28 February 2012

RECORD INTERIM UNDERLYING PROFIT

Atlas expects cash costs for FY2012 remain within guidance of $43 to $45/t

Atlas Iron Limited (ASX: AGO) is pleased to announce it had a record first half year for the six months ended 31 December 2011.

		% Change		Amount
Total Iron Ore Shipments (WMT)	Up	64.4%	To	2.85Mt
Sales Revenue	Up	69.2%	To	$341.4M
Gross Profit	Up	104.1%	To	$142.3M
Underlying Profit[1]	Up	77.5%	To	$62.2M

"This is an outstanding result which highlights the robust margins and cash-generating strengths of our assets," Managing Director Ken Brinsden said. "We are particularly happy that cash costs for the half are at the lower end of guidance."

"Our strong cashflows are enabling us to invest in further increases in production capacity, which will see output double to 12Mtpa by June 2013, targeting 15Mtpa in 2015 and 46Mtpa by 2017[2]."

Atlas expects cash costs for FY2012 to remain within guidance of $43 to $45 per tonne and remains on target to ship approximately 5.5 to 5.7Mt (wet) for FY2012.

The Company's current policy is to pay dividends at year end. For production and other operational details relating to the period under review, Atlas refers readers to its December 2011 Quarterly report dated 25 January 2012.

1. The underlying basis is a non-IFRS measure that, in the opinion of the Atlas directors, is useful for investors to assist them with their understanding and assessment of the Company's underlying performance. The underlying basis excludes the costs associated with the FerrAus takeover, impairment of the asset value upon the sale of the Yerecoin magnetite project and Balla Balla magnetite project (see ASX announcements dated 16 and 28 December 2011 in addition to Note 11 to the Half Year Report) as well as the tax effect of these transactions.

2. The 22mtpa and 46Mtpa production targets are subject to the successful development of the interconnected mine, rail and port facilities proposed as part of Atlas Horizon 2 development program.

Level 9 Alluvion,
58 Mounts Bay Road Perth WA 6000
PO Box 7071
Cloisters Square Perth WA 6850
P: +61(0) 8 9476 7900
F: +61(0) 8 9476 7988
E: atlas@atlasiron.com.au
W: www.atlasiron.com.au

ATLAS

Atlas Iron Limited

31 DECEMBER 2011 HALF YEAR REPORT APPENDIX 4D

This Half Year Report for Atlas Iron Limited and its subsidiaries ("Atlas Iron") (ASX Code: AGO) is provided to ASX under ASX Listing Rule 4.2A

Results for announcement to the market for the half year ended 31 December 2011 versus the previous corresponding period

	2011 $000s	2010 $000s	Movement %
Revenue from ordinary activities	341,388	201,785	69.2%
Gross profit	142,255	69,684	104.1%
Underlying profit after tax attributable to shareholders	62,222	35,047	77.5%
Profit after tax attributable to shareholders (Statutory)	6,080	30,106	(79.8%)

Dividend Information	Amount per Ordinary share (cents)	Franked amount per Ordinary share (cents)
Dividends paid in period	3.0	0.0

Atlas' current dividend policy is to pay dividends on an annual basis. As a result, in August 2011, Atlas declared an unfranked dividend of 3 cents per share with a record date on 26 September 2011. This annual dividend was paid to shareholders in October 2012. An interim dividend has not been declared.

As advised in August 2011, Atlas will strive to deliver stable and growing dividends ("Progressive" dividend policy) as its business grows. Atlas expects future dividends in the near term to be paid annually and remain unfranked.

NTA Backing	31 Dec 2011	31 Dec 2010
Net tangible assets per security	$2.00	$0.85

Change in Control
Entities over which the company has gained or lost control during the period comprise:

Name of Entity	Date Control Gained
FerrAus Limited	8 September 2011

Associates and Joint Ventures

Atlas holds interests in the following associates and joint ventures:

Name of Entity	Interest % at 31 Dec 2011
Centaurus Metals Limited	19.85%
Shaw River Manganese Limited	45.40%
Mt Webber Joint Venture	70%
Daltons Iron Ore Joint Venture	75%
North West Infrastructure	63%*

* The group has an interest of 63% (June 2011: 39%) in relation to port related expenditure and 66.66% (June 2011: 33.33%) related to administrative expenses

Previous Corresponding Period

The previous corresponding period is the half-year ended 31st December 2010.

Commentary on Results for the Period

A commentary on the results for the period is contained within the financial statements that accompany this announcement.

Underlying Profit is an indicator that Atlas Iron uses internally to measure its operational performance and allocate resources. Underlying Profit is derived from Total Income attributable to owners of Atlas Iron adjusted as follows:

- The amounts reported as "Business Combination Expenses" are eliminated;
- Impairment losses are eliminated; and
- Other acquisition-related effects (primarily any gain or loss on re-measurement at fair-value of existing interests at the acquisition date) are eliminated.

A numerical reconciliation between the Underlying Profit and the Total Income attributable to owners of Atlas Iron is as follows:

	31 Dec 2011 $'000	31 Dec 2010 $'000
Underlying Profit	**62,222**	**35,047**
Business combination expense[1]	(20,266)	(4,941)
Impairment charges[2]	(69,023)	-
Other acquisition-related effects[3]	12,851	-
Tax effect of the above adjustments	20,296	-
Total Income for the half year, net of tax attributable to owners of Atlas	**6,080**	**30,106**

Notes
1. Costs incurred in relation to the acquisition of FerrAus.
2. Non-cash writedown of the Balla Balla and Yerecoin magnetite project assets. Refer ASX announcement on 16 December 2011 and 28 December 2011, respectively as well as Note 11 to the Half Year Report.
3. Fair value gain recognised upon control of FerrAus.

It is recommended that the half-year financial statements are read in conjunction with the Annual Financial Report of Atlas Iron Limited as at 30 June 2011 together with any announcements made by Atlas in accordance with its continuous disclosure obligations arising under the Corporations Act 2001.

Further enquiries please contact

David Flanagan, Executive Chairman Tel: +618 9476 7900

Ken Brinsden, Managing Director

Mark Hancock, Chief Commercial Officer

Atlas Iron Limited

ABN 63 110 396 168

Interim Financial Report

For the half-year ended 31 December 2011

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2011 and any public announcements made by Atlas Iron Limited during the half-year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Contents

Directors' Report

The directors of Atlas Iron Limited (the Company) present their report together with the consolidated financial report of Atlas Iron Limited and its subsidiaries (the Group) for the half-year ended 31 December 2011.

Directors

The following persons were directors of the Company during the whole of the half-year and up to the date of this report (unless otherwise stated):

Non-executive	Period of directorship
Mr Geoff Clifford	Retired 31 July 2011
Mr David Hannon	Director since 2004, interim Chairman from 25 May 2011 to 22 February 2012
Mr David Smith	Director since 2009
Ms Tai Sook Yee	Director since 2010
Mr Jeff Dowling	Appointed 8 November 2011
Ms Kerry Sanderson AO	Appointed 22 February 2012

Executive	
Mr David Flanagan	Director since 2004 – Managing Director until 22 February 2012, appointed Executive Chairman on 22 February 2012
Mr Ken Brinsden	Managing Director, appointed 22 February 2012

Review of operations

Operations

Production (wet metric tonnes (WMT)) and shipments (dry metric tonnes (DMT)) for the 6 months ending 31 December on a comparative basis were as follows:

Million tonnes per annum (Mtpa)	2011	2010	Increase
Ore mined	2.76	2.05	35%
Ore processed	2.90	1.87	55%
Ore shipped	2.66	1.63	63%

Corporate

Sales for the half-year totalled $341,388,000 up from $201,785,000 for the half-year ended 31 December 2010.

Total sales revenue was impacted by softening of the Chinese steel demand combined with the shipment of two low grade cargoes ("Value Fines"). The combination resulted in an average CFR sales price for the period of USD 134.46 per DMT. Notwithstanding this, gross profit for the half-year 31 December 2011 totalled $142,255,000 up 104% from the half-year ended 31 December 2010.

The total profit of the Group after income tax for the half-year ended 31 December 2011 amounted to $6,080,000 (half-year ended 31 December 2010: $30,106,000).

The profit is net of a write-down of $69,023,000 in the asset values of the Balla Balla and Yerecoin magnetite projects and a charge of $43,573,000 (half-year ended 31 December 2010 $13,239,000) for exploration and evaluation expenses which were written off as incurred in accordance with the Group's accounting policy. The main focus of drilling was the McPhee Creek project however drill rigs were also active at Abydos, Mt Webber and Jigalong.

Development continues to support the Horizon 1 strategy with $38,166,000 capitalised during the half-year. In addition $27,092,000 was paid to Global Advanced Metals Pty Ltd (GAM) in accordance with the long-term infrastructure sharing agreement signed in May 2011. The agreement increases the Company's access to crushing and screening and other infrastructure at the Wodgina mine site.

On 5 October 2011 the Company successfully completed an off market take-over of FerrAus Limited (FerrAus) with control effective from 8 September 2011. The acquisition of FerrAus further consolidated the Company's iron ore assets in the South East Pilbara and provided additional access to port infrastructure. Costs of $20,266,000 in relation to the transaction, which include stamp duty payable, were expensed in the period.

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

In December, the Company agreed to the sale of two magnetite projects. The Company entered into an agreement to sell its Balla Balla magnetite project to Forge Resources Limited (Forge) on 16 December 2011 for consideration payable in cash and royalties. On 23 December 2011, the Company entered into an agreement with Cliffs Natural Resources Limited (Cliffs) for the sale of Yerecoin magnetite project for consideration payable in cash and reserve milestone payment. Both assets were classified as held for sale at 31 December 2011 as both transactions were subject to a number of conditions precedent.

Cash and cash equivalents increased from $365,599,000 at 30 June 2011 to $377,239,000 at 31 December 2011 an increase of $11,640,000.

On 24 August 2011, the Board resolved to pay a final unfranked dividend of 3 cents per share. No interim dividend is proposed for the half-year ended 31 December 2011.

Subsequent events

On 10 February 2012, the sale of the Yerecoin magnetite project was completed and $18 million was received from Cliffs.

On 17 February 2012, the directors of the Company and Forge signed an amendment to the agreement to sell the Balla Balla magnetite project. The amendments comprise the following:

- Forge will pay a non-refundable deposit of $500,000 by 24 February 2012 (received on 23 February 2012);
- Forge will pay cash consideration of $38,500,000 if payment is received in full by 16 April 2012, $39,000,000 if by 30 April, and otherwise $40,000,000; and
- The deadline for the completion of the conditions precedent will be 30 April 2012.

Auditor's independence declaration

The Auditor's Independence Declaration to the directors of the Company is set out on page 6 and forms part of the Directors' Report for the half-year ended 31 December 2011.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the interim financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This report is signed in accordance with a resolution of the directors of the Company.

K Brinsden
Managing Director

Dated this 27th day of February 2012
Perth, Western Australia

Directors' Declaration

The Directors of Atlas Iron Ltd declare that:

(a) the financial statements and notes, as set out on pages 10 to 21 are in accordance with the *Corporations Act 2001* including:

i. complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

ii. giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance.

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

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

Ken Brinsden

Managing Director

Dated this 27th day of February 2012

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 review for the half-year ended 31 December 2011 there have been:

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

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

KPMG.

KPMG

R Gambitta
Partner

Perth

27 February 2012

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

We have reviewed the accompanying interim financial report of Atlas Iron Limited which comprises the consolidated statement of financial position as at 31 December 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2011 and its performance for the interim ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Atlas Iron Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Atlas Iron Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG.

KPMG

R Gambitta
Partner

Perth

27 February 2012

Consolidated statement of comprehensive income

For the half-year ended 31 December 2011

	Note	31 Dec 2011 $'000	31 Dec 2010 $'000
Revenue		341,388	201,785
Operating costs	6	(199,133)	(132,101)
Gross profit		142,255	69,684
(Loss) / Gain on sale of property, plant and equipment		(42)	4
Other income		260	-
Depreciation and amortisation expenses		(711)	(542)
Exploration and evaluation expenses		(43,573)	(13,239)
Impairment loss on assets held for sale		(69,023)	-
Share based payment expenses		(882)	(9,773)
Share of loss of associates		(4,864)	(2,027)
Share of gain / (loss) of joint ventures		806	(143)
Business combination expense	4	(20,266)	(4,941)
Gain on control of subsidiary	4	12,851	-
Other expenses from ordinary activities		(16,537)	(11,103)
Results from operating activities		274	27,920
Finance income		11,821	6,127
Finance expense		(4,402)	(3,941)
Net finance income		7,419	2,186
Profit before income tax		7,693	30,106
Income tax expense	13	(1,613)	-
Total income for the half-year, net of tax attributable to owners of the Group		6,080	30,106
Share of associates' movements in foreign currency translation reserve		(2,329)	-
Total other comprehensive income for the half-year		(2,329)	-
Total comprehensive income for the half-year attributable to the owners of the Group		3,751	30,106
Earnings per share			
Basic earnings per share (cents per share)		0.7	5.8
Diluted earnings per share (cents per share)		0.7	5.7

The above consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 December 2011

	Note	31 Dec 2011 $'000	30 Jun 2011 $'000
Current Assets			
Cash and cash equivalents		377,239	365,599
Trade and other receivables		52,247	39,890
Prepayments	7	13,144	13,828
Financial assets		10,540	13,425
Inventories		11,088	12,656
Assets held for sale	11	55,904	-
Total current assets		520,162	445,398
Non-current Assets			
Other financial assets		16,401	6,420
Prepayments	7	43,434	20,455
Investment in equity accounted investees		32,934	22,001
Property, plant and equipment		31,326	19,364
Intangibles		166,393	100,335
Mine development costs		111,381	157,963
Mining tenements capitalised		1,255,814	1,120,020
Total non-current assets		1,657,683	1,446,558
Total assets		2,177,845	1,891,956
Current Liabilities			
Trade and other payables		147,513	102,657
Employee benefits		2,131	1,979
Total current liabilities		149,644	104,636
Non-current Liabilities			
Trade and other payables		-	42
Employee benefits		201	112
Provisions		25,722	19,728
Deferred tax liability		50,920	34,689
Total non-current liabilities		76,843	54,571
Total liabilities		226,487	159,207
Net assets		1,951,358	1,732,749
Equity			
Share capital	8	1,943,948	1,703,394
Reserves	9	26,004	27,451
Accumulated (loss)/ profit		(18,594)	1,904
Total equity		1,951,358	1,732,749

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half-year ended 31 December 2011

	Share capital $ '000	Share based payment reserve $ '000	Associates reserve $ '000	Accumulated profit/ (loss) $ '000	Total equity $ '000
Balance at 1 July 2011	1,703,394	27,451	-	1,904	1,732,749
Total comprehensive income for the half-year					
Profit for the half-year	-	-	-	6,080	6,080
Total other comprehensive income	-	-	(2,329)	-	(2,329)
Total comprehensive income for the half-year, net of tax	-	-	(2,329)	6,080	3,751
Contributions by and distributions to owners of the Group:					
Issue of ordinary shares related to business combination	236,905	-	-	-	236,905
Issue of ordinary shares from exercise of options	3,676	-	-	-	3,676
Share issue costs	(27)	-	-	-	(27)
Share based payment transactions	-	882	-	-	882
Payment of dividends	-	-	-	(26,578)	(26,578)
Total contributions by and distributions to owners of the Group	240,554	882	-	(26,578)	214,858
Balance as at 31 Dec 2011	1,943,948	28,333	(2,329)	(18,594)	1,951,358

For the half-year ended 31 December 2010

	Share capital $ '000	Share based payment reserve $ '000	Associates reserve $ '000	Accumulated profit/ (loss) $ '000	Total equity $ '000
Balance at 1 July 2010	508,677	17,036	-	(166,713)	359,000
Total comprehensive income for the half-year					
Profit for the half-year	-	-	-	30,106	30,106
Total other comprehensive income	-	-	-	-	-
Total comprehensive income for the half-year, net of tax	-	-	-	30,106	30,106
Contributions by and distributions to owners of the Group:					
Issue of ordinary shares related to business combination	143,068	-	-	-	143,068
Issue of ordinary shares	2,569	-	-	-	2,569
Share issue costs	(6)	-	-	-	(6)
Shares to be issued	105	-	-	-	105
Share based payment transactions	-	9,773	-	-	9,773
Total contributions by and distributions to owners of the Group	145,736	9,773	-	-	155,509
Balance as at 31 Dec 2010	654,413	26,809	-	(136,607)	544,615

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated interim statement of cash flows

For the half-year ended 31 December 2011

	Note	31 Dec 2011 $'000	31 Dec 2010 $'000
Cash flows from / (used in) operating activities			
Cash receipts from customers		330,565	160,860
Payments to suppliers and employees		(182,513)	(114,395)
Interest and grants received		10,537	3,780
(Payment for) / proceeds from settlement of derivatives		(110)	1,097
Payment for security deposits		-	(5,000)
Payments for expenditure on exploration and evaluation activities		(37,753)	(13,326)
Payments to Aurox suppliers		-	(4,112)
Acquisition transaction costs		(3,020)	(1,491)
Net cash flows from operating activities		117,706	27,413
Cash flows from / (used in) investing activities			
Payments for property, plant and equipment		(12,769)	(6,817)
Proceeds from disposal of plant and equipment		-	4
Payments for mine development		(35,683)	(23,826)
Payments for Wodgina expansion		(27,092)	-
Payments for tenements acquired		-	(100)
Payments for interests in equity accounted investees		(24,501)	(7,053)
Cash taken up on acquisition of Aurox		-	3,048
Subscription of FerrAus shares	4	(24,336)	-
Net cash taken up on acquisition of FerrAus	4	38,714	-
Loan to other entities		-	(7,670)
Net cash flows used in investing activities		(85,667)	(42,414)
Cash flows (used in) / from financing activities			
Proceeds from issue of ordinary shares		3,676	2,673
Net share issue costs paid		(27)	(6)
Dividends paid		(25,673)	-
Net cash flows (used in) / from financing activities		(22,024)	2,667
Net increase/(decrease) in cash and cash equivalents		10,015	(12,334)
Cash and cash equivalents at 1 July		365,599	154,933
Effect of exchange rate changes on cash and cash equivalents		1,625	219
Cash and cash equivalents at 31 December		377,239	142,818

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to consolidated interim financial statements

1. Reporting entity

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 condensed consolidated interim financial report of the Company as at 31 December 2011 and for the half-year then ended comprised the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and jointly controlled entities.

The Company’s principal activity is the operation of the Pardoo and Wodgina iron ore mines and the development of the mines at Abydos, Mt Dove and Mt Webber in the Pilbara region of Western Australia.

2. Statement of compliance

The condensed consolidated interim financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*.

This condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at 30 June 2011 and for the year then ended and considered together with any public announcements made by the Company during the half-year ended 31 December 2011 in accordance with the continuous disclosure obligations of the ASX listing rules.

This consolidated interim financial report was approved by the Board of Directors on 27 February 2012.

The Company is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the directors’ report and the consolidated interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. Basis of preparation

The consolidated interim financial statements have been prepared on a historical cost basis, except for assets classified as held for sale, derivative and other financial instruments that have been measured at fair value. The consolidated interim financial statements are presented in Australian Dollars, which is the Company’s functional currency.

(i) Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company’s 2011 annual financial report for the financial year ended 30 June 2011, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The new and revised Standards and Interpretations applicable for the current half-year have not had a material impact or resulted in changes to the Group’s presentation of, or disclosure in, its half-year financial statements.

(ii) Operating segments

The Group operates in the mineral exploration 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 (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.

(iii) Estimates

The preparation of the interim financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these consolidated interim financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2011.

Notes to consolidated interim financial statements

4. Acquisition of FerrAus Limited

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

On 31 August 2011:

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

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

On 8 September 2011, the Group obtained control of FerrAus, by acquiring additional equity and voting interests resulting in the Group holding 60.48% of FerrAus. This transaction was mutually exclusive to the initial transaction obtaining the equity interest of 38.96%. Therefore, in accordance with Australian Accounting Standards, the initial investment was re-measured to fair value as at the date on which control of FerrAus was obtained thus resulting in a gain of $12,851,000.

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

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

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

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

	Fair Value
	$'000
Cash and cash equivalents	38,714
Trade and other receivables	6,292
Financial assets	2,999
Investment in equity accounted investee	1,051
Property, plant and equipment	1,944
Mining tenements capitalised	297,700
Trade and other payables	(16,260)
Provisions	(202)
Deferred tax liability	(14,648)
Total net identifiable assets	317,590
Consideration transferred	
Equity consideration(a)	236,905
Other consideration(b)	146,543
Cash and cash equivalents acquired	(38,714)
Acquisition of subsidiary, net of cash acquired	344,734

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

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

Notes to consolidated interim financial statements

4. Acquisition of FerrAus Limited (continued)

Transactions separate from the acquisition

The Group incurred acquisition-related costs of $20,266,000 relating to stamp duty, advisory fees, external legal fees and due diligence costs which are disclosed as business combination expense.

In the period of ownership from 8 September 2011 to 31 December 2011 FerrAus contributed net finance income of $161,000 and a net loss before tax of $11,241,000 to the Company's results. If the acquisition had occurred on 1 July 2011, management estimates that consolidated net finance income would have been $7,719,000 and consolidated loss for the period would have been $6,462,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2011.

Goodwill

Goodwill was recognised, on a provisional basis, as a result of the acquisition as follows (in $'000):

Total consideration	383,448
Less fair-value of identifiable assets	(317,590)
Goodwill	65,858

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

5. Dividends

During the period Atlas Iron Limited made the following dividend payments:

	Half-year ended 31 December 2011		Half-year ended 31 December 2010	
	Cents Per share	Total $'000	Cents Per share	Total $'000
Fully paid ordinary shares				
Final unfranked dividend -2011	3.00	26,578	-	-

6. Operating costs

	Consolidated 31 Dec 2011 $'000	Consolidated 31 Dec 2010 $'000
Mining costs	63,156	43,084
Haulage	34,578	20,958
Port costs	27,295	22,017
Shipping costs	33,180	21,799
Royalties	24,348	10,776
Depreciation and amortisation	16,576	13,467
	199,133	132,101

Notes to consolidated interim financial statements

7. Prepayments

	Consolidated 31 Dec 2011 $'000	Consolidated 30 Jun 2011 $'000
Current	13,144	13,828
Non – Current*	43,434	20,455
	56,578	34,283

* A new long-term infrastructure sharing agreement for Wodgina operations was entered into by the Group during the period. Contributions of $27,092,000, recorded as prepayments at 31 December 2011, have been made by the Group under this new long-term infrastructure sharing agreement and are recognised in the income statement over the term of this agreement.

8. Share capital

	Consolidated 31 Dec 2011 $'000	Consolidated 30 Jun 2011 $'000
894,685,000 (30 June 2011: 825,966,000) Ordinary fully paid shares	1,943,948	1,703,394

Movements in ordinary share capital	Number of Shares '000	$'000
Beginning of the financial period	825,966	1,703,394
Issued during the period – FerrAus acquisition	64,028	236,905
Issued during the period – exercise of options	4,691	3,676
Less transaction costs	-	(27)
End of the financial period	894,685	1,943,948

Notes to consolidated interim financial statements

9. Reserves

	Consolidated 31 Dec 2011 $'000	Consolidated 30 Jun 2011 $'000
(a) Reserves		
Share based payment reserve*	28,333	27,451
Associates reserve**	(2,329)	-
	26,004	27,451

* The share based payment reserve is used to recognise the fair value of options issued.
** The associates reserve mainly represents the Group's share in the equity-accounted investees' foreign currency translation reserve.

Movements:	
Balance at beginning of period	27,451
Option expense	882
Take up of associates reserve	(2,329)
Balance at the end of period	26,004

10. Investments in equity accounted investees

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

Notes to consolidated interim financial statements

11. Assets classified as held for sale

(a) Balla Balla magnetite project

On 16 December 2011, the Group entered into an agreement to sell its Balla Balla magnetite project to Forge Resources Limited (Forge). Consideration receivable comprises the following:

- Forge will pay $17.5 million to the Group by the end of February 2012, subject to any required Forge Shareholder approvals, and a successful capital raising of at least $15 million by Forge;
- 12 months after the initial payment, Forge will pay a further $22.5 million to the Group;
- A 4% royalty on revenue (to be determined by the price achieved at the time these tonnages are sold by Forge) after government taxes and government royalties, to be paid to the Group from the initial 5.5 million tonnes of contained Fe with magnetite concentrate sales and 200,000 tonnes of contained Ti02 within ilmenite sales; and
- Upon completion of the 4% royalty tonnages, the royalty shall decrease to 1% of revenue (to be determined by the price achieved at the time these tonnages are sold by Forge), after government taxes and government royalties, on remaining tonnages up to a total of 36,000,000 tonnes of contained Fe within magnetite concentrate sales and 1,200,000 tonnes of contained Ti02 within ilmenite sales.

As at 31 December 2011, the assets related to the Balla Balla magnetite project were classified as held for sale due to the conditions precedent not yet being met.

In accordance with AASB 5 *Non-current assets held for sale and discontinued operations*, the assets associated with the Balla-Balla project have been measured at the lower of cost or fair value less costs to sell on the transfer to assets held for sale. An impairment of $35,476,000 has been recognised in that respect, which represents the difference between the fair value of the cash consideration of $37,904,000 and the carrying value of the assets to be disposed of. Considering the uncertainties and risks associated with the timing and outcome of the project, it has been considered reasonable not to attribute value, for accounting purposes, to the royalty payments.

On 17 February 2012, the directors of the Company and Forge signed an amendment to the agreement. The amendments comprise the following:

- Forge will pay a non-refundable deposit of $500,000 by 24 February 2012 (received on 23 February 2012);
- Forge will pay cash consideration of $38,500,000 if payment is received in full by 16 April 2012, $39,000,000 if by 30 April, and otherwise $40,000,000; and
- The deadline for the completion of the conditions precedent will be 30 April 2012.

(b) Yerecoin magnetite project

On 23 December 2011, the Group entered into an agreement to sell its Yerecoin magnetite project to Cliffs Natural Resources Limited (Cliffs) for an upfront cash consideration of $18,000,000 payable on completion of the deal being on or before 31 January 2012 and additional payments due within 30 days of a Decision to Mine calculated as follows:

- $0.10 per tonne for each tonne of magnetite exceeding 187 million tonnes proven in a Reserve within the tenements, or if not proven in Reserve, mined or to be mined as a Resource, up to an additional 200 million tonnes; and
- $0.50 per tonne for each tonne of direct shipping iron ore exceeding 5 million tonnes proven in a Reserve within the tenements, or if not proven in Reserve, mined or to be mined as a Resource.

As at 31 December 2011, the assets related to the Yerecoin magnetite project were classified as held for sale due to the conditions precedent not yet being met.

In accordance with AASB 5 *Non-current assets held for sale and discontinued operations*, the assets associated with the Yerecoin project have been measured at the lower of cost or fair value less costs to sell on the transfer to assets held for sale. An impairment of $33,547,000 has been recognised in that respect, which represents the difference between the fair value of the cash consideration of $18,000,000 and the carrying value of the assets to be disposed of. Considering the uncertainties and risks associated with the timing and outcome of the project, it has been considered reasonable not to attribute value, for accounting purposes, to the reserve milestone payments.

Prior to signing this report, the conditions precedent were satisfied and the upfront cash consideration of $18,000,000 was received. The sale will be recorded in the second half of the financial year.

Notes to consolidated interim financial statements

11. Assets classified as held for sale (continued)

The major classes of assets and liabilities of Balla Balla and Yerecoin magnetite projects classified as held for sale as at 31 December 2011 are as follows (in $'000):

Property, plant and equipment	706
Mine development costs	71,624
Mining tenements capitalised	52,597
Total	124,927
Impairment expense	(69,023)
Total assets held for sale	55,904

12. Contingencies and commitments

Contingencies

The Company has bank guarantees predominantly related to security deposits for the Company to maintain its mining tenements and enter into hedge arrangements. The total bank guarantees on issue at period end are $11,842,500.

Tenement commitments

The Company has certain contractual commitments to meet minimum expenditure requirements on the mineral tenement assets it has an interest in. Outstanding exploration commitments are as follows:

	Consolidated 31 Dec 2011 $'000	Consolidated 30 Jun 2011 $'000
Not later than one year	12,034	11,541
	12,034	11,541

Lease expenditure commitments

Operating leases (non-cancellable)		
- Not later than one year	3,183	2,043
- Later than one year and not later than five years	6,831	6,165
Aggregate expenditure contracted for at reporting date	10,014	8,208

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

During the period the Company had a leasing proposal accepted for an office accommodation building and contract terms are currently under negotiation. The initial lease term is for a period of 12 years with rental of $4,976,400 per annum.

Notes to consolidated interim financial statements

13. Income tax expense

The effective tax rate for the Group the period to 31 December 2011 was 21.0%. The lower effective tax rate, when compared to the statutory tax rate of 30%, is a consequence of permanent differences in the treatment of transactions for tax and accounting purposes. Specifically the differences arose due to the treatment of business combination expenses, the Group's share of loss in associates, the gain recognised on gaining control of FerrAus and the disposal of assets to FerrAus. In the prior period, the effective tax rate was nil due to utilisation of previously unrecognised tax losses.

14. Minerals Resource Rent Tax (MRRT)

The legislation giving effect to the MRRT was passed by the House of Representatives on 24 November 2011. It has now been referred to a Senate Economics Legislation Committee where it will be subject to further review in March 2012. Accounting standards require legislation to be "substantively enacted" before the changes can be given accounting recognition. Given the referral to the Senate committee, this criteria was not satisfied at 31 December 2011 and is not expected to be satisfied until (at least) the committee has made its recommendations. Given this, the Group's interim financial statements do not reflect the potential impact of this legislation.

15. Subsequent events

On 22 February 2012, the Group announced that it has appointed David Flanagan as Executive Chairman (previously Managing Director) and Ken Brinsden as Managing Director (previously Chief Development Officer). Mr Flanagan will remain as Executive Chairman until 31 August 2012, at which point he will become Non-Executive Chairman. In addition, the Group announced the appointment of Kerry Sanderson AO as a Non-Executive Director.

No other matters have arisen since 31 December 2011, 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.