ASX Announcement 27 May 2015

Asset valuation leaves Atlas significant headroom on debt covenant

Atlas Iron Limited (ASX: AGO) advises that it will book an estimated non-cash impairment charge in the range of A$130-A$160 million at 30 June 2015, reflecting the updated carrying value of its assets following a further reduction in iron ore price forecasts[+], compared to previous price estimates from the first half of FY15.

Atlas' ramp-up of mining at Abydos and Wodgina means Atlas is expected to achieve the full benefits of its recent Contractor Collaboration Agreements (**Collaboration Agreements**). These Collaboration Agreements combined with lump product sales will contribute to significantly lowering Atlas' break-even cost at a benchmark IODEX 62% Fe CFR China price of approximately US$50/dmt[1] based on full cash costs[2] (see ASX release dated 15 May 2015).

The impairment estimate does not impact the carrying value of the Company's operating mines and reduces only the carrying value of Atlas' future growth assets, particularly the McPhee Creek project. While McPhee Creek is an important part of Atlas' Pilbara project portfolio, it is currently not earmarked for development as part of the Company's near-term strategy.

The final non cash impairment at 30 June 2015 will not be known until the Company's Annual Report for the year to 30 June 2015 is finalised and signed-off by Atlas' auditor in mid to late August 2015.

The effect of the lower iron ore price forecasts contributing to impairment estimates has been offset in part by the significant benefits of the recently announced revised operating strategy. This includes lower costs from the Collaboration Agreements and the increased revenue which is expected to be generated from the introduction of lump iron ore sales. Both of these measures will increase the Company's future cash flow, subject to iron ore price movements.

This means that the asset impairment represents a reduction of approximately 15 per cent in the carrying value of Atlas' total assets. It also leaves Atlas with significant headroom in respect to the covenant attached to its Term Loan B facility, which requires Atlas to maintain a ratio of total assets to secured debt of greater than two times. Following the expected impairment, this ratio will be approximately 2.38 to 2.45 times (before recognising any proceeds from the proposed capital raising as set out in the Notice of Meeting dated 15 May 2015).

Atlas Managing Director Ken Brinsden said the estimated impairment result reflected the Company's improved financial outlook in the wake of the successful Collaboration Agreements with key contractors across the operating mines.

"While any asset impairment is undesirable, this result speaks volumes about the positive impact the innovative Collaboration Agreements will have on the Company's operating mines," Mr Brinsden said.

"The significant boost to cash flow from these cost savings and the sale of lump ore has helped to underpin the value of our assets and in the process ensures that we are comfortably ahead of the requirements contained in our debt covenants."

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+ As represented by the independent economic forecasters iron ore price (CRU, Wood McKenzie and Metalytics) used by Atlas in it's impairment calculation.

1. IODEX 62%Fe CFR China breakeven defined by adjusted iron units, spot product FOB discount, moisture and full cash costs on the basis of targeted 14-15Mtpa run rate by year end. AUD:USD exchange rate of 0.785.

2. Full cash costs include; C1 production costs, royalties, freight, corporate and administration, expensed exploration and evaluation, interest expense and sustaining capital expenditure.