this stage.

Redstone has confirmed in its Bidder's Statement that if Atlas requires funding support to repay the Term Loan B, Redstone will offer to make available to Atlas (by way of a loan facility) such amount as may be necessary to enable Atlas to meet its repayment obligation in relation to the Term Loan B Facility, or will offer to step-in to the Term Loan B Facility (by way of acquiring that debt from the lenders under the Term Loan B Facility). However, Atlas and Redstone have not agreed terms for the provision of such funding to Atlas and there remains a risk such agreement may not eventuate.

Redstone has also provided a Letter of Comfort to the Directors of Atlas, which refers to Redstone's statements in the Bidder's Statement that, should Atlas require any funding support, in addition to that required to meet its repayment obligation under the Term Loan B Facility, Redstone would consider any request for funding by Atlas on a case-by-case basis (whether Atlas is partly or wholly-owned by Redstone). The Letter of Comfort further states, consistent with the Bidder's Statement, that any such funding required by Atlas would be offered by Redstone on arm's length terms, and the provision of such funding would remain subject to Redstone and Atlas agreeing those terms

HPPL requested the lenders to grant a waiver of the above event of default triggered by the Hancock Offer, requesting execution of a Put Option Deed, to document the possibility disclosed in the Bidder's Statement and Target's Statement, of Redstone stepping-in to the Term Loan B (by way of acquiring that debt from the Term Loan B lenders).

On 27th September, the Term Loan B lenders have agreed to immediately waive this event of default on the following terms:

- Redstone has granted the lenders a 60-day put option commencing on 3 October 2018.
- During the put option period, a majority of lenders can require Redstone (or an associate or a nominee of Redstone) to purchase all Term Loan B debt at face value.
- If the lenders exercise the put option, Redstone or its associate or its nominee will step in as the lender under the Term Loan B facility and have the benefit of the existing Term Loan B security package.

ASX has confirmed that any purchase of the Term Loan B debt by Redstone on exercise of the put option does not require approval of Atlas shareholders under ASX Listing Rule 10.1. The Atlas Board is satisfied that shareholder approval is not required under Chapter 2E of the Corporations Act because the terms of the transaction are no more favourable to Redstone than arms' length terms.

Further, in its Bidders statement, Redstone advised that once it gains control of Atlas it intends to conduct a strategic review of Atlas' business and mining assets. Whilst Redstone has secured voting power to control the Company, it has not exercised its power and so it is unclear to the existing Board of Atlas what decisions Redstone might make in relation to the future operating activities of the Company or the Company's financing arrangements.

The Company prepares rolling 12-month cash flow forecasts. The cash flow forecast to September 2019 (the forecast period) has a positive working capital balance throughout that period.

The material assumptions adopted by the Directors in the cash flow forecasts include:

- Forecast iron ore prices (grade adjusted, net of discount) for the forecast period of between AU$61 and AU$72 per dmt). The USD 62% Fe CFR China price and the AU$:US$ foreign exchange rate has been independently sourced.
- Estimated iron ore sale of 9.1 million tonnes for the 15-month period ended 30 September 2019.
- Estimated lithium DSO sales of 1.1 million tonnes for the 15-month period ended 30 September 2019
- The commencement of the Corunna Downs project by March 2019, including an assumed equity raising of $50million to fund the required capital expenditure. The Directors consider that Corunna Downs remains an important project for the Group to sustain its production base and Atlas in consultation with Redstone post their strategic review of the Company's assets, will assess its status and funding options.

The cash flow forecast to August 2019 is highly dependent upon the iron ore price realised in Australian dollars and the achievement of forecast operating cost and production outcomes. There remains significant uncertainty in forecasting USD/AUD exchange rates, USD 62% Fe CFR prices, lump price premiums and price discounts for lower grade Fe products and a material uncertainty relates to the risk of a sustained decline from forecast iron ore prices during the forecast period or the production and cost assumptions contained in the forecast do not eventuate.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Redstone's acquisition of a controlling 77.06% of the issued capital of Atlas, Redstone's Bidders Statement confirming its intent to provide future funding to Atlas, coupled with a letter of comfort issued to the Directors by Redstone provide the Directors with sufficient confidence that Atlas will be in a position to continue as a going concern. However, Atlas and Redstone have not agreed terms for the provision of such funding to Atlas and there remains a risk such agreement may not eventuate. In addition, should the key assumptions of the cash flow forecast not be achieved, the Company may breach other requirements of its Term Loan B facility. The Company may then be required to renegotiate terms with its lenders or source additional funds from debt or equity markets. The ability to renegotiate with the lenders or access additional debt or equity funding represents a material uncertainty.

These material uncertainties, give rise to significant doubt about the ability of the Company to continue as a going concern and realise its assets and extinguish its liabilities in an orderly manner at the amounts stated in the financial report.

### (b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of Atlas Iron Limited and its subsidiaries together with the Group's share of joint arrangements and associates accounted for as described below.

(i) Subsidiaries
Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Groups' interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Investment in Joint Ventures
A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Joint control is defined as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Interests in joint ventures are accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. An impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(iii) Investment in Joint Operation
A joint operation is an arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognise all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.

### (c) Changes 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 2017 however none of the new standards had a significant impact the annual consolidated financial statements of the Group.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) 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 (Revised 2012), 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. Refer to Note 1(i) for the accounting policy on production stripping.

*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/decreases and changes in discount rates (2018: 2.6% (2017: 2.49%)). 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.

*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:

- 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.

*Impairment of Assets*

The Group assesses each asset or cash generating unit (CGU) at each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Recoverable amount is determined as the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Value in use is determined as the present value of estimated future cash flows arising from the continued use of the asset. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 3.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*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.

*Determination of Fair Values*
A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring fair value of an asset or liability, the Group uses market observable data as far as possible.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Refer to Note 26.

### (e) Property, Plant and Equipment

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

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 that are directly attributable to the construction of plant and equipment.

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 between 5% and 10% 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 profit or loss and other comprehensive income.

### (f) 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Intangible assets that have indefinite lives 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 CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the profit or loss given the Group has no goodwill. Any impairment losses recognised in respect of CGUs reduces the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

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.

### (g) Exploration and Evaluation Costs / Mining Tenements Capitalised

Exploration and evaluation costs on an area of interest are written off in the year they are incurred if there is no expectation of commercial viability, 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 commercial viability has been established, is capitalised.

Where an area of interest is abandoned, or the Directors decide that it is not commercially viable, any accumulated 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.

Exploration and evaluation assets are transferred to development costs once technical feasibility and commercial viability of an area of interest is demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, prior to being reclassified.

The carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively sale of the respective area of interest.

*Impairment Testing of Exploration and Evaluation Assets*
Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each CGU which is no larger than the area of interest. The Group performs impairment testing in accordance with accounting policy Note 1(g).

### (h) Development Costs

*Mine and Port Development*
Development expenditure relates to costs incurred to access a mineral resource. It represents those costs incurred after the technical feasibility and commercial viability of extracting the mineral resource has been demonstrated and an identified mineral reserve is being prepared for production (but is not yet in production).

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant factors considered in determining the technical feasibility and commercial viability of the project are the completion of a feasibility study, the existence of sufficient proven and probable reserves to proceed with development and approval by the Board of directors to proceed with development of the project.

Development costs include direct and indirect costs associated with 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.

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 (i.e. overburden and other waste removal). The directly attributable costs (inclusive of an allocation of relevant overhead expenditure) are capitalised as development costs. Capitalisation of development stripping costs ceases when commercial production commences.

Development costs are carried forward in respect of areas of interest in the development phase until commercial production commences. When commercial production commences, carried forward development costs are 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 an impairment trigger is identified. For the purposes of impairment testing, development assets are allocated to CGUs to which the development activity relates.

*Production Stripping*
Removal of waste material normally continues after commercial production commences and throughout the life of a mine. This activity is referred to as production stripping. The costs of production stripping are capitalised.

Where a mine operates several open pits that are regarded as separate operations for the purpose of mine planning, production 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. The amount of stripping costs deferred is based on the ratio of waste tonnes mined and ore tonnes mined. Amortisation of the production stripping asset takes place on a unit of production based on the identified component of the ore body which is mined. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected volumes (e.g. tonnes) of waste to be stripped and ore to be mined in each of these components. The Group assesses future production stripping costs required to bring existing reserves into production and includes an estimate of these costs in the base when calculating amortisation expense.

### (i) Care and Maintenance

When a mine moves into the care and maintenance stage, the costs of maintaining the mine are expensed in the period as incurred unless there are future economic benefits for other operating mines.

### (j) 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 profit or loss on a straight line basis over the lease term.

### (k) 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.

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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Subsidiaries not wholly owned do not form part of the tax consolidated group and are taxed as a separate entity.

### (l) 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.

### (m) 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, worker's 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 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 corporate 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'). Share-based compensation benefits are provided to employees via the Long-Term Incentive Plan (subject to shareholder approval for Executive Directors). Information relating to these plans is set out in Note 4.

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 transaction 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Employee Share Plan is administered by the Atlas Iron Employee Share Trust, which is consolidated in accordance with the principals in Note 1(b). Under the Employee Share Plan, shares issued by the Atlas Iron Employee Share Trust vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee expense with a corresponding increase in equity.

The Salary Sacrifice and Matched Share Plan allow participants to salary sacrifice certain amounts per annum from their pre-tax salary. Atlas will match the salary sacrifice shares on a one for one basis, with shares purchased by the Atlas Iron Employee Share Trust.

The matched shares do not vest until the participants have completed a specified service condition, management deem that services are to be rendered over a three-year period. The participants become unconditionally entitled to the shares at the end of the three-year period. The employees have no beneficial entitlement to the matched shares until they are awarded.

Service vesting conditions (which are non-market conditions) and non-market performance conditions are not incorporated into the grant date fair value calculation of the Matched Share Plan, instead they are taken into consideration when estimating the number of awards that will vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or not exercised.

The cumulative expense recognised for the matched share transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the proportion of the awards that are expected to ultimately vest.

Matched shares are subject to good and bad leaver provisions. Matched shares will be forfeited in regards to bad leavers. Bad leavers include participants that cease to be employed by the Group via voluntary resignation, dismissal for cause, fraud, criminal offence or purported dealing. Good leavers include participants that cease to be employed by the Group by reason of redundancy, death, incapacitation or any other reason determined by the Board. The expense recognised for good leavers is accelerated as the shares vest immediately and are no longer subject to the 3-year service condition or trading restrictions.

### (n) 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 the 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. Revenue is not reduced for royalties and other taxes payable from the Group's production.

Provisional values are recognised on cargos which are provisionally priced at the date of sale. Adjustments to the sale price then occur subsequent to the date of sale based on movements in quoted market prices on which the final price is based, with adjustments reflected in sales and trade receivables. The period between provisional invoicing and final pricing is typically between 30 and 120 days. The revenue adjustment which is embedded within the provisionally priced sale arrangements is measured at fair value and is re-estimated continuously until final pricing is determined. Fair value adjustments, estimated by reference to forward market prices, are recognised as an adjustment to revenue.

### (o) 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.

*Repurchase and Re-Issue of Ordinary Shares (Treasury Shares)*
Own equity instruments that are re-acquired (treasury shares) are recognised at cost including directly attributable incremental costs (net of income taxes) and deducted from equity. No gain or loss is recognised in the consolidated statement of profit or loss and other comprehensive income on the purchase, sale, issue or cancellation of Atlas' own equity instruments. Any difference between the consideration received and the carrying amount, if reissued, is recognised in the share-based payments reserve. Shares held by the Atlas Iron Employee Share Trust are disclosed as treasury shares and are deducted from contributed equity.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) 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).

### (q) 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 six months or less.

### (r) 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.

### (s) Inventories

Iron ore stockpiles and Lithium 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.

### (t) 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.

### (u) 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.

### (v) 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

*Derivative Financial Assets*
The Group has the following financial assets: financial assets at fair value through profit or loss.

*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 and embedded derivatives.

Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are initially measured at fair value on the date the derivative contract is entered into and are subsequently re-measured with changes in fair value recognised in profit or loss. Derivatives are recognised as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

*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.

**(w) New Australian Accounting Standards and Interpretations**

(i) New and amended standards adopted by the Group

The following standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2017:

- *AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax assets for Unrealised Losses*
- *AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 Statement of Cash Flows*
- *AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014/2016 Cycle*

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(ii) New accounting standards and interpretations not yet adopted

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

(a) AASB 15 *Revenue from Contracts with Customers*: applicable to annual reporting periods beginning on or after 1 July 2018.

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It will replace existing revenue recognition guidance including AASB 118 Revenue and AASB 111 Construction Contracts. The core principles of AASB 15 is that an entity recognises revenue related to the transfer of goods or services when control of the goods or service passes to the customer. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group's preliminary assessment of the impacts of AASB 15 are set out below. The impact is immaterial at 30 June 2018.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Sale of Goods
The Group's contracts for the sale of iron ore are mainly on a Costs and Freight (CFR) basis which means the Group is responsible for providing shipping services after the date which control of the goods passes to the customer at the loading port. Currently the group recognises the full contract revenue including shipping cost, when the control of goods passes to the customer which is when the product has been loaded. Under AASB 15 shipping is required to be accounted for as a separate performance obligation, and will be recognised separately from the sale of the ore when the shipping service has been provided, typically when the vessel arrives at the port of discharge, along with any associated costs.

(ii) Variable Consideration
Some of the Group's sales contain provisional pricing features and are generally finalised using iron ore price indices in the calendar quarter of the month of shipment. The provisional pricing features are considered embedded derivatives. Such adjustments to revenue are dealt with under AASB 9 "Financial Instruments" rather than AASB 15 and therefore the AASB 15 rules on variable consideration do not apply. The provisional pricing adjustments will continue to be included in consolidated sales revenue on the face of the income statement with the amount of such adjustments disclosed by way of a note to the financial statements.

The nature of the product sold by the group is subject to price adjustments from final assay results. The provisional pricing is based on initial assay results which could constitute as variable consideration under the new standard. Under AASB 15 revenue can only be recognised for variable consideration if it is highly probable that a significant reversal of revenue will not occur. Typically, final assay results do not result in a reversal of revenue, as such, no change is expected to the Group's current approach and is not expected to materially impact the Group's revenue.

The Group plans to adopt AASB 15 in the financial statements for the year ending 30 June 2019, using the modified transition approach to implementation where any transitional adjustment is recognised in retained earnings at 1 July 2018 without any adjustment to comparatives and the new standard will only be applied to contracts that remain in force at that date.

(b) AASB 9 Financial Instruments: applicable to annual reporting periods beginning on or after 1 July 2018.

AASB 9 brings together all three aspects of the accounting for financial instruments projects: classification and measurement, impairment and hedge accounting. The standard includes a single approach for the classification and measurement of financial assets, based on cash flow characteristics and the business model used for the management of the financial instruments. It introduces the expected credit loss model for impairment of financial assets which replaces the incurred loss model under AASB 139 Financial Instruments: Recognition and Measurement. Lastly, the standard amends the rules on hedge accounting to align the accounting treatment with the risk management practices of the business.

The Group's assessment of the impacts of AASB 9 are set out below:

- Classification and measurement: The Group has assessed there is no material impact to its financial statements on applying the classification and measurement requirements of AASB 9 based on the Group's current financial assets and liabilities. The Group has entered into provisionally priced commodity sales contracts. These are provisionally priced sales volumes for which price finalisation is referenced to the relevant index at a future date. Provisional pricing mechanisms embedded within these sales arrangements have the character of a commodity derivative and are carried at fair value through the profit or loss. Under AASB 9 the receivable asset is measured at fair value through the profit or loss which will result in a similar overall impact on the income statement and balance sheet.
- Impairment: AASB 9 requires the Group to use an expected credit loss model for its trade and other receivables measured at amortised cost, either on a 12-month or lifetime basis. Given the short-term nature of the Group's receivables and low credit risk, the Group assessed these changes to have no material impact.
- Hedge accounting: The changes in AASB 9 relating to hedge accounting will have no impact as the Group does not currently apply hedge accounting.
- The adoption of AASB 9 will require extensive new disclosure, in particular about credit risk and the Group's plans to implement controls necessary to capture required data.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Any differences in the carrying amounts of financial assets resulting from the adoption of AASB 9 will generally be recognised in retained earnings at 1 July 2018.

(c) AASB 16 Leases: applicable to annual reporting periods beginning on or after 1 July 2019.

AASB 16 Leases introduces a single, on-balance sheet accounting model for all leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact is that the Group will potentially recognise new assets and liabilities for port facilities and mining equipment. However, the Group has not yet quantified the impact of its reported assets and liabilities of adoption of AASB 16. The quantitative effect will depend on, the transition method and the extent to which the Group uses practical and recognition exemptions. The Group expects to disclose its transition approach and quantitative information before adoption.

## 2. OPERATING COSTS

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Mining and processing | (127,048) | (191,817) |
| Haulage | (164,172) | (197,649) |
| Port | (71,343) | (109,630) |
| Shipping | (108,684) | (122,008) |
| Royalties | (36,084) | (66,271) |
| Depreciation and amortisation | (68,769) | (73,046) |
| Inventory write-down | (11,720) | - |
| Other operating costs (including contractor profit share)* | 1,562 | (27,122) |
| | **(586,258)** | (787,543) |

* Other operating costs have significantly decreased due to the cessation of collaboration agreements and profit share arrangements. An AU$1.8 million refund for overcharges on port operating costs relating to the prior year and rental income for accommodation units utilised at Abydos were received.

## 3. IMPAIRMENT LOSS

The Group assesses whether there are indicators that assets, or groups of assets, may be impaired at each reporting date. The following impairment indicators were identified during the year:

- volatile US dollar iron ore price, compounded by an increasing product discount which impacts the feasibility and returns on mines and projects;
- the continued market capital deficiency prior to the Hancock Offer and Mineral Resources Ltd Scheme of Arrangement, the first of which was announced on 5 April 2018 (but no deficiency has existed since that time); and
- the deferral of the Corunna Downs Project.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made. Atlas has made an assessment of the recoverable amount of its assets as at 30 June 2018.

Total impairment losses recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year were as follows:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Other receivables | - | (528) |
| Mine and reserve development assets | (58,254) | (460) |
| Property, plant and equipment | (33,721) | - |
| Intangible assets | (25) | - |
| Mining tenements capitalised | - | (53) |
| **Impairment loss** | **(92,000)** | (1,041) |

Following is a break-down of the impairment loss by asset grouping:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Horizon 1 mining properties | (92,000) | - |
| Other | - | (1,041) |
| **Impairment loss** | **(92,000)** | (1,041) |

### Horizon 1 Mining Properties

Atlas' Horizon 1 mining properties relate to the assets and liabilities contained within its current operating mines (including the Corunna Downs project). At 30 June 2018, Atlas assessed the Horizon 1 assets for impairment and recognised a loss of AU$92 million on mine reserve and development assets. In the year ended 30 June 2017, Atlas did not recognise an impairment loss. The recoverable amount of the Horizon 1 mining properties was determined using life-of-mine value in use calculations based on life-of-mine cash flow projections from Board-approved financial budgets/forecasts and mine plans based on current reserves.

## 3. IMPAIRMENT LOSS (CONTINUED)

Redstone Corporation Pty Ltd has indicated in the bidder's statement that intends to conduct a strategic review of Atlas once the Hancock offer has closed. Such a review will be an important step in informing and determining Redstone's approach to its investment in Atlas, including the future operation of its assets.

Key assumptions contained in cash flow projections are based on external sources of information where available, or reflect past experience, and include:

- commencing the development and operation of the Corunna Downs project from March 2019;
- forecast USD iron ore price and foreign exchange rates (based on the most recent external economic forecasters);
- published reserve statements;
- operating and capital cost estimates utilising mine plans;
- inflation applied at 2.0% per annum; and
- a nominal post-tax discount rate applied to cash flow projections of 11% (June 2017: 10%).

A key component of the cash flow projections are the revenue assumptions utilised. A summary of the externally sourced forecast USD iron ore price and foreign exchange rate assumption ranges (real, based on external economic forecasters) utilised in determining the recoverable amount of its Horizon 1 mining properties are detailed below:

| | 30 June 2018* | | |
|---|---|---|---|
| Assumption | CFR 62% Fe $USD/DMT | AUD/USD | Low Grade Discount |
| Not later than one year | 63 - 70 | 0.74 – 0.77 | 29% - 32% |
| Later than one year and not later than five years | 61 - 64 | 0.74 – 0.78 | 12% - 28% |
| More than five years | 64 - 66 | 0.75 – 0.75 | 12% |

* The forecast pricing assumptions do not include the premium that Atlas forecasts to receive on its lump product.

### Sensitivity

**Horizon 1 Mining Properties**

The effect of a reasonably possible change as at 30 June 2018, in the following key assumptions, in isolation to each other, to the life-of-mine value in use calculations (net present value) of the Horizon 1 mining properties, are detailed below:

| Assumption | Impact on Value $Million | Additional Impairment $Million |
|---|---|---|
| 5% reduction in USD iron ore pricing | (116) | 116 |
| 10% long term low grade discount on CFR price | 104 | - |
| 20% long term low grade discount on CFR price | (71) | 71 |
| 10% increase in production operating costs costs ** | (130) | 130 |
| 100 basis points increase in discount rate | (6) | 6 |

** excludes administration and support overheads

Whilst the impact of each reasonable possible change is shown in isolation, it is possible that a change in one key assumption may be offset by a change in another key assumption.

**Horizon 2 Exploration Projects**

Atlas' Horizon 2 exploration projects relate predominantly to the McPhee Creek and South East Pilbara exploration projects. Atlas did not recognize an impairment in year ended 30 June 2018 (30 June 2017: No impairment loss recognised).

When considering the fair value less cost to sell basis in determining the recoverable amount of the McPhee Creek project the Company has regard to implied valuations per reserve and resource tonnes of comparable projects and project cash flows. The group of comparable projects is included in the comparative group where they hold hematite iron ore projects at a similar stage and size within the Pilbara to the Group's. The implied valuations per reserve and resource tonne valuations have been calculated using publicly available information and the share price of the relevant company at the point of testing. This is considered to be a level three valuation technique within the fair value hierarchy.

The recoverable amount of the undeveloped South East Pilbara exploration project has been determined based on the implied valuations per reserve and resource tonnes of comparable projects, consistent with the methodology described above. No impairment was recognised for the year ending 30 June 2018 (30 June 2017: No impairment loss recognised).

*Non-core tenements*

No impairments were recognised for the year ending 30 June 2018 (30 June 2017: No impairment loss was recognised in relation to non-core tenements).

## 3. IMPAIRMENT LOSS (CONTINUED)

**Sensitivity**

**Horizon 2 – McPhee Creek**

As at 30 June 2018, the effect of a reasonably possible change in the following key assumption, in isolation, to the fair value less cost to sell calculations of the Horizon 2 – McPhee Creek, is detailed below:

| Assumption | Impact on Value $'000 | Impairment $'000 |
|---|---|---|
| 10% change in implied valuations per reserve/resource tonne | (7,079) | - |

**Horizon 2 – South East Pilbara**

As at 30 June 2018, the effect of a reasonably possible change in the following key assumption, in isolation, to the fair value less cost to sell calculations for the Horizon 2 – South East Pilbara is detailed below:

| Assumption | Impact on Fair Value $'000 | Impairment $'000 |
|---|---|---|
| 10% change in implied valuations per reserve/resource tonne | (20,641) | - |

**Other Receivables**
The Company fully impaired the increase in the loan of $2.7 million provided to North West Infrastructure (Other Receivables) and studies completed on the proposed Port at South West Creek

## 4. SHARE-BASED PAYMENTS

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| *Expenses arising from share-based payment transactions* | | |
| Long Term Incentive plan | (709) | (469) |
| **Total** | **(709)** | (469) |

Set out below are summaries of the options movement during the year:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price $ | Number of options | Weighted average exercise price $ |
| Outstanding at the beginning of the year | 156,913,683 | 0.00 | 89,827,205 | 0.00 |
| Granted | 206,081,063 | 0.00 | 138,341,188 | 0.00 |
| Exercised | (18,434,437) | 0.00 | (62,326,835) | 0.00 |
| Cancelled/lapsed | (5,196,018) | 0.00 | (8,927,875) | 0.00 |
| Outstanding at year end | **339,364,291** | **0.00** | 156,913,683 | **0.00** |
| Exercisable at year end | **24,234,946** | **0.00** | 27,500,370 | **0.00** |

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.6 years (2017: 3.40 years), with an exercise price of nil. The weighted average price of shares at the date of exercising options was $0.02 (2017: $0.01).

**Employee and Contractors Option Plan**

*Long Term Incentive plan*
The Group has historically provided benefits to its key employees in the form of share-based payment transactions, whereby options to convert to ordinary shares were issued as an incentive to improve employee and shareholder goal congruence.

During the year the Group has issued 206,081,063 options (2017: 138,341,188) under the plan to key employees, these options vest over a 3-year period and have a nil exercise price.

The options granted to employees in the year ended 30 June 2018 have an expiry date 25 October 2022. Options granted in the year ended 30 June 2017 have an expiry date 30 November 2021 of which 7,233,901 vested on 15 September 2017 on satisfying the retention component in the vesting conditions.

## 4. SHARE-BASED PAYMENTS (CONTINUED)

During the year 13,131,130 options have been exercised and 7,233,901 remain vested and exercisable.

The options granted to employees in year ended 30 June 2016 have an expiry date of 13 November 2020, and vested on 6 May 2016. During the year 5,303,307 of these options have been exercised and 17,001,045 remain vested and exercisable.

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.

The fair value of the services received in return for the zero priced employee options granted was fair valued using the closing share price on the date of issue of the employee share options. See below for a summary of the key terms of the Employee Share Option Plan and fair value assumptions. To remain entitled to the employee share options all Atlas employees had to remain in employment until date of vest.

| Employee Option Plan (Zero Priced) 2018 | | | |
|---|---|---|---|
| Performance measure | ROIC | TSR | Retention |
| Vesting conditions | See below | See below | See below |
| Test date | 30 June 2020 | 30 June 2020 | Annually (see below) |
| Performance period | 1 July 2017 to 30 June 2020 | 1 July 2017 to 30 June 2020 | 1 July 2017 to 30 June 2020 |
| Grant date | 19 October 2017 | 19 October 2017 | 19 October 2017 |
| Share price at grant date | $0.02 | $0.02 | $0.02 |
| Fair value at grant date | $0.01 | $0.01* | $0.01 |
| Remaining life as at 30 June 2018 | 2 years | 2 years | 2 years |
| Volatility | N/A | N/A | N/A |
| Weighting of incentive plan | 30% | 40% | 30% |

* As the TSR condition is a market based condition a probability weighting of achievement has been included in the value at grate date.

| Employee Option Plan (Zero Priced) 2017 | | | |
|---|---|---|---|
| Performance measure | ROIC | TSR | Retention |
| Vesting conditions | See below | See below | See below |
| Test date | 30 June 2019 | 30 June 2019 | Annually (see below) |
| Performance period | 1 July 2016 to 30 June 2019 | 1 July 2016 to 30 June 2019 | 1 July 2016 to 30 June 2019 |
| Grant date | 1 November 2016 | 1 November 2016 | 1 November 2016 |
| Share price at grant date | $0.01 | $0.01 | $0.01 |
| Fair value at grant date | $0.01 | $0.01* | $0.01 |
| Remaining life as at 30 June 2018 | 1 years | 1 years | 1 years |
| Volatility | N/A | N/A | N/A |
| Weighting of incentive plan | 30% | 40% | 30% |

**Vesting Conditions**

**Total Shareholder Return (TSR)**
The TSR means an absolute improvement in the Atlas' share price from the issue date to the testing date.

**Return on Invested Capital (ROIC)**
The ROIC requires an improvement in the Atlas' return on invested capital for FY 2020 equal to or greater than 15% above the ROIC for FY 2017.

**Retention Component**
The Retention component will vest in thirds on the first 3 anniversaries of grant (10% each year) on condition the employee remains in the employment of the Company at the vesting date.

As at the date of this report following the change of control, the Atlas Employee Share Option Plan (ESOP) has vested all unvested options as per the rules of the ESOP.

## 4. SHARE-BASED PAYMENTS (CONTINUED)

**Unvested unlisted performance and share appreciation rights under the Long-Term Incentive Plan (LTIP)**
No performance rights or share appreciation rights were granted during the year ended 30 June 2018.

| | Share Appreciation Rights | | Performance Rights | |
|---|---|---|---|---|
| | 2018 Number of rights | 2017 Number of rights | 2018 Number of rights | 2017 Number of rights |
| Balance at 1 July | - | 2,905,343 | - | 1,225,771 |
| Granted during the year | - | - | - | - |
| Vested during the year | - | - | - | - |
| Forfeited during the year | - | (2,905,343) | - | (1,225,771) |
| **Balance at 30 June** | **-** | **-** | **-** | **-** |

## 5. EMPLOYEE BENEFITS

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Salaries and benefits* | (8,214) | (7,547) |

* Contributions of $1,498,000 were made during the year (2017: $1,885,000) to defined contribution plans

## 6. OTHER INCOME

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Rehabilitation provision adjustment | 3,047 | 7,414 |
| Onerous lease provision adjustment | 115 | 3,348 |
| Provision reversal | - | 2,000 |
| Farm-in consideration | - | 2,300 |
| Rental income | 2,035 | 1,782 |
| Cancelled shipment settlement | 782 | - |
| Other income | 148 | - |
| | **6,127** | 16,844 |

## 7. NET FINANCE INCOME (EXPENSE)

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Interest income | 629 | 900 |
| Interest accretion | 226 | 121 |
| **Finance income** | **855** | 1,021 |
| Interest expense – Term Loan B | (8,498) | (9,195) |
| Amortisation of debt establishment costs | (1,653) | (76) |
| Other finance expenses | (506) | (4,377) |
| **Finance expense** | **(10,657)** | (13,648) |
| Net (loss)/gain on foreign exchange | (1,452) | 1,727 |
| **Net finance expense** | **(11,254)** | (10,900) |

## 8. INCOME TAX

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

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Accounting (loss)/profit before income tax | (165,978) | 47,981 |
| **At the Group's statutory income tax rate of 30% (2017: 30%)** | (49,793) | 14,394 |
| Other non-deductible | 219 | 291 |
| Temporary differences not brought to account | 50,326 | (14,685) |
| **Income tax expense/(benefit) reported in the consolidated statement of profit or loss and other comprehensive income** | **752** | **-** |

**Deferred Income Tax**

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Deferred income tax at 30 June relates to the following: | | |
| CONSOLIDATED | | |
| *Deferred income tax liabilities (DTL)/Deferred income tax assets (DTA)* | | |
| Mining tenements capitalised | 50,236 | 50,236 |
| Mine development costs | (10,958) | (27,800) |
| Plant and equipment | 10,010 | (428) |
| Reserve improvement | (1,425) | (1,378) |
| Other assets | 6,180 | 8,956 |
| Cash and interest bearing loans | 7,435 | 7,708 |
| Provisions | 26,083 | 28,396 |
| Employee benefits | 710 | 658 |
| Carried forward tax losses | 471,772 | 442,472 |
| | 560,043 | 508,820 |
| Less deferred tax assets not recognised | (560,043) | (508,820) |
| | - | - |

The above disclosures have been prepared based on the tax consolidated group. The income tax expense and liability AU$0.8 million relates to Atlas Pty Ltd, a subsidiary which Atlas Iron Ltd has 90% controlling interest and therefore does not form part of the Atlas Iron Ltd tax consolidated group. AU$0.7 million is the income tax expense attributable to owners of the Group.

**Deferred Tax Assets Not Recognised**

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Temporary differences | 88,270 | 66,347 |
| Tax losses | 470,576 | 439,930 |
| Capital losses | 1,197 | 2,543 |
| | **560,043** | 508,820 |

The ability of the Company to recoup unrecognised tax losses against future taxable profits will be subject to the Company satisfying the requirements under the relevant tax law for their recoupment.

On 3 August 2018, Redstone Corporation Pty Ltd, a wholly-owned subsidiary of Hancock Prospecting Pty Ltd, advised that its voting power in the Company increased to above 50% (refer to Note 21 - Subsequent Events for further detail). As a result, it is likely that the Company would fail the continuity of ownership test under the tax law, with the consequence that the Company must carry on the same business and satisfy the other requirements of the same business test in order to recoup its tax losses.

## 9. TRADE AND OTHER RECEIVABLES

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables* | 19,392 | 10,560 |
| Provisional pricing** | 2,799 | 9,117 |
| Security deposits*** | 48 | 1,700 |
| Reserve Account **** | - | 20,044 |
| | **22,239** | 41,421 |
| **Non–current** | | |
| Security deposits*** | 6,130 | 6,015 |
| | **6,130** | 6,015 |

* There are no trade receivables past due but not impaired (2017: Nil).

** Provisional pricing receivable relates to amounts receivable on provisionally priced commodity sales contracts that are yet to be settled. These contracts may be settled with provisionally priced payables.

*** Security deposits represent cash backing for office bonds, bank guarantee and a credit card facility.

**** Reserve Account represents funds held by TLB agent to facilitate the development of the Corunna Downs project, refer Note 16 for further detail.

The Company has bank guarantees predominantly related to security deposits representing cash backing for office bonds, bank guarantees and a credit card facility. The total bank guarantees on issue at period end are $6,130,729 (2017: $7,716,000).

## 10. INVENTORIES

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Consumables – at cost | 223 | 194 |
| Work in progress (Iron Ore) – NRV | 7,023 | 5,883 |
| Work in progress (Lithium) – at cost | 230 | - |
| Finished goods (Iron Ore) – NRV | 7,505 | 13,017 |
| Finished goods (Lithium) – at cost | 7,302 | - |
| **Total** | **22,283** | 19,094 |

A$11,720,286 write-down of predominantly iron ore fines inventories to net realisable value were recognised as an expense during the year ended 30 June 2018 (2017: nil write-down).

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| At cost | | 169,344 | 165,287 |
| Accumulated depreciation and impairment | | (125,339) | (80,936) |
| | 11(a) | **44,005** | 84,351 |

## 11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### (a) Movements in carrying amounts

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

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| *Property* | | |
| Carrying amount at beginning | 19,070 | 22,611 |
| Additions | | |
| - Buildings | 156 | 67 |
| Impairment (Note 3) | (7,756) | - |
| Disposal | - | (2,334) |
| Depreciation expense | (962) | (1,274) |
| Carrying amount at end | **10,508** | 19,070 |
| *Plant and equipment* | | |
| Carrying amount at beginning | 65,254 | 73,951 |
| Transfers | 27 | - |
| Additions | 3,902 | 1,997 |
| Disposals | - | (105) |
| Depreciation expense | (9,721) | (10,589) |
| Impairment (Note 3) | (25,965) | - |
| Carrying amount at end | **33,497** | 65,254 |
| *Assets under construction* | | |
| Carrying amount at beginning | 27 | 17 |
| Transfers | (27) | - |
| Additions | - | 10 |
| Carrying amount at end | **-** | 27 |
| Total | **44,005** | 84,351 |

## 12. MINE DEVELOPMENT COSTS

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| At cost | 805,676 | 800,097 |
| Accumulated amortisation and impairment | (649,226) | (531,309) |
| | **156,450** | 268,788 |
| Mine development cost breakdown: | | |
| Carrying amount at beginning | 268,788 | 297,660 |
| Additions | 6,565 | 5,484 |
| Reassessment of rehabilitation asset | (527) | 300 |
| Transfers from evaluation expenditure and property, plant and equipment | - | 20,060 |
| Impairment (Note 3) | (58,254) | (460) |
| Amortisation expense | (60,122) | (54,256) |
| Carrying amount at end | **156,450** | 268,788 |

## 13. EVALUATION EXPENDITURE – RESERVE DEVELOPMENT

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Evaluation expenditure – reserve development | **4,749** | 4,592 |
| Evaluation expenditure – reserve development breakdown: | | |
| Carrying amount at beginning | 4,592 | 21,340 |
| Additions | 157 | 3,312 |
| Transfers to mine development | - | (20,060) |
| Carrying amount at end | **4,749** | 4,592 |

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.

## 14. MINING TENEMENTS

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Tenement acquisition costs | **62,499** | 62,499 |
| Tenement acquisition cost breakdown: | | |
| Carrying amount at beginning | 62,499 | 62,594 |
| Disposals | - | (42) |
| Impairment (Note 3) | - | (53) |
| Carrying amount at end | **62,499** | 62,499 |

## 15. TRADE AND OTHER PAYABLES

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Current** | | |
| Trade payables* | 39,474 | 13,394 |
| Accrued expenses | 23,285 | 24,377 |
| Royalty payable | 7,103 | 12,420 |
| Royalty assistance program | - | 3,073 |
| Provisional pricing and rebates payable** | 378 | 12,409 |
| Other payables | 46 | 376 |
| | **70,286** | 66,049 |
| **Non-current** | | |
| Other payables and accruals | - | 822 |
| | **-** | 822 |

* Trade payables are normally settled on a 30-day basis except for key contractors, who are settled in the month of service.

** Provisional pricing payable relates to amounts payable on provisionally priced commodity sales contracts that are yet to be settled. These contracts may be settled with provisionally priced receivable.

Trade and other payables are non-interest bearing.

## 16. INTEREST BEARING LOANS AND BORROWINGS

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Current** | | |
| Secured debt facility | 1,827 | 1,755 |
| Finance Lease | 1,112 | 1,020 |
| | **2,939** | 2,775 |
| **Non-current** | | |
| Secured debt facility | 84,141 | 101,055 |
| Finance Lease | 4,109 | 5,221 |
| Borrowing costs | (4,822) | (4,298) |
| | **83,428** | 101,978 |

*Secured Debt Facility*

On 6 May 2016, Atlas completed a creditors' scheme of arrangement which implemented a restructure of the Term Loan B facility. The principal amount owing on the Loan was reduced to US$135,000,000 from US$267,000,000. For this reduction in the Loan, Atlas paid down US$10m and on completion issued to the Lenders 6,229,503,087 fully paid ordinary shares and 4,513,986,260 Options exercisable at $0.075. The term of the facility is 5 years (maturing April 2021) with an interest rate of LIBOR plus 4.33% (LIBOR floor of 1.25%) paid monthly plus Paid in Kind interest (capitalised monthly) of 3.00% per annum.

On 31 March 2017, the Group announced that it had implemented another amendment to its Term Loan B facility. The key features of the loan amendments were:

- After each of the March, June and September 2017 Quarters, Atlas was entitled to transfer cash on hand in excess of AU$80 million into a dedicated reserve account, subject to a cap of AU$20 million per quarter and AU$45 million in aggregate. Cash on hand in excess of these limits at the end of each quarter would continue to be paid to lenders to reduce the loan balance.
- The reserve account was available to Atlas throughout FY 2018 under the following terms:
  - Funds in the reserve account are not subject to the quarterly cash sweep;
  - Atlas may draw on the reserve account in order to keep its cash balance above AU$60 million;
  - Reserve account funds not drawn at 30 June 2018 will be swept to the lenders to repay any remaining Term Loan B loan amounts.

As consideration for the Term Loan B amendments completed in March 2017:

- Atlas committed to paying all of its Term Loan B interest in cash transferring the previously capitalising Paid in Kind interest of 3.00% to a cash interest paid monthly. The total interest rate is unchanged.
- Atlas issued 107,991,355 ordinary shares to the supporting Term Loan B lenders. The Company established a fair value of the shares issued of AU$3,348,000. The fair value of the shares was measured using the Atlas share price at the date of issue (31 March 2017: $0.03). This was considered to be a level one on the valuation technique within the fair value hierarchy.
- Term Loan B principal outstanding would be increased by a maximum of US$2,300,000, unless the facility was refinanced or repaid within 120 days of satisfying the conditions precedent. The refinancing timeline expired on 28 July 2017 and resulted in an increase to the loan payable of US$1,700,000.

Establishment fees paid in relation to the amendment in year ended 30 June 2017 were capitalised and will be amortised over the remaining term of the Term Loan B.

During the life of the Reserve Account AU$34.4 million was transferred to the account. The Reserve Account was fully utilised by 30 June 2018 to fund working capital requirements.

On 29 January 2018, the Company announced a further amendment to the Term Loan B facility, resulting in an additional repayment of AU$20 million and a reduction in the minimum cash covenant at no cost from AU$35 million to AU$15 million.

The facility continues to be repaid at 1% per annum and then the remainder paid out on maturity. The facility remains secured over all assets of Atlas and each material subsidiary subject to agreed exceptions and in some certain circumstances, to obtaining third party consent.

## 16. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

***Finance Lease***

During 2014, the Group entered into an arrangement whereby a supplier built a laboratory (buildings and equipment) which will be operated by the supplier under a finance lease agreement. On commencement the term of the lease was 7 years and has 3 years remaining at 30th June 2018. The Company has recognised finance lease interest charges of AU$506,000 (2017: AU$590,000).

## 17. PROVISIONS

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| **Current** | | |
| Rehabilitation and demobilisation | 9,126 | 5,341 |
| Onerous lease | 3,087 | 3,661 |
| Other | 1,017 | 1,017 |
| | **13,230** | 10,019 |
| **Non-current** | | |
| Rehabilitation and demobilisation | 33,820 | 44,792 |
| Onerous lease | 16,892 | 19,363 |
| | **50,712** | 64,155 |
| Provisions breakdown: | | |
| Carrying amount at beginning | 74,174 | 98,422 |
| Provisions made during the year | - | 841 |
| Provisions reduced during the year | (3,574) | (19,409) |
| Provisions used during the year | (7,321) | (6,349) |
| Unwind of discount | 663 | 669 |
| **Carrying amount at end** | **63,942** | 74,174 |

*Rehabilitation Provision*

When developing its mines, the Group makes provision for the future cost of rehabilitating mine sites. 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. 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.

*Onerous Lease*

In 2012, the Group entered into a non-cancellable lease for office space which will expire in 2024. A portion of the office space is sublet to third parties for part of the remaining lease term but changes in market conditions have meant that the rental income will be lower than the rental expense. The obligation for the discounted future payments, net of expected rental income, has been provided for by the Group.

## 18. ISSUED CAPITAL, RESERVES, ACCUMULATED PROFIT/(LOSS) AND OTHER EQUITY

### (a) Issued and Paid Up Capital

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| | Notes | Number of shares '000 | $'000 | Number of shares '000 | $'000 |
| *(i) share capital* | | | | | |
| Ordinary shares fully paid | 19(b) | 9,279,608 | 2,203,510 | 9,260,788 | 2,203,203 |
| | | **9,279,608** | **2,203,510** | 9,260,788 | 2,203,203 |

### (b) Movements in Share Capital and Other Equity Securities

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number of shares '000 | $'000 | Number of shares '000 | $'000 |
| Beginning of the financial year | 9,260,788 | 2,203,203 | 8,995,754 | 2,197,388 |
| Issued during the year: | | | | |
| - Ordinary shares issued through employee share scheme | 18,780 | 304 | 62,327 | 1,683 |
| - Ordinary shares issued | 40 | 3 | - | - |
| - Ordinary shares issued through debt restructure | **-** | **-** | 107,991 | 3,132 |
| - Ordinary shares issued through tenement acquisition | - | - | 94,670 | 1,000 |
| - Treasury shares | - | - | 46 | - |
| End of the financial year | **9,279,608** | **2,203,510** | 9,260,788 | 2,203,203 |

### (c) 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.

Refer to statement of changes in equity for details of movements.

| | Weighted average exercise price $ | Number of Listed Options | Number of Unlisted Options |
|---|---|---|---|
| Balance at the beginning of the period | 0.073 | 4,513,986,260 | 156,913,683 |
| Options granted | 0.000 | - | 206,081,063 |
| Options exercised | 0.000 | - | (18,434,437) |
| Options forfeited | 0.000 | - | - |
| Options expired | 0.073 | (4,513,986,260) | (5,196,018) |
| **Total number of options outstanding as at 30 June 2018** | **0.000** | **-** | **339,364,291** |

### (d) Nature and Purpose of Reserves

The share-based payments reserve is used to recognise:

(i) the grant date fair value of options issued but not exercised

(ii) the difference between the grant date fair value of shares issued to employees less the issue of shares held by the Atlas Iron Employee Share Trust.

## 19. STATEMENT OF CASHFLOWS

### (a) Reconciliation of the Profit/(Loss) After Income Tax to the Net Cash Flows from Operations

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Net (loss)/profit | (166,730) | 47,981 |
| **Non-cash items** | | |
| Depreciation and amortisation of non-current assets | 69,870 | 74,519 |
| Impairment | 92,000 | 1,041 |
| (Gain)/loss on disposal of fixed assets | - | (6,999) |
| Net foreign exchange loss/(gain) | 1,452 | (1,727) |
| Net interest expense - other | 506 | 1,024 |
| Amortisation of debt establishment costs | 1,653 | 76 |
| Interest expense on borrowing facilities | 8,498 | 12,460 |
| Loss on financial instruments | 3,240 | 22,711 |
| Restructuring costs – onerous lease | (3,046) | (6,784) |
| Rehabilitation provision adjustment | (3,273) | (7,414) |
| Other | 1,220 | (1,252) |
| **Changes in operating assets and liabilities** | | |
| (Increase)/decrease in trade and other receivables | (2,465) | 17,510 |
| (Increase)/decrease in prepayments | (2,929) | 5,136 |
| (Increase)/decrease in inventories | (1,997) | (94) |
| Increase/(decrease)  in trade and other payables | 2,488 | (2,521) |
| Increase/(decrease) in employee entitlements | 177 | 176 |
| (Decrease)/increase in provisions | (3,387) | (1,946) |
| **Net cash inflow from operating activities** | **(2,723)** | 153,897 |

### (b) Reconciliation of Cash and Cash Equivalents

Cash and cash equivalents comprises:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Cash at bank and in hand | 46,645 | 34,568 |
| Short term deposits | 10,019 | 46,201 |
| **Closing cash and cash equivalents balance** | **56,664** | 80,769 |

Cash at bank and on hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods, depending on the immediate cash requirements of the Group and earn interest at the respective short term deposit rates.

## 20. EXPENDITURE COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

**Exploration Lease Commitments**

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

Exploration commitments are as follows:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Not later than one year | 5,672 | 5,870 |
| Later than one year and not later than five years | 18,032 | 18,846 |
| More than five years | 42,165 | 47,129 |
| | **65,869** | 71,845 |

## 20. EXPENDITURE COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (CONTINUED)

### (a) Contractual Commitments

*Other*

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Not later than one year | 18,214 | 20,149 |
| | **18,214** | 20,149 |

The Group has entered into operational contracts that are cancellable, in which case a minimum commitment applies. These mainly relate to mining, crushing and hauling contracts.

The Group agreed to purchase up to 1.5 million tonnes of lithium direct shipping over a 15-month period from Pilbara Minerals Limited which is a back to back fixed price offtake agreement with Sinosteel Australia Pty Ltd for the export of this product.

### (b) Lease Expenditure Commitments

Operating lease commitments – Group as lessee
*Operating leases (non-cancellable):* Minimum lease payments

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Not later than one year | 7,905 | 8,105 |
| Later than one year and not later than five years | 33,517 | 33,563 |
| More than five years | 7,506 | 16,946 |
| Aggregate expenditure contracted for at reporting date | **48,928** | 58,614 |

The Group has entered into leases for office and accommodation buildings, motor vehicles, office equipment and port handling facilities. During the year, an expense of $8,105,200 was recognised in profit or loss in respect of operating leases (2017: $8,716,000).

Operating lease commitments – Group as lessor
*Operating leases (non-cancellable): Minimum lease payments*

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Not later than one year | 1,700 | 1,402 |
| Later than one year and not later than five years | 3,545 | 1,946 |
| More than five years | 365 | - |
| Aggregate expenditure contracted for at reporting date | **5,610** | **3,348** |

A number of leases include a clause to enable upward revision of the rental charge on a bi-annual basis according to prevailing market conditions. Refer to Note 17 for onerous lease discussion.

### (c) Guarantees

The Group has provided a guarantee to Pilbara Minerals Limited for punctual performance by Atlas Pty Ltd, a subsidiary of the Group, of all obligations under its agreement and provides indemnity against any cost, expense, loss or liability incurred as a result of Atlas Pty Ltd not paying amounts when due under the agreement. No liability is expected to arise.

## 21. SUBSEQUENT EVENTS

On 3 August 2018, Redstone Corporation Pty Ltd (Redstone), a wholly-owned subsidiary of Hancock Prospecting Pty Ltd advised that its voting power in Atlas increased to 56.07%. In accordance with section 624(2) of the Corporations Act, the Hancock Offer was extended to 17 August 2018.

Redstone advised that its voting power in Atlas increased to 77.06% on 27 September 2018 and advised the offer has been extended to 2 October 2018.

As foreshadowed in the Target's Statement, the change in the control of Atlas caused by shareholders accepting the Hancock Offer gives lenders under the Term Loan B Facility the option to accelerate repayment of the debt. If the lenders choose to accelerate repayment of the debt, the debt will immediately become due and payable.

## 21. SUBSEQUENT EVENTS (CONTINUED)

Redstone has confirmed in its Bidder's Statement that it will offer to make available to Atlas (by way of a loan facility) such amount as may be necessary to enable Atlas to meet its repayment obligations in relation to the Term Loan B Facility, or will offer to step-in to the Term Loan B Facility (by way of acquiring that debt from the lenders under the Term Loan B Facility). However, Atlas and Redstone have not agreed to the terms for the provision of such funding to Atlas and there is a risk such agreement may not eventuate.

On 27 September 2018, the term loan B lenders have agreed to immediately waive this event of default on the following terms:

- Redstone has granted the lenders a 60-day put option commencing on 3 October 2018.
- During the put option period, a majority of lenders can require Redstone (or an associate or a nominee of Redstone) to purchase all Term Loan B debt at face value.
- If the lenders exercise the put option, Redstone or its associate or its nominee will step in as the lender under the Term Loan B facility and have the benefit of the existing Term Loan B security package.

While formal funding agreements with Redstone are not yet agreed, the Board expects, based on the significant investment Redstone has made in the Company and a letter of comfort issued to the Directors by Redstone, that funding will be obtained if it is required.
Further to the change of control, the Atlas Employee Share Option Plan (ESOP) has vested any unvested options as per the rules of the ESOP.

No other matters have arisen since 30 June 2018, 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.

## 22. (LOSS)/PROFIT PER SHARE

### (a) Reconciliation of Earnings to (Loss) or Profit

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| (Loss)/profit used in calculating basic loss per share | **(166,906)** | 47,981 |

### (b) Weighted Average Number of Ordinary Shares Outstanding During the Year Used in Calculating Basic (Loss)/Profit per Share

| | **2018 Number of shares** | 2017 Number of shares |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic (loss)/profit per share | **9,275,081,047** | 9,167,592,396 |
| Basic (loss)/profit per share (cents) | **(1.80)** | 0.52 |

### (c) Weighted Average Number of Ordinary Shares (Diluted)

| | **2018 Number of shares** | 2017 Number of shares |
|---|---|---|
| Weighted average number of ordinary shares (basic) | 9,275,081,047 | 9,167,592,396 |
| Effect of share options | - | 156,913,683 |
| Weighted average number of ordinary shares (diluted) | 9,275,081,047 | 9,324,506,079 |
| Diluted (loss)/profit per share (cents) | **(1.80)** | 0.51 |

Atlas' potential ordinary shares as at 30 June 2018, 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 2017 was based on profit attributable to ordinary shareholders of $47,981,000 and a weighted average number of shares outstanding after adjustments for the effects of all dilutive potential ordinary shares of 9,324,506,079

## 23. AUDITOR'S REMUNERATION

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Audit or review of the financial report of the Group | 462,000 | 220,000 |
| **Audit and review services** | **462,000** | 220,000 |
| Accounting advisory services | 38,662 | 61,500 |
| Contractor Collaboration Model – Agreed upon procedures | - | 24,726 |
| **Other services** | **38,662** | 86,226 |
| | **500,662** | 306,226 |

## 24. RELATED PARTY DISCLOSURES

The financial statements include the financial statements for the Group and the subsidiaries listed in Note 27.

### (a) Key Management Personnel and Director Related Transactions

(i) *Compensation of Key Management Personnel by Category*

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

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Short term | 2,989 | 3,504 |
| Long term | 18 | 47 |
| Post-employment | 171 | 473 |
| Share-based payment | 2,372 | 510 |
| | **5,550** | 4,534 |

(ii) *Loans to Key Management Personnel*

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

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

### (b) Investments in Other Entities

| Name of related party | | Ownership interest<br>% | Loans to related parties<br>$'000 | Other related party transactions<br>$'000 |
|---|---|---|---|---|
| NWI Pty Limited | **2018** | 63.00 | - | - |
| NWI Pty Limited | **2017** | 63.00 | - | - |

Outstanding balances at year end are unsecured and interest free and settlement occurs in cash except for loans described as follows. There have been no guarantees provided or received for any related party receivables or payables. As at 30 June 2018, the Group's loan receivable from NWI Pty Limited is $Nil (2017: $24,333,000).

## 25. 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.

## 26. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE 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 monitoring risk management policies to the Audit and Risk Committee.

The Group's Treasury function reports to the Board and Audit and Risk Committee and provides assurance that the Group's financial activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken, however derivative positions may be utilised to manage the Group's financial risks. The Group's Financial Risk Management Policy does not allow the Group to enter into any sold option positions.

*Fair Value Hierarchy*
The following table shows the fair value of financial assets including their levels in the fair value hierarchy. The Group has not disclosed the fair values for financial instruments such as short-term trade receivables, payables and interest bearing loans, because their carrying amounts are a reasonable approximation of fair values.

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| *Financial Assets & Liabilities* | | |
| Level 1* | | |
| Financial assets classified as held for trading | 603 | 362 |
| Level 2** | | |
| Net Financial instruments – iron ore derivatives | 37 | 708 |
| | **640** | 1,070 |

* Level 1 denotes: quoted prices (unadjusted) in active markets for identical assets.
** Level 2 denotes: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).

*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's policies limit 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. The Company is currently in compliance with these limits. Certain different limits apply with respect to potential counterparties for commodity hedging transactions. Refer to commodity price risk below.

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

| | **Notes** | **2018 $'000** | 2017 $'000 |
|---|---|---|---|
| Cash and cash equivalents | 19(b) | 56,664 | 80,769 |
| Trade and other receivables* | 9 | 28,369 | 47,436 |
| | | **85,033** | 128,205 |

* Includes trade receivables past due but not impaired of nil (2017: nil). 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.

## 26. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

*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 and forecasting processes, which are used to predict liquidity needs to support the Group's funding requirements.

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 2018 $'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 loan | 85,968 | (108,618) | (5,043) | (4,932) | (9,822) | (88,821) | - |
| Finance Lease | 5,221 | (6,229) | (763) | (763) | (1,525) | (3,178) | - |
| Trade and other payables | 70,286 | (70,286) | (70,286) | - | - | - | - |
| | **161,475** | **(185,133)** | **(76,092)** | **(5,695)** | **(11,347)** | **(91,999)** | |

| 30 June 2017 $'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 loan | 102,809 | (139,057) | (5,459) | (5,363) | (10,685) | (117,550) | - |
| Finance Lease | 6,241 | (7,753) | (763) | (763) | (1,525) | (4,576) | (126) |
| Trade and other payables | 66,871 | (60,365) | (51,272) | (8,272) | (821) | - | - |
| | 175,921 | (207,175) | (57,494) | (14,398) | (13,031) | (122,126) | (126) |

*Market Risk*
Market risk is the risk that changes in market prices, including foreign exchange rates, commodity price and interest rates 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.

To date, the Group has not adopted hedge accounting.

*Commodity Price Risk*
Commodity price risk arises from fluctuations in market prices of iron ore. Atlas has sought to establish strategies that mitigate its exposure to iron ore price volatility in the short-term. The strategy of utilising fixed priced sales contracts, cap/collar positions and option positions is aimed at providing some protection against decreases in the US dollar iron ore price while maintaining some exposure to pricing upside.

The Group has entered into provisionally priced commodity sales contracts. These are provisionally priced sales volumes for which price finalisation is referenced to the relevant index at a future date. Provisional pricing mechanisms embedded within these sales arrangements have the character of a commodity derivative and are carried at fair value.

The Group's exposure at 30 June 2018 to the impact of movements in commodity prices upon provisionally invoiced sales volumes is set out in the following table.

Impact on profit or loss before tax of a 10% increase in market price

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Iron Ore | **1,912** | 3,651 |

The sensitivities in the above tables have been determined as the absolute impact on fair value of a 10% increase in commodity prices at each reporting date, while holding all other variables, including foreign currency and exchange rates, constant.

The relationship between commodity prices and exchange rates is complex and movements in exchange rates can impact commodity prices. The sensitivities should therefore be used with care.

## 26. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

The Group's policies allow iron ore commodity risk trades (e.g. swaps) with counterparties of credit ratings A – (A minus) which is lower than for foreign exchange trades and short term investments, recognising the nature of the counterparties which regularly participate in the iron ore swap markets.

*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 20% (2017: 15%) of its operating costs are also denominated in US dollars. To hedge exposure to foreign exchange movements, the Group may enter into spot and forward foreign exchange contracts or foreign exchange options as required. There are no contracts outstanding at 30 June 2018 or at 30 June 2017.

Additionally, the Group holds US dollar denominated debt and the Group holds a portion of cash in USD to satisfy its risk management objectives.

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 2018 | Notes | AUD $'000 | USD $'000 | Total $'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 19(b) | 25,476 | 31,188 | 56,664 |
| Trade and other receivables | 9 | 10,964 | 17,405 | 28,369 |
| Trade and other payables | 15 | (51,021) | (19,265) | (70,286) |
| Interest bearing loans and borrowings | 16 | (5,221) | (85,968) | (91,189) |
| | | **(19,802)** | **(56,640)** | **(76,442)** |

| 30 June 2017 | Notes | AUD $'000 | USD $'000 | Total $'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 19(b) | 28,114 | 52,655 | 80,769 |
| Trade and other receivables | 9 | 12,276 | 35,160 | 47,436 |
| Trade and other payables | 15 | (44,515) | (22,356) | (66,871) |
| Interest bearing loans and borrowings | 16 | (6,241) | (102,810) | (109,051) |
| | | (10,366) | (37,351) | (47,717) |

The following exchange rates applied during the financial year:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| US$ | **0.7753** | 0.7545 | **0.7391** | 0.7692 |

*Sensitivity Analysis*
A 5% fluctuation of the Australian dollar against the US dollar at 30 June 2018 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 2018** | | | | |
| **+/-5%** | - | 2,697 | | (2,981) |
| | **-** | **2,697** | | **(2,981)** |
| 30 June 2017 | | | | |
| +/-5% | - | 1,779 | - | (1,966) |
| | - | **1,779** | - | **(1,966)** |

*Interest Rate Risk*
The Group is exposed to interest rate risk on borrowing and 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 90 days.

## 26. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

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

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| *Fixed rate instruments* | | |
| Financial assets | 16,197 | 53,916 |
| Financial liabilities | (5,221) | (6,241) |
| | **10,976** | 47,675 |
| *Variable rate instruments* | | |
| Financial assets | 46,645 | 34,568 |
| Financial liabilities | (85,968) | (102,809) |
| | **(39,323)** | (68,241) |

Refer to Note 16 for further information regarding interest bearing loans and borrowings.

*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 does not reflect any change in profit or (loss) in relation to the variable Term Loan B, as even if the reasonably possible increase in interest rates occurs the interest rate floor on the Term Loan B will not be exceeded. This analysis assumes that all other variables, including foreign exchange rates, remain constant.

| | **Profit or (loss)** | |
|---|---|---|
| | **100bp increase $'000** | **100bp decrease $'000** |
| **30 June 2018** | | |
| Variable rate instruments | 466 | (466) |
| | **466** | **(466)** |
| 30 June 2017 | | |
| Variable rate instruments | 346 | (346) |
| | 346 | (346) |

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

*Capital Management*
The Board's policy is to maintain a suitable 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. The Board monitors both retained earnings/(loss) in addition to the Group's underlying earnings. Underlying earnings adjust retained earnings/(loss) for acquisition related costs and material non-cash, non-recurring adjustments such as asset impairment.

The Group's Term Loan B facility has a minimum monthly cash requirement of AU$15 million among other requirements. A breach of the covenant would result in the Term Loan B facility becoming immediately payable. The Group does not purchase its own shares, except where purchased under an employee share. The Group's Term Loan B facility includes some restrictions on capital management that are standard for the Term Loan B market.

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

## 27. SUBSIDIARIES

| Name of entity | Country of incorporation | Ownership 2018 (%) | Ownership 2017 (%) |
|---|---|---|---|
| ***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 |
| FerrAus Pty Ltd (ii) | Australia | **100** | 100 |
| Australian Manganese Pty Ltd (ii) | Australia | **100** | 100 |
| FerrAus Manganese Pty Ltd (ii) | Australia | **100** | 100 |
| South East Pilbara Assets Pty Ltd (ii) | Australia | **100** | 100 |
| Minera Atacamena Limitada | Chile | **100** | 100 |
| Atlas Pty Ltd | Australia | **90** | 100 |
| Atlas America Finance Inc | United States of America | **100** | 100 |
| Atlas Iron Employee Share Trust | Australia | **100** | 100 |

(i) Atlas Iron Limited is the ultimate parent entity within the consolidated Group.
(ii) These companies are members of the Atlas tax consolidated Group.

*Interests in unconsolidated structured entities*
The Group has no interests in unconsolidated structured entities.

## 28. NON-CONTROLLING INTERESTS

Non-controlling interest percentage is 10% of the groups subsidiary Atlas Pty Ltd.

In April 2018 Atlas Iron Ltd announced an alliance agreement with Mineral Resources Limited (MinRes) to pursue existing and future opportunities. The alliance agreement may be terminated by either Atlas or MinRes should binding legal documents to govern the alliance not be executed by 9 October 2018.

Under the alliance agreement MinRes purchased 10% of the share capital of Atlas Pty Ltd (APL) for AU$4 million. Atlas used the funds for working capital requirements. If the agreement terminates the AU$4 million is returned to MinRes and the 10% interest in APL is returned to Atlas Iron Ltd including right to any dividends.

## 29. PARENT COMPANY

As at and throughout the financial year ended 30 June 2018, the Parent entity of the Group was Atlas Iron Limited.

### (a) Financial Position of Parent Company at Year End

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Total current assets | 161,925 | 216,787 |
| Total non-current assets | 410,257 | 564,127 |
| **TOTAL ASSETS** | **572,182** | **780,914** |
| Total current liabilities | 282,433 | 290,617 |
| Total non-current liabilities | 135,274 | 168,049 |
| **TOTAL LIABILITIES** | **417,707** | **458,666** |
| **NET ASSETS** | **154,475** | **322,248** |
| **TOTAL EQUITY OF THE PARENT ENTITY COMPRISING OF:** | | |
| Issued capital | 2,203,510 | 2,203,203 |
| Reserves | 42,585 | 42,180 |
| Accumulated loss | (2,091,620) | (1,923,135) |
| **TOTAL EQUITY** | **154,475** | **322,248** |
| **RESULTS OF PARENT ENTITY** | | |
| (Loss)/profit for the year | (168,485) | 47,983 |
| Other comprehensive (loss)/income for the year | - | - |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | **(168,485)** | **47,983** |

### (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 20(b).

The Parent has a guarantee in respect of performance obligations under a purchase agreement as disclosed in Note 20(c).

### (c) Contingent liabilities of the Parent

The Parent does not have any contingent liabilities.

### (d) Commitments of the Parent

The commitments of the Parent are the commitments of the Group, see Note 20.

# 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 44 to 77 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 2018 and its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

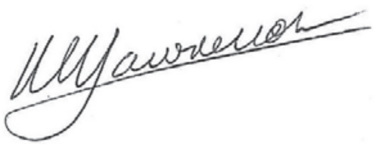
(b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

(c) The Directors have been given the declarations required by s295A of the Corporations Act 2001 from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2018.

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

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

Dated this 28th day of September 2018



Mark Clifford Lawrenson
Managing Director
Perth, Western Australia

# Independent Auditor's Report

To the shareholders of Atlas Iron Limited

## Report on the audit of the Financial Report

## Opinion

We have audited the ***Financial Report*** of Atlas Iron Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

## Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Material uncertainty related to going concern

We draw attention to Note 1(a), "Going Concern" in the financial report. The conditions disclosed in Note 1(a), indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern.

Our approach to this involved:

- Evaluating the feasibility, quantum and timing of the Group's options to renegotiate existing debt facilities or access additional funding from debt or equity sources to address going concern;
- Assessing the Group's cash flow forecasts for incorporation of the Group's operations and plans to address going concern, in particular in light of the recent history of loss making operations;
- Determining the completeness of the Group's going concern disclosures for the principle matters casting significant doubt on the Group's ability to continue as a going concern, the Group's plans to address these matters, and the material uncertainty.

## Key Audit Matters

In addition to the matter described in the *Material uncertainty related to going concern section*, we have determined the matters described below to be the ***Key Audit Matters***:

- Impairment of non-current assets; and
- Restoration and demobilisation provision.

***Key Audit Matters*** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Impairment of non-current assets

Refer to Note 3 to the Financial Report

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| The Group recognised a $92 million impairment charge on the Horizon 1 mining properties. This impairment, together with the carrying value of non-current assets is considered to be a key audit matter. Non-current assets include:<br>• Horizon 1 mining properties, comprising mine development and property, plant and equipment totalling $200.4 million, based on a life of mine value-in-use cash flow model; and<br>• Horizon 2 exploration projects, comprising capitalised evaluation expenditure, reserve development and mining tenements of $67.1 million. This was principally determined using implied valuations of reserves and resource tonnes. These were sourced for comparable projects from available market data.<br>The Group identified operating losses as an impairment indicator for these assets.<br>Due to the significant judgement involved by the Group in determining the carrying value of these non-current assets, which are sensitive to changes in inputs, this was considered to be a key audit matter. | We involved KPMG valuation specialists and our procedures included:<br>• Assessing the composition of the Group's cash generating units, utilising our knowledge of the Group's operations. This included consideration of how independent cash inflows are generated, against the requirements of the accounting standards.<br>• We tested controls for the Group's valuation of the non-current assets, including management and board review and approval of key inputs to the assessment such as US dollar iron ore price, exchange rates and operational assumptions.<br>• We compared the valuation methodology to industry standards and criteria in the relevant accounting standards.<br>Horizon 1 mining properties<br>We critically evaluated the cash flow assumptions by:<br>• comparing realised Australian dollar iron ore prices modelled by the Group to published analyst and broker data about future iron ore prices and foreign exchange rates; |

| | |
|---|---|
| We particularly focus on those significant, forward-looking assumptions and judgements which impact the future cash flows used in the Group's valuations, including:<br>• Composition of the Horizon 1 cash generating unit including delays in the timing of developing Corunna Downs;<br>• Australian dollar realised iron ore prices and discounts to be received by the Group for the sale of low grade iron ore. The sector in which the Group operates has experienced significant volatility in the realised Australian dollar iron ore price, increasing the risk of future fluctuations and forecast reliability;<br>• Reserve estimates, ore mining and processing volumes and grade. These forecasts are based on estimated reserves which are complex to calculate based on interpretation of geological data; and<br>• The discount rate applied to forecast cash flows.<br>To assess the significant judgements of this key audit matter, we involved senior audit team members, including valuation specialists. | • using our knowledge of historical production levels and the current business model to assess the Group's capacity to achieve future production levels; we assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the model;<br>• comparing the ore to be mined and processed, including the grade, in the cash flow model to the Mineral Resources and Ore Reserve Statements prepared by the Group in accordance with Joint Ore Reserve Committee (JORC) requirements.;<br>• working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in.<br>• We considered the sensitivity of the model by varying key assumptions, focused on the realised Australian dollar iron ore price, within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures.<br>Horizon 2 exploration projects<br>• We assessed the value ascribed to the Horizon 2 exploration projects by comparing it to market data for comparable projects. This involved:<br>    • recalculation of calculated enterprise value per resource for comparable companies;<br>    • challenging management's assessment of which companies were considered comparable, using our knowledge of the industry and market participants; and<br>    • comparing key inputs to market data, including share price and published reserves and resources.<br>• We assessed the Group's disclosures against the requirements of Australian Accounting Standards. |

| **Restoration and demobilisation provision** | |
|---|---|
| Refer to Note 17 to the Financial Report | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| The determination of restoration and demobilisation provisions relating to mining and processing operations, totalling $42.9 million, is considered to be a key audit matter. This is due to the inherent complexity for the Group in estimating future environmental restoration and demobilisation costs and for us in gathering persuasive audit evidence, particularly those that are to be incurred several years in the future.<br><br>This is influenced by:<br><br>• The complexity in current environmental and regulatory requirements, and the impact to completeness of environmental restoration and demobilisation activities incorporated into the provisions estimate;<br><br>• The expected environmental management strategy of the Group, and the nature of costs incorporated into the provisions estimate;<br><br>• Historical experience and whether this is a reasonable predictor when evaluating forecast costs; and<br><br>• The expected timing of the expenditure which is sometimes long into the future and the associated inflation and discounting of costs in the present value calculation of the provision.<br><br>The Group uses third party expert advice when assessing their obligations for restoration and demobilisation activities and associated estimates of future costs. | Our audit procedures included:<br><br>• Comparing the basis for recognition and measurement of the provisions for consistency with environmental and regulatory requirements and criteria in the accounting standards;<br><br>• Obtaining the Group's historical third party expert reports as well as internal underlying documentation for their determination of future required activities, their timing, and associated cost estimations. We compared these to the nature and quantum of costs contained in the provision estimate;<br><br>• Testing the accuracy of historical restoration and rehabilitation provisions by comparing to actual expenditure. We used this to challenge the Group's current forecast cost estimations;<br><br>• Assessing the planned timing of environmental restoration and demobilisation provisions through comparison to mine plans for completion of mining activities and commencement of subsequent restoration and demobilisation activities;<br><br>• Assessing the competence, scope and objectivity of the Group's internal and external experts used in determination of the provisions estimate;<br><br>• Analysed inflation rate and discount assumptions in the provision calculation to current market data and economic forecasts;<br><br>• Evaluating the completeness of the provisions estimate to the Group's analysis of each operating location to identify where disturbance requires rehabilitation or demobilisation and our understanding of the Group's operations. |

## Other Information

Other Information is financial and non-financial information in Atlas Iron Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's report. The Chairman's Report, Other operational reports and ASX additional information are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

KPMG

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Atlas Iron Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Trevor Hart
*Partner*

Perth

28 September 2018

# 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 20 September 2018

## (a) Substantial Shareholders

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

| Holder | Number of ordinary shares held | % Holding |
|---|---|---|
| Redstone Corporation Pty Ltd | 7,351,579,064 | 76.43% |
| NCZ Investments Pty Ltd | 1,058,086,927 | 11.00% |

## (b) Ordinary Shares

The total number of shares on issue was 9,618,972,064 held by 13,933 registered shareholders. All ordinary shares currently on issue are freely tradeable.

### Distribution of Shareholders

| Range | Total holders | Units | % of Issued Capital |
|---|---|---|---|
| 1-1,000 | 3,166 | 1,518,855 | 0.02 |
| 1,001- 5,000 | 4,055 | 10,741,170 | 0.11 |
| 5,001- 10,000 | 1,381 | 10,424,341 | 0.11 |
| 10,001- 100,000 | 3,710 | 141,472,012 | 1.47 |
| 101,000- and over | 1,621 | 9,454,815,686 | 98.29 |
| Total | 13,933 | 9,618,972,064 | 100.00 |

### Unmarketable Parcels

The minimum parcel size at $0.042 per unit is 11,905 shares. 8,838 shareholders hold unmarketable parcels.

### Twenty Largest Shareholders

| Rank | Name | Units | % of Units |
|---|---|---|---|
| 1 | Redstone Corporation Pty Ltd | 3,634,117,714 | 37.78 |
| 2 | Redstone Corporation Pty Ltd | 3,289,131,069 | 34.19 |
| 3 | NCZ Investments Pty Ltd | 1,058,086,927 | 11.00 |
| 4 | Redstone Corporation Pty Ltd | 446,590,383 | 4.64 |
| 5 | HSBC Custody Nominees <Australia> | 89,606,697 | 0.93 |
| 6 | Citicorp Nominees Pty Limited | 32,294,316 | 0.34 |
| 7 | National Nominees Limited <DB A/C> | 21,223,404 | 0.22 |
| 8 | Mr Richard John Hardman | 20,000,000 | 0.21 |
| 9 | ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C> | 17,612,877 | 0.18 |
| 10 | VIC Investments Management Group Pty Ltd | 15,658,750 | 0.16 |
| 11 | Heng Xing Investments Pty Ltd <Heng Xing Family A/C> | 15,394,805 | 0.16 |
| 12 | BNP Paribas Noms Pty Ltd <Uob Kay Hian Priv Ltd Drp> | 14,000,000 | 0.15 |
| 13 | J P Morgan Nominees Australia Limited | 13,873,363 | 0.14 |
| 14 | Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C> | 9,997,550 | 0.10 |
| 15 | Bainpro Nominees Pty Limited | 9,327,000 | 0.10 |
| 16 | Berghofer Pty Ltd <Berghofer Fam Superfund A/C> | 7,073,910 | 0.07 |
| 17 | GYP Pro Pty Ltd <Omahen-Lehmann Sf A/C> | 7,000,000 | 0.07 |
| 18 | Mr Jose Manuel Do Rego Medeiros | 6,000,000 | 0.06 |
| 18 | Murtagh Bros Vineyards Pty Ltd <Superannuation Fund A/C> | 6,000,000 | 0.06 |
| 18 | Mr Gregory John Sharpless + Mrs Jennifer Lee Sharpless <Sharpless Investment A/C> | 6,000,000 | 0.06 |

# ASX ADDITIONAL INFORMATION (continued)

## (c) Unlisted Options

There are no outstanding options on issue.

## (d) Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction. There are no voting rights attaching to any other class of security.

## (e) Corporate Governance Statement

Atlas Iron Limited and the Board are committed to achieving and demonstrating the highest standards of corporate governance. Atlas Iron Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2018 Corporate Governance Statement was approved by the Board on 26 September 2018 and is current as at 26 September 2018. A description of the Group's current corporate governance practices is set out in the Group's Corporate Governance Statement which can be viewed at www.atlasiron.com.au

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# CORPORATE INFORMATION

## ABN

63 110 396 168

## Directors

Eugene Davis
(Non-Executive Chairman)

Mark Clifford Lawrenson
(CEO and Managing Director)

Alan Carr
(Non-Executive Director)

Hon. Cheryl Edwardes (AM)
(Non-Executive Director)

Daniel Harris
(Non-Executive Director)

## Group Company Secretaries

Christiaan Els
Bronwyn Kerr

## Registered Office

Level 17, Raine Square
300 Murray Street
Perth WA 6000
+61 (0) 8 6228 8000

## Bankers

National Australia Bank Limited
100 St Georges Terrace
Perth WA 6000

## Share Registry

Computershare Limited
172 St Georges Terrace
Perth WA 6000

## Auditors

KPMG
235 St Georges Terrace
Perth WA 6000

## Internet Address

www.atlasiron.com.au

## ASX Codes

Shares: AGO

ATLAS

atlasiron.com.au